# ING Capital Markets LLC

(A Wholly Owned Subsidiary of ING Financial Holdings Corporation)

Statement of Financial Condition

December 31, 2023

(With Report of Independent Registered Public Accounting Firm Thereon)

*(This report is filed with the Commodity Futures Trading Commission and deemed confidential in accordance with §23.105(i). A statement of financial condition including applicable footnotes has been bound separately and made publicly available on ING's website in accordance with the requirements set forth in §23.105(i)(2).)*

ING Capital Markets LLC
(A Wholly Owned Subsidiary of ING Financial Holdings Corporation)

Year Ended December 31, 2023

# Contents

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

# Independent Auditors' Report

The Board of Directors and Member
ING Capital Markets LLC:

## Report on the Audit of the Financial Statement

*Opinion*

We have audited the statement of financial condition of ING Capital Markets LLC (the Company) as of December 31, 2023, and the related notes (collectively, the financial statement).

In our opinion, the accompanying financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2023, in accordance with U.S. generally accepted accounting principles.

*Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statement section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Responsibilities of Management for the Financial Statement*

Management is responsible for the preparation and fair presentation of the financial statement in accordance with U.S. generally accepted accounting principles, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

In preparing the financial statement, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statement is available to be issued.

*Auditors' Responsibilities for the Audit of the Financial Statement*

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statement.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statement.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statement as a whole. The supplementary information contained in Schedule I is presented for purposes of additional analysis and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with GAAS. In forming our opinion on the supplementary information, we evaluated whether the supplementary information, including its form and content, is presented in conformity with Commodity Futures Trading Commission Rule 17 CFR § 23.105. In our opinion, the supplementary information contained in Schedule I is fairly stated in all material respects in relation to the financial statement as a whole.

KPMG LLP

New York, New York
February 28, 2024

December 31, 2023
(*U.S. Dollars in Thousands*)

| | |
|---|---|
| **Assets** | |
| Cash | $14,458 |
| Receivables | |
| *Brokers, dealers, clearing organizations and customers* | 1,096,453 |
| *Affiliates* | 2,164,187 |
| Trading assets | |
| *Financial instruments owned, at fair value (including assets pledged of $6,333,826)* | 12,117,481 |
| *Derivative financial instruments (customers)* | 4,252,054 |
| *Derivative financial instruments (affiliates)* | 11,785,135 |
| Short-term lending to affiliate | 324,749 |
| Other assets | 290 |
| Securities purchased under agreements to resell (includes $63,762 at fair value) | 1,774,224 |
| **Total assets** | **$33,529,031** |
| **Liabilities and Member's equity** | |
| Payables | |
| *Brokers, dealers and clearing organizations and customers* | $362,163 |
| *Affiliates* | 4,539,468 |
| Trading liabilities | |
| *Financial instruments sold, not yet purchased, at fair value* | 1,252,634 |
| *Derivative financial instruments (customers)* | 3,235,811 |
| *Derivative financial instruments (affiliates)* | 12,224,587 |
| Short-term borrowing | 4,424,779 |
| Other liabilities | 4,782 |
| Securities loaned | 6,451,362 |
| **Total liabilities** | **$32,495,586** |
| Member's equity | 1,033,445 |
| **Total liabilities and member's equity** | **$33,529,031** |

*See accompanying notes to statement of financial condition.*

## 1. Organization

ING Capital Markets LLC ("NCM" or the "Company") is a wholly owned subsidiary of ING Financial Holdings Corporation (the "Parent"). The Parent is an indirect, wholly owned subsidiary of ING Groep N.V. The Company is a limited liability company incorporated in Delaware on December 17, 1998. The Company is registered as a full-service swap dealer with the Commodity Futures Trading Commission ("CFTC"). The Company is also registered with the Securities and Exchange Commission ("SEC") as a security-based swap dealer. While ING Capital Markets LLC, as a security-based swap dealer, is required to comply with SEC rules with respect to most security-based swaps requirements, SEC rules have permitted an "Alternative Compliance Mechanism" that allows for compliance, subject to eligibility requirements, with CFTC capital and margin rules applying to swap dealers in lieu of SEC capital and margin rules applying to security-based swap dealers. ING Capital Markets LLC has elected to use the Alternative Compliance Mechanism. Therefore, the Company complies with the capital, margin, and financial reporting requirements of the CFTC in lieu of those of the SEC. The Company primarily acts as a counterparty to its domestic and international client base in a broad variety of product offerings including but not limited to FX, Rate, Equity, Commodity derivatives. The Company's line of business includes the purchase and sale of equities.

