Apex Clearing Corporation

Statement of Financial Condition

June 30, 2020

(Unaudited)

Apex Clearing Corporation is a member of Financial Industry Regulatory Authority "FINRA", Securities Investor Protection Corporation "SIPC", New York Stock Exchange LLC, NYSE American LLC, NYSE Arca, Inc., NYSE Chicago, Inc., CBOE BYX Exchange, Inc., CBOE BZX Exchange, Inc., BOX Options Exchange LLC, CBOE C2 Exchange, Inc., CBOE Exchange, Inc., CBOE EDGA Exchange, Inc., CBOE EDGX Exchange, Inc., Nasdaq ISE LLC, Nasdaq BX Inc., Nasdaq PHLX, LLC., Nasdaq Stock Market, Investors' Exchange LLC, MIAX Pearl Exchange LLC, MIAX Emerald, LLC, Chicago Stock Exchange, Miami International Securities Exchange LLC, Options Clearing Corporation, National Securities Clearing Corporation, Depository Trust & Clearing Corporation, Fixed Income Clearing Corporation, Mortgage Backed Securities Clearing Corporation, Government Securities Clearing Corporation, National Futures Association, Euroclear, Commodities Futures Trading Commission, Small Exchange and Municipal Securities Rulemaking Board.

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Assets	
Cash	$ 83,983,318
Cash and securities - segregated under federal regulations	6,172,277,085
Receivable from customers	498,119,315
Securities borrowed	327,575,265
Deposits with clearing organizations	136,374,268
Investments in securities, at fair value (cost $48,768,875)	49,784,496
Receivable from broker-dealers	29,206,134
Fixed assets, less accumulated depreciation and amortization of $6,007,444	2,080,694
Operating lease right-of-use asset	5,843,360
Other assets	15,309,108
Total Assets	**$ 7,320,553,043**
Liabilities and Stockholder's Equity	
Accounts Payable	$ 9,263,746
Payable to customers	6,393,002,370
Securities loaned	610,591,398
Payable to broker-dealers	24,651,902
Payable to correspondents	17,859,582
Payable to affiliates	2,608,020
Operating lease right-of-use liabilities	5,843,360
Bank loans	7,500,000
Accrued liabilities	22,688,595
Taxes payable	9,468,532
Total Liabilities	**7,103,477,505**
Contingencies - Note 12	
Stockholder's Equity	
Common stock, $0.10 par value	
200,000 shares authorized; 100,000 shares issued and outstanding	10,000
Preferred Stock	
1,000 shares authorized; 1 share issued and outstanding	25,000
Additional paid-in capital	102,888,576
Retained earnings	114,151,962
Stockholder's Equity	**217,075,538**
Total Liabilities and Stockholder's Equity	**$ 7,320,553,043**

See accompanying notes

NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS

Apex Clearing Corporation (the "Company") is a clearing broker-dealer registered with the U.S. Securities and Exchange Commission ("SEC") and with the Commodity Futures Trading Commission ("CFTC"). The Company is also a member of the Financial Industry Regulatory Authority ("FINRA"), is a non-clearing Futures Commission Merchant ("FCM") registered with the National Futures Association ("NFA"), and is a member of the Securities Investor Protection Corporation ("SIPC"). The Company is a member of various exchanges, as well as the National Securities Clearing Corporation ("NSCC"), and is a participant in the Depository Trust Company ("DTC") and the Options Clearing Corporation ("OCC"). The Company provides clearing, custody, execution, prime brokerage, margin lending, securities lending, and other back office services to customers of introducing brokers, as well as direct customers and joint back office counterparts. The Company is organized as a Corporation. All of the common stock and voting equity interests of the Company are owned by Apex Clearing Holdings LLC (the "Parent"). The Parent is majority owned by PEAK6 Investments LLC. ("PEAK6").

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates – The Statement of Financial Condition has been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") as established by the Financial Accounting Standards Board ("FASB"), to ensure consistent reporting of financial condition. In the preparation of the Statement of Financial Condition in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the amounts reported in the Statement of Financial Condition. Management believes the estimates utilized in preparing its Statement of Financial Condition are reasonable. Actual results could differ from these estimates.

