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**PART III** 

ANNUAL AUDITED REPORT FORM X-17A-5

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

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  1325 AVENUE OF THE AMERICAS  (No. and Street)  NEW YORK  (City)  (State)  (Zip Code)  NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT JOHN EGAN  646-424	CIAL USE ONLY
NAME OF BROKER-DEALER: ING FINANCIAL MARKETS LLC  ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  FIL  1325 AVENUE OF THE AMERICAS  (No. and Street)  NEW YORK  NEW YORK  (City)  (State)  (Zip Code)  NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT JOHN EGAN  (Area Code -  B. ACCOUNTANT IDENTIFICATION  INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*  ERNST & YOUNG LLP  (Name - if individual, state last, first, middle name)  5 TIMES SQUARE  NEW YORK  (Address)  (City)  (State)  CHECK ONE:	
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INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*  ERNST & YOUNG LLP  (Name - if individual, state last, first, middle name)  5 TIMES SQUARE NEW YORK NEW YORK  (Address) (City) (State)  CHECK ONE:	– Telephone Number
ERNST & YOUNG LLP  (Name - if individual, state last, first, middle name)  5 TIMES SQUARE NEW YORK  (Address) (City) (State)  CHECK ONE:	
CHECK ONE:	10036
	(Zip Code)
☑ 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)

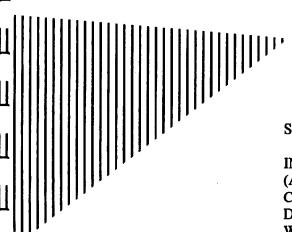
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SEC 1410 (06-02)

## OATH OR AFFIRMATION

No. 01Mi6139869 Qualified in Putnam County Pertifficate Filed in New York County of Gemmission Expires Jenuary 17, 2044  Title  Title  Title  Notary Public his report ** contains (check all applicable boxes):  (a) Facing Page. (b) Statement of Financial Condition. (c) Statement of Income (Loss). (d) Statement of Cash Flows. (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. (i) 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. (I) An Oath or Affirmation.	I, JOHN EGAN	, swear (or affirm) that, to the bes	it of
ING FINANCIAL MARKETS LLC  DECEMBER 31  JO12  are true and correct. I further swear (or affirm) that either the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account assified solely as that of a customer, except as follows:  TAMMY MILATOS  ROTARY PUBLIC-STATE OF NEW YORK  NO. OI Milo 139869  QUAINITIES IN THE OF NEW YORK  NO. OI Milo 139869  CHIEF FINANCIAL OFFICER  Title  Tit	my knowledge and belief the accompanying financial	statement and supporting schedules pertaining to the firm of	
TAMMY MILATOS  NOTARY PUBLIC-STATE OF NEW YORK No. Ol Michards Public  Profession of Secretary 17, 2021  Notary Public  Notary Public  Notary Public  Signature  CHIEF FINANCIAL OFFICER  Title  Title			, as
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<ul> <li>(i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.</li> <li>(j) A Reconcilitation, 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.</li> <li>(k) A Reconcilitation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.</li> <li>(l) An Oath or Affirmation.</li> </ul>		* * * * * * * * * * * * * * * * * * *	•
<ul> <li>(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.</li> <li>(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.</li> <li>(l) An Oath or Affirmation.</li> </ul>			
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.	(i) Information Relating to the Possession or Co	Atrol Requirements Under Rule 1503-3.	tha
<ul> <li>(k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.</li> <li>(I) An Oath or Affirmation.</li> </ul>	(j) A Reconciliation, including appropriate expla	nation of the Computation of Net Capital Order Rule 1363-1 and to Page 1563-3	me
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(I) An Oath or Affirmation.		indited Statements of Financial Condition with respect to memo	, da or
	(n) A copy of the SIPC Supplemental Report.		
(iii) A copy of the SIT C Supplemental Report.  (iii) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.	(n) A report describing any material inadequacies	found to exist or found to have existed since the date of the previou	ıs audit.
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*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).	**For conditions of confidential treatment of certain	portions of this filing, see section 240.17a-5(e)(3).	



STATEMENT OF FINANCIAL CONDITION

ING Financial Markets LLC
(A Wholly Owned Subsidiary of ING Financial Holdings
Corporation)
December 31, 2012
With Report of Independent
Registered Public Accounting Firm

Ernst & Young LLP



## Statement of Financial Condition

## December 31, 2012

## Contents

Facing Page and Oath or Affirmation	
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Ernst & Young LLP 5 Times Square New York, NY 10036-6530

Tel: +1 212 773 3000 Fax: +1 212 773 6350 www.ey.com

### Report of Independent Registered Public Accounting Firm

The Board of Directors
ING Financial Markets LLC

We have audited the accompanying statement of financial condition of ING Financial Markets LLC (the "Company") as of December 31, 2012, and the related notes to the statement of financial condition.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on the statement of financial condition based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States. 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.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the statement of financial condition 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement of financial condition.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of ING Financial Markets LLC at December 31, 2012, in conformity with U.S. generally accepted accounting principles.