## 2. Summary of Significant Accounting Policies

### (a) Basis of Preparation

The Company prepares its financial statement in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP).

### (b) Use of Estimates

In preparing the financial statement, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statement in addition to the reported amounts of revenues and expenses during the reporting period. The most important of these estimates and assumptions relate to fair value measurements. Management believes that the estimates utilized in the preparation of the financial statement are reasonable; however, actual results could differ from those estimates.

### (c) Cash and Cash Equivalents

The Company maintains cash at federally insured banking institutions. Cash on deposit with financial institutions may, at times, exceed federal insurance limits. The Company defines cash equivalents to be highly liquid investments with original maturities of three months or less, other than those held for trading purposes.

## 2. Summary of Significant Accounting Policies (continued)

### (c) Cash and Cash Equivalents (continued)

The Company does not have an expectation of nonpayment of these amounts.

### (d) Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are accounted as collateralized financing transactions. Collateralized financing transactions utilized to source collateral to meet initial margin requirements are carried at amortized cost.

Collateralized financing transactions that are economically hedging firm inventory positions are accounted for at fair value. The gains or losses from the fair value adjustments are reported in *Principal Transactions*.

As described in Footnote 5 Fair Value Measurements, the Company uses the income approach which is based on a cash flow discounting methodology to determine the fair value of certain securities purchased under agreements to resell. Such transactions are mainly collateralized by cash. The Company's exposure to credit risk associated with the nonperformance of counterparties in fulfilling these contractual obligations can be directly impacted by market fluctuations, which may impair the counterparties' ability to satisfy their obligations. It is the Company's policy to obtain possession of collateral related to securities purchased under agreements to resell with a market value equal to or in excess of the principal amount loaned. The market value of securities to be resold is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate.

The allowance for credit losses for Securities Purchased Under Agreements is measured at the difference between the secutity's amortized cost without considering the allowance for credit loss and the fair value. Due to the collateral pledged by counterparties, the expectation of nonpayment of the amortized cost basis is zero.

Accrued interest receivable and payable for these agreements are reported within the corresponding line items in the statement of financial position.

**2. Summary of Significant Accounting Policies (continued)**

**(e) Securities Loaned**
Securities loaned are collateralized financing arrangements that are recorded at the amount of cash collateral received. With respect to securities loaned, the Company receives collateral in the form of cash. The Company monitors the market value of securities loaned on a daily basis with additional collateral obtained or refunded as necessary.

Accrued rebates are reported within Receivable from and Payable to brokers, dealers, and clearing organizations in the statement of financial condition.

**(f) Securities Transactions**
The company records principal securities transactions, including realized and unrealized trading gains and losses, and related expenses on a trade-date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded net in the statement of financial condition under Receivable from or Payable to brokers, dealers, and clearing organizations.

**(g) Income Taxes**
The Company is included in the consolidated federal and combined state and local income tax returns filed by the Parent. Federal income taxes are calculated as if the resolvCompany filed on a modified separate company approach and the amount of current tax
provision or benefit calculated is either remitted to or received from the Parent. The Company accounts for income taxes in accordance with ASC 740, *Income Taxes*. The Company is subject to a tax sharing agreement with the Parent whereby the Company's tax provision is calculated on a modified separate company approach.

**(h) Foreign Currency Translation**
Assets and liabilities denominated in foreign currencies are translated at the rates of exchange prevailing at the close of business at the statement of financial condition.

**(i) Accounting Developments**
On January 1, 2023 the Company adopted ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASC 326"), also referred to as CECL. This standard requires entities to estimate credit impairment (also referred to as credit losses) of financial assets measured at amortized cost using a CECL model.

## 2. Summary of Significant Accounting Policies (continued)

**(i)Accounting Developments (continued)**

This estimate must be forward-looking, meaning entities must use forecasts about future economic conditions to determine the expected credit loss over the remaining life of an instrument.Due to the nature of the Company's activities, the adotption of CECL did not materially affect the Company's Statement of Financial Position.

## 3. Collateralized Transactions

The Company enters into securities purchased under agreements to resell and securities loaned transactions to, among other things, accommodate customers' needs and to finance the Company's inventory positions. The Company manages credit exposure arising from such collateralized transactions by, in appropriate circumstances, entering into enforceable collateral agreements with counterparties.

