

# Axos Clearing LLC

(A Wholly Owned Subsidiary of Axos Clearing, Inc.)  
(SEC I.D. No. 8-53595)

Statement of Financial Condition as of June 30, 2019 and  
Report of Independent Registered Public Accounting Firm

Filed pursuant to Rule 17a-5(e)(3) under the Securities Exchange Act of 1934 as a **PUBLIC** Document.

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NUMBER  
8-53595

FACING PAGE  
Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 07/01/18 AND ENDING 06/30/19  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Axos Clearing LLC**

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

**1299 Farnam Street, Suite 800**

(No. and Street)

**Omaha**

**NE**

**68102**

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Steven M. Oss

402-384-6114

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**BDO USA, LLP**

(Name - if individual, state last, first, middle name)

**3570 Carmel Mountain Rd**

**San Diego**

**CA**

**92130**

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

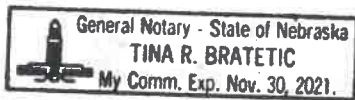
Accountant not resident in United States or any of its possessions.

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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, Steven M. Oss, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Axos Clearing LLC of June 30, 2019, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



Signature: [Handwritten Signature]
Chief Financial Officer
Title

[Handwritten Signature]
Notary Public

- This report \*\* contains (check all applicable boxes):
(a) Facing Page.
(b) Statement of Financial Condition.
(c) Statement of Income (Loss).
(d) Statement of Changes in Financial Condition.
(e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
(f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
(g) Computation of Net Capital.
(h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
(j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
(l) An Oath or Affirmation.
(m) A copy of the SIPC Supplemental Report.
(n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).



Tel: 858-404-9200  
Fax: 858-404-9201  
www.bdo.com

3570 Carmel Mountain Road, Suite 400  
San Diego, CA 92130

## **Report of Independent Registered Public Accounting Firm**

To the Board of Managers  
Axos Clearing, LLC  
Omaha, Nebraska

### **Opinion on Statement of Financial Condition**

We have audited the accompanying statement of financial condition of Axos Clearing, LLC (the "Broker-Dealer") as of June 30, 2019. In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of the Broker-Dealer at June 30, 2019, in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

This financial statement is the responsibility of the Broker-Dealer's management. Our responsibility is to express an opinion on the Broker-Dealer's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the statement of financial condition. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of financial condition. We believe that our audit provides a reasonable basis for our opinion.

We have served as the Company's auditor since 2019.

**BDO USA, LLP**

San Diego, California  
August 29, 2019

**AXOS CLEARING LLC**  
**(A Wholly Owned Subsidiary of Axos Clearing, Inc.)**

**STATEMENT OF FINANCIAL CONDITION**  
**JUNE 30, 2019**

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**ASSETS**

CASH AND CASH EQUIVALENTS	\$ 7,853,423
CASH SEGREGATED IN COMPLIANCE WITH FEDERAL AND OTHER REGULATIONS	206,469,326
DEPOSITS WITH CLEARING ORGANIZATIONS	8,936,939
SECURITIES OWNED - At fair value	6,032,787
RECEIVABLE FROM BROKERS, DEALERS, AND CLEARING ORGANIZATIONS, net	14,114,703
RECEIVABLE FROM CUSTOMERS, net	188,383,681
SECURITIES BORROWED, net	144,706,335
PROPERTY AND EQUIPMENT, net	2,070,396
GOODWILL	17,754,395
OTHER ASSETS	<u>4,030,253</u>
TOTAL ASSETS	<u>\$ 600,352,238</u>

**LIABILITIES AND MEMBER'S EQUITY**

PAYABLE TO BANKS	\$ 106,800,000
PAYABLE TO CUSTOMERS	219,161,590
SECURITIES LOANED	198,356,423
PAYABLE TO BROKERS, DEALERS, AND CLEARING ORGANIZATIONS	19,442,512
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	<u>5,469,926</u>
TOTAL LIABILITIES	549,230,451
COMMITMENTS AND CONTINGENCIES (see Note 10)	
MEMBER'S EQUITY	<u>51,121,787</u>
TOTAL LIABILITIES AND MEMBER'S EQUITY	<u>\$ 600,352,238</u>

See notes to statement of financial condition.