Cash and Securities – Segregated Under Federal Regulations – Cash and securities segregated and on deposit for regulatory purposes consists primarily of qualified deposits in special reserve bank accounts for the exclusive benefit of clients under Rule 15c3-3 of the Securities Exchange Act of 1934 (the "Customer Protection Rule") and Title 17 of Commodity and Securities Exchanges.

Deposits with Clearing Organizations – Deposits with clearing organizations represent cash deposited with central clearing agencies for the purposes of supporting clearing and settlement activities.

Securities Borrowed and Securities Loaned and Reverse Repurchase Agreements – Securities borrowed and securities loaned transactions are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender and in securities loaned transactions, the Company receives collateral, in the form of cash, in an amount generally in excess of the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as required. Transactions involving securities purchased under agreements to resell ("reverse repurchase agreements" or "reverse repos") are accounted for as collateralized agreements. The Company enters into reverse repurchase agreements as part of its cash management strategy. It is the Company's policy to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or may be required to return collateral to counterparties when appropriate. Interest receivable is included in the Statement of Financial Condition in receivable from broker-dealers, and interest payable is included in the Statement of Financial Condition in accrued expenses and other liabilities.

Fixed Assets – Fixed assets are recorded at cost, net of accumulated depreciation and amortization, and consist primarily of computer hardware and leasehold improvements. Depreciation is recorded using the straight-line basis and estimated useful service lives of the assets, which range from three to seven years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. Fixed asset balances are reviewed annually for impairment. There is no such impairment reserve recorded in the current year.

Payable to Correspondents – The Company collects commissions and other fees from correspondent introducing brokers' customers each month. As stipulated by individual agreements with correspondent introducing brokers (“correspondents”), the Company remits net amounts due to correspondents after deducting charges for clearing and execution fees.

Receivable from and Payable to Broker-Dealers – Amounts receivable from and payable to broker-dealers at June 30, 2020 consist of the following:

	Receivable	Payable
Securities failed to deliver/receive	$ 14,962,566	$ 24,651,902
Receivables from Correspondents (net of allowance of $147,521)	3,427,116	$ -
Other Fees and commissions receivable/payable	10,816,452	$ -
Total	$ 29,206,134	$ 24,651,902

Securities failed to deliver or receive represent the contract value of the amount failed to be received or delivered as of the date of the Statement of Financial Condition.

Receivable from and Payable to Customers – The Company’s receivables from customers primarily consist of fully collateralized margin loans. If the value of that collateral declines, if the collateral decreases in liquidity, or if margin calls are not met, the Company may consider a variety of credit enhancements, including, but not limited to, seeking additional collateral. In valuing receivables that become less than fully collateralized, the Company compares the estimated fair value of the collateral, deposits, and any additional credit enhancements to the balance of the loan outstanding and evaluates the collectability from the customer or the correspondent based on various qualitative factors, including, but not limited to, the creditworthiness of the counterparty and the nature of the collateral and available realization methods. The Company records a reserve, to the extent that the collateral, and any other rights the Company has against the customer or the related introducing broker are not sufficient to cover the deficit in the account.

For SEC Rule 15c3-1 net capital (“Net Capital”) purposes, unsecured portions of a partially secured account and any balance of an unsecured account, net of the allowance for doubtful accounts, is considered a non-allowable asset. Non-allowable assets are subtracted from ownership equity to arrive at Net Capital. Amounts receivable from and amounts payable to customers include amounts due on cash and margin transactions. The Company relies on individual customer agreements to net receivables and payables. It is the Company’s policy to settle these transactions on a net basis with its customers.

Securities owned by customers are held as collateral for receivables. Receivables from and payables to customers are reflected on the Statement of Financial Condition on a settlement-date basis. The Company does not include securities owned by customers or securities sold short by customers in the Statement of Financial Condition.

Investments in Securities – The Company’s investments in securities are recorded on a trade-date basis and are reflected at fair value on the Statement of Financial Condition.

Other Assets – Other assets are comprised of interest and other receivables, prepaid expenses, and various investments.