Such agreements provide the Company, in the event of a counterparty default (such as bankruptcy or counterparty's failure to pay or perform), the right to set off a counterparty's rights and obligations under such agreement and liquidate and net collateral against the net amount owed by the counterparty.

***Secured Financing Transactions—Maturities and Collateral Pledged***

As of December 31, 2023, the Company's gross obligation resulting from securities lending transactions was $6,451,362. the Company exclusively collateralizes securities lending transactions with corporate equity securities.

The following table presents analyses of the total gross balance of liabilities recognized in the Statement of Financial Condition for securities lending transactions by remaining contractual maturity of the agreement as of December 31, 2023.

| | Remaining Contractual Maturity | | | | |
|---|---|---|---|---|---|
| | **Overnight and Open** | **Less than 30 days** | **30-90 days** | **Over 90 days** | **Total** |
| Securities lending transactions | $- | $348,398 | $5,060,304 | $1,042,660 | $6,451,362 |
| **Total** | **$-** | **$348,398** | **$5,060,304** | **$1,042,660** | **$6,451,362** |

## 3. Collateralized Transactions (continued)

***Collateral pledged by the Company***

In addition, the Company pledges firm-owned securities as collateral in connection with securities lending transactions. Pledged securities that can be sold or repledged by the secured party are $6,333,826 at December 31, 2023, and are disclosed in parentheses as pledged within trading assets on the Statement of Financial Condition. At December 31, 2023, the Company had pledged $0 of assets owned as collateral which the secured party does not have the right to sell or repledge.

***Collateral received by the Company***

The Company receives collateral in the form of US treasury securities in connection with resale agreements.At December 31, 2023, the fair value of securities received as collateral where the company is permitted to repledge the securities was $1,787,596 and the fair value of the portion that had been repledged was $1,787,596.

## 4. Related Party Transactions

In the normal course of business, the Company transacts with affiliated companies as part of its trading, financing, and general operations.

The Company is subject to a tax sharing agreement with the Parent, whereby the Company's tax provision is calculated on a separate entity basis and then allocated on a pro rata basis amongst the Parent group.

The Company pays taxes to the Parent periodically during the year based on an estimated effective tax rate. At December 31, 2023, the Company has a tax payable to its Parent included in payable to affiliates and other liabilities of $9,479.

At December 31, 2023, the Statement of Financial Condition included the following balances with related parties:

**4. Related Party Transactions (continued)**

| Statement of Financial Condition Items | |
|---|---|
| Cash | $11,064 |
| Receivables from affiliates | 2,164,187 |
| Derivative financial instruments (affiliates) | 11,785,135 |
| Short-term lending to affiliate | 324,749 |
| Securities purchased under agreements to resell | 1,774,224 |
| **Total assets** | **$16,059,359** |
| | |
| Payables to affiliates | $4,539,468 |
| Derivative financial instruments (affiliates) | 12,224,587 |
| Short-term borrowings | 4,423,755 |
| Securities loaned | 6,451,362 |
| **Total liabilities** | **$27,639,172** |

*Receivables from and payables to affiliates* are primarily comprised of excess cash collateral posted to/received from affiliates in relation to derivative activities. The Company clears its equity security business through its affiliate, ING Financial Markets LLC, who is registered with the SEC as a securities broker-dealer.

As of December 31, 2023, the company had a payable balance of $3,664,999 associated with equity securities that were purchased on margin through its affiliate ING Financial Markets LLC.

*Derivative financial instruments (affiliates)* represent the fair value balances of derivative instruments that the Company has entered with its affiliates. The trades are economically hedged.

*Short-term lending and borrowings* represent balances due to and due from the Company's Parent, through a funding agreement which is used to satisfy funding needs and requirements in the normal course of business. These funding arrangements are overnight, uncollateralized, interest-bearing notes that accrue interest at variable rates.

*Collateralized agreements*, the securities loaned, and reverse repurchase agreement balances are comprised of transactions with ING Financial Markets LLC.

The securities lending balances provide funding for the Company's Global Securities Linear Equity Derivative business, whereas the reverse repurchase balances provide the Company with

## 4. Related Party Transactions (continued)

US Treasury securities that are needed to meet the initial margin collateral requirements of "Over-the-counter" (OTC) derivative contracts in which the Company enters into.