**AXOS CLEARING LLC**  
(A Wholly Owned Subsidiary of Axos Clearing, Inc.)

**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**AS OF AND FOR THE YEAR ENDED JUNE 30, 2019**

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**1. ORGANIZATION AND NATURE OF OPERATIONS**

**Organization** — Axos Clearing LLC (the “Company”) is a wholly-owned subsidiary of Axos Clearing, Inc., a subsidiary company of Axos Financial, Inc. (the “Parent”) and is headquartered in Omaha, Nebraska. The Company is a Delaware Limited Liability company formed on January 21, 2004.

The Company was formerly named COR Clearing LLC and was owned by COR Securities Holdings until January 28, 2019 when COR Securities Holdings Inc. was acquired by the Parent (“Acquisition”). Subsequent to this Acquisition, COR Clearing LLC and COR Securities Holdings, Inc. changed their names to Axos Clearing LLC and Axos Clearing, Inc., respectively.

**Nature of Operations** — The Company is a securities broker-dealer and provides clearing services to other broker-dealers on a fully disclosed basis throughout the United States. The Company is required to comply with all applicable rules and regulations of the Securities and Exchange Commission (“SEC”), Financial Industry Regulatory Authority, Inc. (“FINRA”), and the various securities exchanges in which it maintains membership.

**2. SIGNIFICANT ACCOUNTING POLICIES**

**Use of Estimates** — The preparation of the statement of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** — The Company defines cash and cash equivalents as all cash balances and highly liquid investments with original maturities of three months or less at the time of purchase. While the Company’s cash and cash equivalents are on deposit with high-quality institutions, such deposits exceed Federal Deposit Insurance Corporation insured limits.

**Cash Segregated in Compliance with Federal and Other Regulations** — Cash segregated in compliance with federal regulations consist primarily of qualified deposits in special reserve bank accounts for the exclusive benefit of customers in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934 (the “Exchange Act”) and other regulations.

**Customer Transactions** — Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the statement of financial condition. Customer securities transactions are recorded on a settlement date basis in the statement of financial condition with the related revenue and expense reported on a trade date basis. The customer receivables are recorded net of an allowance for doubtful accounts of \$851,693.

**Securities Owned** — Securities owned are valued at fair value based and recorded on a trade date basis. As of June 30, 2019, the Company had Securities Owned with a fair value of \$1,685,062 on deposit with the Options Clearing Corporation (“OCC”) for option contracts written or purchased in customer accounts. These securities cannot be sold or repledged by the OCC.

**Securities Borrowed and Securities Loaned** — Securities Borrowed and securities loaned transactions are reported as collateralized financings and recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash with the lender. With respect to securities loaned, the Company receives collateral in the form of cash in an amount 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 necessary.

**Property and Equipment** — Property and equipment is recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the remaining useful lives of the assets, ranging from 3 to 7 years.

**Impairment of Long-Lived Assets** —The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be recoverable. If the Company determines an impairment of a long-lived asset has occurred, the asset will be written down to its estimated fair value, which is based primarily on expected discounted future cash flows. No impairment charges were recorded during the year ended June 30, 2019.

**Income Taxes**— The Company has elected, under the provision of the Internal Revenue Code, to be treated as a disregarded entity, under the entity classification domestic default rules. The income and losses of the Company pass through to the Parent who incurs the tax obligation or receives the tax benefit. There is no tax sharing arrangement between the Company and the Parent.

**Goodwill** — The Company has goodwill recorded from a December 28, 2011 purchase transaction. The Company tests goodwill for impairment on an annual basis as of December 31 or when there is evidence that events or changes in circumstances indicate that the carry amount of the asset may not be recoverable. Based upon the qualitative test performed as of December 31, 2019 no impairment was recognized by the company related to goodwill.