Translation of Foreign Currencies – The Company’s functional base currency is the U.S. Dollar and its clients have a minimal amount of assets and liabilities denominated in foreign currencies. The assets and liabilities denominated in foreign currencies are translated at June 30, 2020 rates of exchange. The Company does not hedge its foreign exchange exposure.

Income Tax – The Company files a consolidated U.S. income tax return with the Parent on a calendar-year basis and combined returns for state tax purposes. Deferred tax assets and liabilities are determined based on the temporary differences between the carrying amounts and tax bases of assets and liabilities using enacted tax rates expected to apply to taxable income in the periods in which the deferred tax asset or liability is expected to be settled or realized. Uncertain tax positions are recognized if they are more likely than not to be sustained upon examination, based on the technical merits of the position. Changes in the unrecognized tax benefits occur on a regular basis due to tax return examinations and settlements that are concluded, statutes of limitations that expire, and court decisions that are issued that interpret tax law. There are positions involving taxability in certain tax jurisdictions and timing of certain tax deductions for which it is reasonably possible that the total amounts of unrecognized tax benefits for uncertain tax positions will significantly decrease within twelve months because the tax positions may be settled in cash or otherwise resolved with taxing authorities. When applicable, a valuation allowance is established to reduce any deferred tax asset when it is determined that it is more likely than not that some portion of the deferred tax asset will not be realized.

Operating Leases – Accounting Standards Update (ASU) No. 2016-02, Leases (Topic 842), requires lessees to record an operating lease right-of-use asset, representing the right to use the underlying asset for the lease term, and a corresponding liability to make lease payments equal to the present value of future rental payments on the Statement of Financial Condition for all leases with a term greater than one year. As most leases do not state a discount rate, the Company utilizes the incremental borrowing rate based on information available at the commencement date, of each individual lease, to determine the present value of the lease payments. The weighted average discount rate used was 5.25%. As of June 30, 2020, the operating lease right-of-use asset and associated liability are each $5,843,360.

The Company has non-cancelable operating leases for its offices and rental equipment and has elected to not separate lease and non-lease components. Future minimum lease payments (with initial or remaining lease terms in excess of one year) total $6,107,172 as follows: for the remainder of 2020 $849,680, 2021 $1,676,108, 2022 $1,324,381, 2023 $505,703, 2024 $520,886, and $1,230,414 thereafter. Leasehold improvements are amortized on a straight-line basis over the lesser of the estimated useful lives or expected lease terms.

Collateral – The Company receives collateral in connection with margin lending, securities borrowed and reverse repurchase agreements. Under various agreements, the Company is permitted to pledge the securities held as collateral, use the securities to enter into securities-lending arrangements, or deliver the securities to counterparties to cover short positions. At June 30, 2020, the Company had access to $799,197,005 of collateral from the margin lending book, and an additional $159,977,917 from securities borrowed and securities purchased under agreements to resell. The collateral available primarily consisted of US equity and ETF securities. At June 30, 2020, the Company had utilized $122,111,135 of such collateral to support securities lending contracts, had $275,327,630 outstanding in fully paid securities lending, and $0 reverse repurchase agreements open. The collateral pledged in securities lending transactions is marked to market on a daily basis and not subject to term commitments.

Recent Accounting Pronouncements – In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments (“ASC 326”). The main objective of ASC 326 is to provide Statement of Financial Condition users with useful information about the expected credit losses on financial instruments and other commitments to extend credit held by an entity at each reporting date. To achieve this objective, the amendments in this Topic replace the incurred loss impairment methodology in U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to develop credit loss estimates. The Company adopted the new standard effective January 1, 2020. The Company has evaluated the impact of adopting ASC 326 and determined it had no material impact on the Company’s Statement of Financial Condition.

In August 2018, the FASB issued ASU 2018-13, Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in this standard will remove, modify and add certain disclosures under ASC Topic 820, Fair Value Measurement, with the objective of improving disclosure effectiveness. The Company adopted the new standard effective January 1, 2020. The transition requirements are dependent upon each amendment within this update and will be applied prospectively or retrospectively. The Company has evaluated the impact of adopting ASC 820 and determined it had no material impact on the Company’s Statement of Financial Condition.