## 5. Fair Value Measurements

***The Fair Value of Financial Instruments***

A significant amount of the Company's financial instruments are carried at fair value. Financial instruments that are carried at fair value on a recurring basis include trading assets, and trading liabilities. Additionally, the Company applies the fair value option to a portion of securities purchased under agreements to resell. In all cases, fair value is determined in accordance with ASC 820.

ASC 820, *Fair Value Measurements and Disclosures*, defines fair value, 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 or, in the absence of a principal market, the most advantageous market.

***Fair Value Hierarchy***

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure value into three broad levels:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly for substantially the full term (contractual life) of the asset or liability.

- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

## 5. Fair Value Measurements (continued)

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at December 31, 2023:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Assets** | | | | |
| Trading assets: | | | | |
| Derivative financial instruments | | | | |
| Cross currency contracts | - | $1,716,006 | - | $1,716,006 |
| Equity contracts | - | 117,988 | - | 117,988 |
| Interest rate contracts | - | 14,090,433 | - | 14,090,433 |
| Commodity contracts | - | 111,705 | 883 | 112,588 |
| Foreign exchange contracts | - | 174 | - | 174 |
| Financial instruments owned, at fair value | | | | |
| Equity securities | 12,117,481 | - | - | 12,117,481 |
| US Treasury Securities | - | - | - | - |
| **Total trading assets** | **$12,117,481** | **$16,036,306** | **883** | **$28,154,670** |
| Securities purchased under agreements to resell[(1)] | - | 63,762 | - | 63,762 |
| **Total assets at fair value** | **$12,117,481** | **$16,100,068** | **883** | **$28,218,433** |
| **Liabilities** | | | | |
| Trading liabilities: | | | | |
| Derivative financial instruments | | | | |
| Cross currency contracts | - | $1,397,384 | - | $1,397,384 |
| Equity contracts | - | $294,660 | - | $294,660 |
| Interest rate contracts | - | $13,616,698 | - | $13,616,698 |
| Commodity contracts | - | $151,519 | - | $151,519 |
| Foreign exchange contracts | - | $137 | - | $137 |
| Financial instruments sold, not yet purchased, at fair value | | | | |
| Equity securities | $1,136,868 | - | - | $1,136,868 |
| US Treasury Securities | $115,766 | - | - | $115,766 |
| **Total trading liabilities** | **$1,252,634** | **$15,460,398** | **-** | **$16,713,032** |
| **Total liabilities at fair value** | **$1,252,634** | **$15,460,398** | **-** | **$16,713,032** |

[(1)]Items for which the Company elected the fair value option under ASC 825.

## 5. Fair Value Measurements (continued)

***Valuation Methodology for Financial Instruments Carried at Fair Value on a Recurring Basis***

The fair value of financial instruments is based on quoted market prices including market indices, broker or dealer quotations or an estimation by management of the expected exit price under current market conditions. Certain instruments may be measured using valuation techniques, such as valuation pricing models incorporating observable parameters, unobservable parameters, or a combination of both. If the inputs used to measure an asset or liability fall into different levels within the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

In addition, valuation adjustments are integral to determining the fair value of derivative portfolios and are achieved by developing and calibrating sophisticated pricing models to determine the fair value and appropriate exit price. The Company utilizes a valuation methodology that incorporates various valuation adjustments including “XVA” in the valuation of open derivative trades.

XVA is comprised of Bilateral Valuation Adjustment (BVA), which accounts for the bilateral nature of counterparty risk for existing transactions in Financial Instruments; Funding Valuation Adjustment (FVA), which accounts for uncollateralized or low credit quality collateralized clients with whom the Company has transactions in Financial Instruments outstanding; Collateral Valuation Adjustment (CollVA) which is intended to capture specific features of a collateral arrangement with a client that the regular discounting framework does not capture and lastly; and Fair Value Adjustment, which is in place to adjust for model risk related to pricing models accounted for in the profit and loss account.

XVA is applied to the fair values of the Company’s derivative instruments to capture the risks outlined above. XVA can have significant impacts to the Company’s Financial Statement in periods of high market volatility. To reduce the impacts of this volatility, the Company entered into a service level agreement with their Ultimate Parent, ING Bank N.V., where their Parent manages the XVA risks on behalf of the Company. Based on the outcome of the risk management activities during the period there is a flow of compensation either due to or due from the Ultimate Parent that offsets the financial reporting impacts of XVA during the period..