**Recently Issued Accounting Pronouncements**— In January 2017, the FASB issued ASU 2017-04, *Simplifying the Test for Goodwill Impairment*, which is intended to simplify the test for goodwill impairment by eliminating Step 2 from the goodwill impairment test, which measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Under the amendments in this ASU, an entity should perform its annual goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity will still have the option to perform the qualitative assessment for a reporting unit to determine if the quantitative test is necessary. ASU 2017-04 should be applied prospectively and is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, with early adoption permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. ASU 2017-04 will be effective for the Company's fiscal year beginning July 1, 2020. The Company does not expect this ASU to have a material impact on its statement of financial condition.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments. The main objective of ASU 2016-13 is to provide financial statement users with more decision-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 update replace the incurred loss impairment methodology in current 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. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019 and interim periods within those fiscal years, with early adoption permitted. Therefore, ASU 2016-13 will be effective for the Company's fiscal year beginning on July 1, 2020. The Company is currently assessing the impact this ASU will have on its statement of financial condition.

In February 2016, the FASB issued ASU 2016-02, *Leases*, which replaces the existing guidance in ASC 840, *Leases*. The new standard establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. The guidance will be effective for annual reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently evaluating the impact that ASU 2016-02 will have on its statement of financial condition and related disclosures.

### 3. RECEIVABLE FROM AND PAYABLE TO BROKERS, DEALERS, AND CLEARING ORGANIZATIONS

Receivable from and payable to brokers, dealers, and clearing organizations are comprised of the following as of June 30, 2019:

Receivable:	
Brokers and dealers	\$ 7,717,248
Clearing organizations	3,305,193
Securities failed to deliver	<u>3,092,262</u>
	<u>\$ 14,114,703</u>
Payable:	
Brokers and dealers	\$ 9,113,358
Clearing organizations	1,882,307
Securities failed to receive	<u>8,446,847</u>
	<u>\$ 19,442,512</u>

Receivables related to securities are collateralized by the underlying securities. A bad debt allowance of \$15,422,604 million has been recorded in order to cover potential losses resulting from unauthorized securities trades by a correspondent customer. The total amount of broker dealer bad debt allowance recorded as of June 30, 2019 is \$15,799,701.

### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of



unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is categorized into three levels based on the inputs as follows:

*Level 1* — Inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

*Level 2* — Inputs are observable, either directly or indirectly, but do not qualify as Level 1 inputs. The Company's Level 2 assets and liabilities include: debt obligations of U.S. government and agencies and state and municipal obligations.

*Level 3* — Inputs are unobservable inputs for the asset or liability and typically reflect the Company's assumptions that it believes market participants would use in pricing the asset or liability. This category includes unregistered equity securities.

The availability of valuation techniques and observable inputs can vary from security to security and is affected by a wide variety of factors, including the type of security, whether the security is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined. Because of the inherent uncertainty of valuation, those estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined by the lowest level input that is significant to the fair value measurement.

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

At June 30, 2019, the Company's assets measured at fair value consist of the following:

<b>Assets:</b>	<b><u>Level 1</u></b>	<b><u>Level 2</u></b>	<b><u>Level 3</u></b>	<b><u>Total</u></b>
Equities	\$ 63,298	\$ -	\$ 3,026,009	\$ 3,089,307
State and Municipal obligations	-	1,258,418	-	1,258,418
U.S. Government and agency securities	-	1,685,062	-	1,685,062
Total assets at fair value	<u>\$ 63,298</u>	<u>\$ 2,943,480</u>	<u>\$ 3,026,009</u>	<u>\$ 6,032,787</u>

The fair value of all other financial instruments reflected in the statement of financial condition (consisting of primarily receivables from and payables to brokers, dealers and clearing organizations and customers, securities borrowed and loaned, payable to banks, and notes receivable) approximates the carrying value due to the short-term nature and pricing characteristics of the financial instruments.