NOTE 3 – CASH AND SECURITIES SEGREGATED UNDER FEDERAL REGULATIONS

At June 30, 2020, cash segregated in special reserve accounts under the Customer Protection Rule totaled $6,153,991,269. Of this amount, $6,104,207,412 was for the exclusive benefit of customers and $49,783,857 was for the exclusive benefit of proprietary accounts of brokers ("PAB"). Additionally, cash segregated under CFTC Regulation 1.32 was $43,170,716, of which $18,285,816 was held in a segregated bank account and $24,884,900 was held at a clearing FCM.

NOTE 4 – FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820, Fair Value Measurements, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

Level 1 – Inputs are quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Valuation of these instruments does not require a high degree of judgment, as the valuations are based on quoted prices in active markets that are readily and regularly available.

Level 2 – Inputs other than quoted prices in active markets that are either directly or indirectly observable as of the measurement date, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. These financial instruments are valued by quoted prices that are less frequent than those in active markets or by models that use various assumptions that are derived from or supported by data that is generally observable in the marketplace. Valuations in this category are inherently less reliable than quoted market prices due to the degree of subjectivity involved in determining appropriate methodologies and the applicable underlying assumptions.

Level 3 – Valuations based on inputs that are unobservable and not corroborated by market data. These financial instruments have significant inputs that cannot be validated by readily determinable data and generally involve considerable judgment by management.

The following is a description of the valuation techniques applied to the Company's major categories of assets and liabilities measured at fair value on a recurring basis:

Government securities
Government securities, such as U.S. Treasuries, are valued using a third party pricing service. The service obtains feeds from a number of live data sources including active market makers and inter-dealer brokers. Sources are reviewed on the basis of their historical accuracy for individual issues and maturity ranges. These securities are therefore categorized in Level 1 of the fair value hierarchy.

Continuous Net Settlement ("CNS") transactions
Unsettled transactions that clear with the central clearing facility for equities, NSCC, are marked to market each day by the organization until settlement. The underlying positions are categorized in Level 1 of the fair value hierarchy.

Certain assets are recorded in the Statement of Financial Condition at fair value, on a recurring basis, measured as follows as of June 30, 2020:

	Level 1	Level 2	Level 3	Total
Assets				
Receivable from broker-dealers:				
Fail to Deliver - CNS	$ 3,831,994	$ -	$ -	$ 3,831,994
Investments in securities:				
US Government securities	49,784,496	-	-	49,784,496
Total	$ 53,616,490	$ -	$ -	$ 53,616,490
Liabilities:				
Payable to broker-dealers:				
Fail to Receive - CNS	$ 14,330,341	$ -	$ -	$ 14,330,341
Total	$ 14,330,341	$ -	$ -	$ 14,330,341

NOTE 5 – SHARE CAPITAL

Share capital includes two classes of stock consisting of common and preferred. Authorized common stock includes 200,000 shares with a par value of $0.10 per share. There are currently 100,000 shares outstanding. Authorized preferred stock includes 1,000 shares with a par value of $1.00 per share. There is currently one share outstanding for which consideration of $25,000 was received.

NOTE 6 – OFFSETTING ASSETS AND LIABILITIES

Substantially all of the Company's securities borrowing and securities lending activity is transacted under master agreements that may allow for net settlement in the ordinary course of business, as well as offsetting of all contracts with a given counterparty in the event of default by one of the parties. However, for Statement of Financial Condition purposes, the Company does not net balances related to these financial instruments.

The following table presents information about the potential effect of rights of setoff associated with the Company's recognized assets and liabilities as of June 30, 2020:

	Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Statement of Financial Condition (1)	Net Amounts Presented in the Statement of Financial Condition	Collateral Received or Pledged (2)	Net Amount (3)
Assets					
Securities borrowed:					
Deposits paid for securities borrowed	$327,575,265	$ (228,926,050)	$ 98,649,215	$ (96,275,258)	$ 2,373,957
Liabilities:					
Securities loaned:					
Deposits received for securities loaned	$610,591,398	$ (228,926,050)	$ 381,665,348	$ (340,234,366)	$ 41,430,982

[(1)] Amounts represent recognized assets and liabilities that are subject to enforceable master agreements with rights of setoff.