## 5. Fair Value Measurements (continued)

The following is a description of the valuation basis, including valuation techniques and inputs, used in measuring the Company's financial assets and liabilities that are accounted for at fair value on a recurring basis.

*Equity securities* held by the Company are measured using quoted prices for identical securities in active dealer markets. Accordingly, equity securities are categorized in Level 1 of the fair value hierarchy.

*US treasuries securities* held by the Company are measured based on quoted market prices and categorized within Level 1 of the fair value hierarchy.

*Derivative financial instruments* can be exchange-traded or OTC. Derivatives that trade in liquid markets, such as forwards, futures, swaps, and options, are classified within Level 2 of the fair value hierarchy when all of the significant inputs are observable and can be corroborated to market evidence. If observable market data is not available, fair value is based upon internally developed valuation models that use current market-based or independently sourced market parameters, such as credit spreads and option volatilities. These instruments are classified within Level 3 of the fair value hierarchy.

### *Fair Value Option*

The Company accounts for a portion of its securities purchased under agreements to resell at fair value under the fair value option election. The primary reason for electing fair value option is to reflect economic events in earnings on a timely basis.

The fair value is computed using a standard cash flow discounting methodology. The inputs to the valuation include contractual cash flows and collateral funding spreads, which are estimated using various benchmarks and interest yield curves. Securities purchased under agreements to resell are generally classified as level 2 because the inputs are observable. The fair value of Securities purchased under agreements to resell at December 31, 2023 is included in the table of Financial Instruments Measured at Fair Value on a Recurring Basis.

## 5. Fair Value Measurements (continued)

***Quantitative Information Regarding Significant Unobservable Inputs and Assumptions***

The following table presents quantitative information about the significant unobservable inputs and assumptions used by the Company for certain material Level 3 financial instruments as of December 31, 2023:

| **Class of Financial Instrument** | Fair Value (Net) | Valuation Technique | Unobservable Inputs |
|---|---|---|---|
| Commodity Contracts | $887* | Prudent value adjustment | Commodity Volatility Correlations |

*The fair value amount is representative pre XVA adjustment.

The tables below disclose the balances of sales, and transfers into and out of Level 3 during the period, for all assets and liabilities categorized as Level 3 as of December 31, 2023.

| **Opening Balance as of January 1, 2023** | Sales | Transfers into Level 3 | Transfers out of Level 3 | Unrealized Gains (Losses) | ***Balance as of December 31, 2023*** |
|---|---|---|---|---|---|
| $33 | $0 | $0 | $0 | $854 | $887 |

***Estimated Fair Value of Financial Instruments Not Carried at Fair Value***

Certain financial instruments are not carried at fair value on a recurring basis on the Statement of Financial Condition since they are neither held for trading purposes nor elected for the fair value option. These are typically carried at contractual amounts due or amortized cost.

The carrying value of the majority of the following financial instruments will approximate fair value since they are liquid, short-term in nature and/or contain minimal credit risk. These include cash, securities purchased under agreements to resell, securities loaned, short-term borrowing, short-term lending.

## 5. Fair Value Measurements (continued)

However, the fair value of other financial instruments may be different than carrying value if they are longer term in nature or contain more than minimal credit risk. All of these financial assets and financial liabilities would be generally classified as Level 2 or Level 3 within the fair value hierarchy.

The following table presents carrying values, estimated fair values and classification within the fair value hierarchy of those fair values for financial instruments which are carried on a basis other than fair value within our Statement of Financial Condition as of December 31, 2023.

Financial instruments carried at fair value on a recurring basis are separately reported in the tables above.

| | Carrying amount |
|---|---|
| **Assets** | |
| Cash | $14,458 |
| Receivables from affiliates brokers, dealers clearing organizations and customers | 1,096,453 |
| Receivables from affiliates | 2,164,187 |
| Securities purchased under agreements to resell | 1,710,463 |
| Short-term lending to affiliate | 324,749 |
| **Total** | **$5,310,310** |
| **Liabilities** | |
| Securities loaned | $6,451,362 |
| Payables to brokers, dealers clearing organizations and customers | 372,743 |
| Payables to affiliates | 4,528,888 |
| Short-term borrowing | 4,424,779 |
| **Total** | **$15,777,772** |

## 6. Income Taxes

The Company is a single member limited liability company for federal, state, and local tax purposes, and accordingly, for the year ended December 31, 2023, it was not subject to federal, state and local corporate income taxes directly, but is included in the consolidated and combined returns filed by the Parent.