## 5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2019:

Furniture and equipment	\$ 1,309,263
Capital leased assets	1,990,902
Assets in Progress	1,151,554
Software	<u>1,086,325</u>
	5,538,044
Less accumulated depreciation and amortization	<u>(3,467,648)</u>
	<u>\$ 2,070,396</u>

## 6. REGULATORY REQUIREMENTS

The Company is subject to the SEC Uniform Net Capital (Rule 15c3-1 of the Exchange Act). Under this rule, the Company has elected to operate under the alternate method and is required to maintain minimum net capital of \$250,000 or 2% of aggregate debit balances arising from client transactions, as defined. On June 30, 2019, the Company had net capital of \$25,327,235 which was \$21,498,079 in excess of the required net capital requirement of \$3,829,156. The Company's percentage of net capital to aggregate debit items was 13.2%. Under the alternate method, the Company may not repay subordinated debt, pay cash distributions, or make any unsecured advances or loans to its parent or employees if such payment would result in net capital of less than 5% of aggregate debit balances or less than 120% of its minimum dollar requirement.

The Company, as a clearing broker, is subject to SEC Customer Protection Rule (Rule 15c3-3 of the Exchange Act) which requires segregation of funds in a special reserve account for the benefit of customers. At June 30, 2019, the Company had a deposit requirement of \$197,409,808 and maintained a deposit of \$204,732,760. On July 1, 2019, the Company made a withdrawal of \$5,100,000.

Certain broker-dealers have chosen to maintain brokerage customer accounts at the Company. To allow these broker-dealers to classify their assets held by the Company as allowable assets in their computation of net capital, the Company computes a separate reserve requirement for Proprietary Accounts of Brokers (PAB). At June 30, 2019, the Company had a deposit requirement of \$3,437,815 and maintained a deposit of \$1,692,191. On July 1, 2019, the Company made a deposit of \$2,300,000.

## 7. OFFSETTING OF SECURITIES FINANCING AGREEMENTS

The Company enters into securities borrowed and securities loaned transactions. The Company executes these transactions to facilitate customer match-book activity, cover short positions and customer securities lending. The Company manages credit exposure from certain transactions by entering into master securities lending agreements. The relevant agreements allow for the efficient

closeout of transactions, liquidation and set-off of collateral against the net amount owed by the counterparty following a default. Default events generally include, among other things, failure to pay, insolvency or bankruptcy of a counterparty.

The following table presents information about the offsetting of these instruments and related collateral amounts as of June 30, 2019:

	<u>Gross Assets/ Liabilities</u>	<u>Amounts Offset</u>	<u>Net Balance Sheet Amount</u>	<u>Financial Collateral</u>	<u>Net Amount</u>
Assets:					
Securities borrowed	\$ 144,706,335	\$ -	\$ 144,706,335	\$ (144,706,335)	\$ -
Liabilities:					
Securities loaned	\$ 198,356,423	\$ -	\$ 198,356,423	\$ (198,356,423)	\$ -

The securities loaned transactions represent equities with an overnight and open maturity classification.

## 8. BENEFIT PLANS

The Company has a 401(k) and profit sharing plan which is made available to all employees. Profit sharing contributions and matching 401(k) contributions are determined at the discretion of the Board of Managers Payable to Banks

## 9. PAYABLE TO BANKS

The Company has a total of \$155,000,000 uncommitted secured lines of credit available for borrowing as needed. As of June 30, 2019, borrowings outstanding totaled \$106,800,000. As of June 30, 2019 the weighted average rate was 3.84%. The applicable interest based charges are accrued and paid monthly. One credit facility with a line of \$40,000,000 expires in October 2019. The remaining credit facilities have no expiration.

The Company has a \$35,000,000 committed unsecured line of credit available for limited purpose borrowing. As of June 30, 2019, there were no borrowings outstanding. This credit facility bears interest at rates based on the Federal Funds rate and are due upon demand. This credit facility expires in November 2019. The line of credit however can be reduced by \$5,000,000 if net capital in excess of requirements is less than \$15,000,000.

## 10. COMMITMENTS AND CONTINGENCIES

The Company maintains various operating and capital leases, which expire at varying dates from July 2019 to September 2023. Capital leased assets of \$469,580, net of \$1,521,322 of accumulated depreciation, are included in Property and Equipment, Net on the statement of financial condition.