[(2)] Represents the fair value of collateral the Company had received or pledged under enforceable master agreements, limited for table presentation purposes to the net amount of the recognized assets due from or liabilities due to each counterparty.

[(3)] Represents the amount for which, in the case of net recognized assets, the Company had not received collateral, and in the case of net recognized liabilities, the Company had not pledged collateral.

NOTE 7 – SHORT-TERM BORROWINGS

At June 30, 2020, the Company had short-term bank credit facilities with five financial institutions. The first credit facility permits the Company to borrow in aggregate up to $125 million; with up to $125 million of secured loans on a revolving, uncommitted basis; including $10 million of unsecured loans on an overnight revolving, uncommitted basis and an additional $10 million on a seven-day revolving, uncommitted basis. In addition, there is a $60 million unsecured loan on a revolving, committed basis in a syndicate relationship with a participating bank. The committed, unsecured lines of credit bear interest at a rate that varies with the federal funds rate, with the $60 million credit facility expiring in September 2020 and the $10 million credit facility expiring in October 2020. The second bank credit facility is an uncommitted, secured line; a guidance line that permits the Company to borrow at the bank's discretion. The third credit facility permits the Company to borrow up to $100 million of secured loans on a revolving, uncommitted basis. The fourth credit facility permits the Company to borrow up to $10 million of unsecured loans on a revolving, committed basis, and an additional $15 million unsecured loans on a revolving, uncommitted basis. The fifth facility permits the Company to borrow up to $75 million secured loans on a revolving, uncommitted basis. The uncommitted, secured lines of credit mentioned above bear interest at a rate that varies with the federal funds rate, have no stated expiration dates, and are repayable on demand. In general, the advance rate varies between 80% and 95% of the collateral value posted, and the banks have the authority to not accept certain collateral or to set concentration limits. The uncommitted, unsecured lines of credit mentioned above bear interest at a base rate that varies with the 30-day LIBOR rate, has no stated expiration date, and is repayable on demand. At June 30, 2020, the Company had $7.5 million outstanding at an effective rate of 2.57% from short-term bank loans on these facilities.

The Company also has the ability to create short-term liquidity under stock loan arrangements. At June 30, 2020, the Company had not utilized the securities lending facility to borrow cash. These arrangements bear interest at variable rates based on various factors, including market conditions and the types of securities loaned, are secured primarily by our customers' margin account securities, and are repayable on demand.

NOTE 8 – INCOME TAXES

As of June 30, 2020, the Company has no U.S. federal net operating loss carryforwards and no U.S. state and local net operating loss carryforwards. No valuation allowance was recorded at June 30, 2020, as the temporary differences disclosed above relate to deferred income tax assets that are more likely than not to be realized in future years. The net deferred tax asset of $724,348 is included in other assets in the Statement of Financial Condition and the details are as follows:

	State		Federal		Total
Deferred Tax Assets:					
Current	$ 117,326	$	304,455	$	421,781
Non-Current	153,550		399,802		553,352
Total	$ 270,876	$	704,257	$	975,133
Deferred Tax Liabilities:					
Current	$ 11,136	$	28,899	$	40,035
Non-Current	58,624		152,126		210,750
Total	$ 69,760	$	181,025	$	250,785
Valuation Allowance	-		-		-
Net Deferred Tax Asset	$ 201,116	$	523,232	$	724,348

The Company recognizes and measures its unrecognized tax benefits and assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available or when an event occurs that requires a change.

The Company does not have any material uncertain tax positions. As of June 30, 2020, generally the past three years remain subject to examination by various tax jurisdictions under the statute of limitations. In addition, management does not expect a significant change in uncertain tax positions during the six months subsequent to June 30, 2020.

NOTE 9 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Company purchases and sells securities and pledges or receives collateral as both principal and agent. If another party to the transaction fails to fulfill its contractual obligation, the Company may incur a loss if the market value of the security is different from the contract amount of the transaction. In the activities where the Company acts as principal, the Company trades various financial instruments and enters into various investment activities. These financial instruments include treasury securities. Each of these financial instruments contains varying degrees of off-balance sheet risk whereby changes in the market values of the securities or other underlying financial instruments may be in excess of the amounts recognized in the Statement of Financial Condition.