The Company is subject to a tax sharing agreement with the Parent whereby the Company's tax provision is calculated on a modified separate company basis. At December 31, 2023, the expense to the Company was $22,488 and the Company has a payable to the Parent of $9,479 related to income taxes.

The components of the Company's net Deferred Tax Liabilities at December 31, 2023, are as follows (dollars in thousands):

| | |
|---|---|
| **Deferred Taxes** | |
| **Deferred Tax Assets** | |
| Deferred Tax Assets | $- |
| Less: Valuation Allowance | - |
| Deferred Tax Assets | |
| | |
| **Deferred Tax Liabilities** | |
| Deferred Tax Liabilities | $7,992 |
| Less: Valuation Allowance | - |
| Deferred Tax Liabilities | $7,992 |
| | |
| Net Deferred Taxes | $7,992 |

ASC 740 prescribes an asset and liability approach to accounting for taxes that requires the recognition of deferred tax assets ('DTAs') and deferred tax liabilities ('DTLs') for the expected future tax consequences of events that have been recognized in the financial statement or tax returns. In estimating future tax consequences, ASC 740 generally considers all expected future events other than future enactment of changes in the tax law or rates. The gross DTLs relates to the valuation adjustment.

The difference between the expected statutory federal rate of 21% and the effective income tax rate of 24.04% for the year ended December 31, 2023 is due to state and local income taxes.

## 6. Income Taxes (continued)

As of and for the year ended December 31, 2023, the Company was not required to establish a liability for uncertain tax positions. As of December 31, 2023, the Company has no accrued liabilities for interest or penalties in its statement of financial condition. The Parent's federal tax returns are open to IRS examination beginning with the 2019 tax year. Most state & local tax returns are open to examination beginning with tax year 2020 whereas a select few state and local tax returns are open to examination beginning with the 2011 tax year.

## 7. Concentrations of Credit Risk

### *Credit Risk*

As a swap dealer, the Company is engaged in various trading activities servicing a diverse group of domestic and foreign entities. The Company's transactions are often collateralized and are executed with and on behalf of institutional investors, including other swap dealers, commercial banks, insurance companies, pension plans, mutual funds, and other financial institutions. The Company's exposure to credit risk associated with the nonperformance of these counterparties in fulfilling their contractual obligations can be directly impacted by volatile trading markets, which may impair the counterparties' ability to satisfy their obligations to the Company.

The Company enters into OTC derivatives, which are negotiated and settled bi-laterally with the derivative counterparty. In addition, the Company enters into certain exchange traded derivatives such as futures and options and cleared OTC derivative contracts with central counterparties ("CCP"). Exchange traded contracts are generally standardized contracts traded on an exchange and cleared by the CCP. OTC centrally cleared contracts are those contracts which are traded bi-laterally and then novated to a CCP for clearing.

The Company attempts to minimize credit risk by monitoring counterparty credit exposure and creditworthiness and limiting such transactions with certain counterparties. Credit risk arises from a failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk at any point in time is approximated by the fair value of the contracts reported as assets.

For receivables, the Company monitors the past due status on a daily basis. As per December 31, 2023, no material amounts of receivables was past due.

## 7. Concentrations of Credit Risk (continued)

The Company mitigates credit exposure arising from trading actives by entering into ISDA Master Agreements with counterparties that require the posting of collateral on derivative contracts in which the Company enters into. The Company reviews the market value of securities and collateral held on a daily basis and requires additional collateral to be delivered or returned to the Company pursuant to the terms of such collateral agreements.

The Company's concentrations of credit risk arise from its gross exposure to the industry types it transacts with. The following table presents the Company's concentration of exposures by counterparty arising out of derivative transactions.

The gross fair value of derivative assets represents the maximum amount of loss due to credit risk that the Company would incur if the counterparties of the Company failed to perform in accordance with the terms of the instruments and if any collateral or other securities the Company held in relation to those instruments proved to be of no value.

| Industry Concentration | Gross Fair Value | Impact of Collateral |
|---|---|---|
| Non-Bank Financial Institutions | 2,320,381 | 59,378 |
| Commercial Banks | 14,728,769 | 496,170 |
| Others | 874,665 | 157,978 |

### *Financial Instruments with Off-Balance-Sheet Risk*

Financial instruments sold, not yet purchased at fair value, include an obligation to purchase securities at a future date. Such securities have market risk to the extent subsequent market fluctuations may require the Company to repurchase the securities at prices in excess of the market value reflected in the statement of financial condition.