Following is a schedule of the remaining lease payments:

**Year Ending  
June 30**

	<u>Operating Leases</u>	<u>Capital Leases</u>
2020	\$ 649,631	\$ 222,121
2021	596,854	182,743
2022	88,893	61,219
2023	81,840	-
2024	20,832	-
Total future minimum obligations	<u>\$ 1,438,050</u>	<u>\$ 466,083</u>
Present Value of Future Minimum Capital Lease Payments		<u>\$ 466,083</u>

The Company is subject to lawsuits, arbitration, claims, and other legal proceedings in connection with its business. A substantial adverse judgment or other unfavorable resolution of these matters could have a material adverse effect on the Company's statement of financial condition. Management is of the opinion that the Company has adequate legal defenses with respect to the legal proceedings to which it is a defendant or respondent and the outcome of these pending proceedings is not likely to have a material adverse effect on the statement of financial condition of the Company.

In the normal course of business, the Company discusses matters with its regulators raised during regulatory examinations or otherwise subject to their inquiry. These matters could result in censures, fines, or other sanctions. Management believes the outcome of any resulting actions will not be material to the Company's statement of financial condition. However, the Company is unable to predict the ultimate outcome of these matters.

## 11. RELATED PARTIES

During the course of the year, the Company has paid dividends to its Parent and received contributions of capital from its Parent. Dividends paid during the year totaled \$6,775,000. Dividends paid prior to the January 28, 2019 Acquisition totaled \$5,000,000 while dividends paid after the Acquisition totaled \$1,775,000. A capital contribution of \$15,000,000 was received from the Parent subsequent to the Acquisition.

Subsequent to the Acquisition, the Company established an FDIC sweep program deposit account with Axos Bank, an affiliated company. While the deposit account is not an asset of the Company and is held for the exclusive benefit of the Company's customers, the Company does earn fees from the deposit account with the affiliate. At June 30, 2019, there was no amount receivable. The Company held cash in the amount of \$210,589 in related company bank accounts as of June 30, 2019.

## 12. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss. The Company's clearing agreements with broker-dealers for which it provides clearing services indemnify the Company if customers fail to satisfy their contractual obligation.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer 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 obligations. 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. The Company monitors required margin levels daily, and pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

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

The Company temporarily loans securities to other broker-dealers in connection with its business. The Company receives cash as collateral for the securities loaned. Increases in securities prices may cause the market value of the securities loaned to exceed the amount of cash received as collateral. In the event the counterparty to these transactions does not return the loaned securities, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations.

The Company controls this risk by requiring credit approvals for counterparties, by monitoring the market value of securities loaned on a daily basis, and by requiring additional cash as collateral when necessary.

The Company temporarily borrows securities from other broker-dealers in connection with its business. The Company deposits cash as collateral for the securities borrowed. Decreases in securities prices may cause the fair value of the securities borrowed to fall below the amount of cash deposited as collateral. In the event the counterparty to these transactions does not return the cash deposited, the Company may be exposed to the risk of selling the securities at prevailing market prices. The Company controls this risk by requiring credit approvals for counterparties, by monitoring the collateral values on a daily basis, and by requiring collateral to be returned by the counterparties when necessary.

As of June 30, 2019, non-customer and customer margin securities of approximately \$441,080,823 and stock borrowings of approximately \$144,706,335 were available to the Company to utilize as collateral on various borrowings or for other purposes. The Company utilized \$198,356,423 of these available securities as collateral for securities loaned, \$154,994,141 for bank loans, and \$5,749,882 for OCC margin requirements.

The Company provides guarantees to securities clearinghouses and exchanges. Under related agreements, the Company is generally required to guarantee the performance of other members. Under the agreements, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for the Company to be required to make payments under these agreements is remote. Accordingly, no contingent liability is carried on the statement of financial condition for these transactions.

### **13. SUBSEQUENT EVENTS**

The Company has determined that there are no material events that require adjustment to the recorded amounts or disclosures.

\* \* \* \* \*

The Statement of Financial Condition filed pursuant to Rule 17a-5(d) under the Securities and Exchange Act of 1934 is available for inspection at the Company's main office located at 1200 Landmark Center, Omaha, NE 68102 and at the Denver Regional Office of the Securities and Exchange Commission.