The Company deposits customers' margin securities with lending institutions as collateral for borrowings. If a lending institution does not return a security, the Company may be obligated to purchase the security in order to return it to its customer. In such circumstances, the Company may incur a loss equal to the amount by which the market value of the security exceeds the value of the loan from the lending institution. In the event a customer or broker fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's or broker's obligations. The Company seeks to control the risks associated with its customer or broker activities by requiring customers and brokers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels and has established guidelines to require customers or brokers to deposit additional collateral or to reduce positions when necessary.

The Company's policy is to continually monitor its market exposure and counterparty risk. The Company maintains a policy of periodically reviewing the credit standing of all parties, including correspondents, direct customers and customers of correspondents with which it conducts business. For customers introduced on a fully-disclosed basis by other broker-dealers, the Company typically has a contractual right of recovery from such introducing broker-dealers in the event of nonperformance by the customer. The Company can offset correspondent balances if required. In general, the Company requires a risk deposit from the introducing broker-dealers. In the event the customer or introducing broker-dealer does not perform, and the associated risk deposit is not enough to cover the exposure, the Company is at risk of loss. In addition, the Company, on behalf of its customers, has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company may incur a loss if its customers do not perform and the fair value of the securities increases subsequent to June 30, 2020.

The Company's customer clearance and settlement activities include the acceptance and clearance of equities, fixed income, futures and option contracts for its customers, which are primarily institutional, commercial, exchange members, and retail customers introduced by registered introducing broker-dealers, and direct customers. The Company guarantees to the respective clearing houses or other broker-dealers its customers' performance under these contracts. In accordance with regulatory requirements and market practice, the Company requires its customers to meet, at a minimum, the margin requirements established by regulatory bodies. These activities may expose the Company to off-balance sheet risk in the event the customer is unable to fulfill its contractual obligation. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. Such margin collateral reduces risk to the Company in the event of failure by the customer to fulfill obligations under these contracts.

The Company monitors required margin levels daily and has established guidelines to require customers to deposit additional collateral, or to reduce positions, when necessary. Management believes the margin deposits and collateral held at June 30, 2020 were adequate to mitigate the risk of material loss that could be created by positions held at that time.

The Company may be required to pledge eligible collateral with its banking partners, securities lending partners, or the central clearing organizations. In the event a counterparty is unable to meet its contractual obligation to return the pledged collateral, the Company may be exposed to the risk of acquiring the underlying securities at prevailing market values. All counterparty agreements are secured by securities or cash at or in excess of amounts loaned. The Company and its counterparties control this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. It is the Company’s policy to periodically review the credit standing of counterparties with which it conducts business.

At June 30, 2020, the Company did not have significant concentrations of credit risk with any one customer or counterparty or with any group of customers or counterparties.

NOTE 10 – TRANSACTIONS WITH RELATED PARTIES

The following companies are considered affiliates and, therefore, are related parties:

PEAK6 Investments LLC
PEAK6 Investments LLC (“PEAK6”) is providing various support and other services to the Company, and is entitled to fees and other payouts pursuant to the terms of the Support Services Agreement between the Parent and PEAK6 (as amended “Support Services Agreement”), the purchase agreement between Penson Technologies LLC, the Parent, and the Company, and the Parent’s Limited Liability Company Agreement. At June 30, 2020, the Company had a payable to PEAK6 of $2,503,640 recorded in payable to affiliates in the Statement of Financial Condition.

PEAK6 Capital Management LLC
The Company and PEAK6 Capital Management LLC (“CapMan”) maintain a clearing agreement for clearing and execution services provided by the Company. On January 27, 2015, the Company entered into a joint back office (“JBO”) arrangement with CapMan. Under terms of the JBO, CapMan purchased preferred stock from the Company valued at $25,000. At June 30, 2020, the Company had a receivable of $31,173 from CapMan recorded in Receivable from Broker Dealer in the Statement of Financial Condition. At June 30, 2020, CapMan had credit balances in their PAB accounts at the Company totaling $2,418,978, recorded in payable to customers in the Statement of Financial Condition.