## 8. Commitment and Contingencies

The Company operates in a legal and regulatory business environment that exposes it to various legal and regulatory compliance risks. As a result, the Company is involved in certain types of litigation and regulatory proceedings in the ordinary course of businesses that it operates in.

In accordance with ASC 450, "Loss Contingencies", the Company will accrue a liability when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many lawsuits and regulatory proceedings, it is not possible to determine whether a liability has been incurred or to estimate the ultimate or minimum amount of that liability until the matter is close to resolution. In view of the inherent difficulty of predicting the outcome of such matters, the Company cannot determine the probability or estimate what the eventual loss or range of loss related to such matters will be. Subject to the foregoing, the Company continues to assess these matters and believes, in conjunction with consultation with outside counsel that based on information available to it, that the resolution of these matters will not have a material adverse effect on its statement of financial condition of the Company for the year ended December 31, 2023.

## 9. Capital Requirements

The Company is subject to CFTC Regulation 23.101 (the Rule), which requires the maintenance of minimum regulatory capital requirements for swap dealers. The Company has elected to take the bank-based approach with respect to this regulation, and is required to maintain capital equal to the greater of the following items, as defined by the Rule:

| CFTC Bank Based Approach Capital Requirement | % of Capital Compared to Minimum Capital Requirement |
|---|---|
| CET1 equal to 6.5% of its risk-weighted assets (RWA) | 48% |
| Total Capital (CET1, AT1, Tier 2) equal to 8% of RWA | 59% |
| Total capital equal to 8% of uncleared swap margin | 56% |

At December 31, 2023, the Company had regulatory capital of $1,032,937, which was $426,286 in excess of the minimum requirement. The minimum requirement was $606,651, which is 8% of risk weighted assets.

## 10. Derivative Instruments and Hedging Activities

In the normal course of business, the Company enters into transactions in derivative instruments in order to meet the financing and hedging needs of its customers, to reduce its own exposure to market, credit and liquidity risks, and in connection with its proprietary trading activities. These financial instruments may include cross currency contracts, interest rate contracts, equity contracts, commodity contracts and foreign exchange contracts.

Risks arise from unfavorable changes in interest rates, foreign currency exchange rates or the market values of the securities underlying the instruments as well as the possible inability of counterparties to meet the terms of their contracts. The credit risk associated with these contracts is typically limited to the cost of replacing all contracts on which the Company has recorded an unrealized gain.

Derivatives are presented on the Statement of Financial Condition at fair value, which is equal to the present value of all remaining cash flows including accrued interest. The fair value of the instrument, inclusive of accrued interest is allocated to the applicable sub-line of the Trading Assets or Trading Liabilities financial statement line.

The following table quantifies the volume of the Company's derivative activity recorded in Trading assets and Trading liabilities on the Statement of Financial Condition, as of December 31, 2023, through a disclosure of notional amounts, in comparison with the fair value of those derivatives. All notional and fair value amounts are disclosed on a gross basis:

| | **Contract/Notional** | **Fair Value Derivative Assets** | **Fair Value Derivative Liabilities** |
|---|---|---|---|
| Cross currency contracts | $96,796,004 | $1,716,007 | $1,397,385 |
| Equity contracts | 14,038,147 | 117,988 | 294,660 |
| Interest rate contracts | 523,953,257 | 14,090,433 | 13,616,698 |
| Commodity contracts | 9,617,167 | 112,588 | 151,519 |
| Foreign exchange contracts | 466,251 | 174 | 137 |
| **Gross derivative instruments** | **$644,870,826** | **$16,037,190** | **$15,460,399** |

## 11. Subsequent Events

The Company evaluated subsequent events through February 28, 2024, the date the financial statement were issued. The Company did not note any subsequent events requiring disclosure or adjustment to the financial statement.

# Supplemental Information

| Statement of Regulatory and Minimum Capital Requirements | |
|---|---|
| Regulatory Capital | $1,032,937 |
| Minimum Regulatory Capital | $606,651 |

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