Electronic Transaction Clearing, Inc.
Electronic Transaction Clearing, Inc. ("ETC") is a subsidiary of the Parent. The Company is providing various support and other services to ETC, and is entitled to fees and other payouts pursuant to the terms of the Support Services Agreement between the Company and ETC. At June 30, 2020, the Company had a receivable from ETC of $579,643 recorded in other assets and had net securities loaned to ETC of $39,706,000 recorded in securities loaned on the Statement of Financial Condition.

Kairos Solutions LLC
Kairos Solutions ("Kairos") is a subsidiary of PEAK6 LLC. The Company is providing various support and other services to Kairos and is entitled to fees and other payouts pursuant to the terms of the Support Services Agreement between the Company and Kairos. At June 30, 2020, the Company had a payable to Kairos of $104,380 recorded in payable to affiliates in the Statement of Financial Condition.

NOTE 11 – EMPLOYEE BENEFIT PLAN

The Company provides a defined contribution 401(k) employee benefit plan (the "Plan") that covers substantially all employees. Under the Plan, the Company may make a discretionary match contribution. All employees are eligible to participate in the Plan, based on meeting certain age and term of employment requirements.

NOTE 12 – CONTINGENCIES

From time to time, the Company may become involved in various claims and regulatory inquiries or examinations in the ordinary course of conducting its business. The Company is not aware of any material contingencies relating to such matters that would require accrual or disclosure in the Statement of Financial Condition at June 30, 2020.

NOTE 13 – GUARANTEES

The Company is required to disclose information about its obligations under certain guarantee arrangements. Guarantees are defined as contracts and indemnification agreements that contingently require a guarantor to make payments for the guaranteed party based on changes in an underlying security (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or non-occurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. They are further defined as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others. Guarantees by a clearing broker-dealer can be a reduction to regulatory Net Capital.

The Company is a member of numerous exchanges and clearing organizations. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearing organization, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearing organizations often require members to post collateral as well as meet certain minimum financial standards. The Company's maximum potential liability under these arrangements cannot be quantified. However, the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is recorded in the Statement of Financial Condition for these arrangements.

NOTE 14 – NET CAPITAL REQUIREMENTS

The Company is a broker-dealer subject to the SEC Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934 and is an FCM subject to the CFTC Minimum Capital Requirement (Regulation 1.17). The Company is required to maintain "net capital" equivalent to the greater of $1,500,000, 2% of "aggregate debit items", or the greater of the sum of 8% of the customer risk maintenance margin requirement plus 8% of the noncustomer risk maintenance margin requirement or $1,000,000, as these terms are defined.

Adjusted net capital, aggregate debit items, and risk maintenance margin requirements change from day to day. At June 30, 2020, under the more restrictive of these rules, the Company had net capital and net capital requirements of $190,092,117 and $15,942,495, respectively.

As an FCM, the Company must maintain a risk based net capital requirement not less than 110% of CFTC minimum net capital requirement. At June 30, 2020, minimum net capital requirement was $2,275,784, calculated per CFTC Rule 1.17.

NOTE 15 – SIGNIFICANT SERVICE PROVIDERS

On January 1, 2019, the Company entered into a Master Services Agreement with Broadridge Financial Solutions, Inc. (“Broadridge”) that expires on December 31, 2023. If the Company terminates the agreement for convenience, the Company may be obligated to pay Broadridge a termination fee, with maximum exposure at June 30, 2020 of $31,054,483.

NOTE 16 – NOVEL CORONAVIRUS (“COVID-19”)

The effects of the outbreak of COVID-19 have impacted and continue to impact the global economy and global financial markets. This impact could affect the Company’s business and results of operations. The Company has taken precautions to protect the safety and well-being of its employees and customers. The Company is continuously monitoring circumstances surrounding COVID-19, as well as economic and market conditions, to determine potential effects on our clients, employees and operations.

In March 2020, the Company successfully implemented a work from home policy during the pandemic, enabling all employees to work remotely across all functions without any significant disruptions to the business or control processes. The Company sees no impending changes in the near future to such policy or to its ability to continue to maintain its operations.

NOTE 17 – SUBSEQUENT EVENTS

The Company has evaluated subsequent events for potential recognition and/or disclosure and determined none were necessary.