Ernst + Young LLP

February 27, 2013

## Statement of Financial Condition

# December 31, 2012 (In Thousands)

Cash Securities segregated under Federal and other regulations Collateralized financing agreements: Securities borrowed Securities purchased under agreements to resell Securities received as collateral Receivable from affiliate Receivable from brokers, dealers and clearing organizations Receivable from customers Financial instruments owned, at fair value (of which \$14,972 was pledged in relation to secured financing transactions) Financial instruments owned, not readily marketable, at fair value Other assets Total assets  Liabilities and member's equity Liabilities: Short-term loan from affiliate Collateralized financing agreements: Securities loaned Payable to brokers, dealers and clearing organizations Payable to customers Securities sold under agreements to repurchase Payable to customers Payable to customers Colligation to return securities received as collateral Accounts payable, accrued expenses and other liabilities Total liabilities Member's equity Total liabilities and member's equity  1,131,928 Total liabilities and member's equity  1,131,928 Total liabilities and member's equity Securities and member's equity Securities sold member's equity Securities sold member's equity Securities sold index agreements to repurchase Securities sold index agreements Securities sold index	Assets		
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Securities borrowed Securities purchased under agreements to resell 13,692,773 Securities received as collateral 2,525,786 Receivable from affiliate 1,009 Receivable from brokers, dealers and clearing organizations Receivable from customers 66,426 Financial instruments owned, at fair value (of which \$14,972 was pledged in relation to secured financing transactions) Financial instruments owned, not readily marketable, at fair value 328 Other assets 5,269 Total assets  Liabilities and member's equity Liabilities: Short-term loan from affiliate Collateralized financing agreements: Securities loaned Securities sold under agreements to repurchase Payable to brokers, dealers and clearing organizations Financial instruments sold, not yet purchased, at fair value Obligation to return securities received as collateral Accounts payable, accrued expenses and other liabilities  Member's equity  1,131,928  Member's equity  1,131,928	Securities segregated under Federal and other regulations		79,374
Securities purchased under agreements to resell 13,692,773 Securities received as collateral 2,525,786 Receivable from affiliate 1,009 Receivable from brokers, dealers and clearing organizations 176,012 Receivable from customers 66,426 Financial instruments owned, at fair value (of which \$14,972 was pledged in relation to secured financing transactions) 16,368 Financial instruments owned, not readily marketable, at fair value 328 Other assets 5,269 Total assets 5,269  Liabilities and member's equity Liabilities: Short-term loan from affiliate \$25,000 Collateralized financing agreements: Securities loaned 6,405,273 Securities sold under agreements to repurchase 14,815,948 Payable to brokers, dealers and clearing organizations 186,017 Payable to customers 26,641 Financial instruments sold, not yet purchased, at fair value 15,786 Obligation to return securities received as collateral 2,525,786 Accounts payable, accrued expenses and other liabilities 24,006,958 Member's equity 1,131,928	Collateralized financing agreements:		•
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Receivable from customers Financial instruments owned, at fair value (of which \$14,972 was pledged in relation to secured financing transactions) Financial instruments owned, not readily marketable, at fair value Other assets Total assets  Liabilities and member's equity Liabilities: Short-term loan from affiliate Collateralized financing agreements: Securities loaned Facurities sold under agreements to repurchase Payable to brokers, dealers and clearing organizations Financial instruments sold, not yet purchased, at fair value Obligation to return securities received as collateral Accounts payable, accrued expenses and other liabilities  Member's equity  1,131,928  Acmounts payable Member's equity  1,131,928	Receivable from brokers, dealers and clearing organizations		•
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in relation to secured financing transactions)  Financial instruments owned, not readily marketable, at fair value  Other assets  Total assets  5,269  Total assets  Liabilities and member's equity  Liabilities:  Short-term loan from affiliate  Collateralized financing agreements:  Securities loaned  Securities sold under agreements to repurchase  Payable to brokers, dealers and clearing organizations  Financial instruments sold, not yet purchased, at fair value  Obligation to return securities received as collateral  Accounts payable, accrued expenses and other liabilities  Member's equity  1,131,928	Financial instruments owned, at fair value (of which \$14,972 was pledged		,
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Other assets5,269Total assets\$ 25,138,886Liabilities and member's equityLiabilities:\$ 25,000Short-term loan from affiliate\$ 25,000Collateralized financing agreements:\$ 25,000Securities loaned6,405,273Securities sold under agreements to repurchase14,815,948Payable to brokers, dealers and clearing organizations186,017Payable to customers26,641Financial instruments sold, not yet purchased, at fair value15,786Obligation to return securities received as collateral2,525,786Accounts payable, accrued expenses and other liabilities6,507Total liabilities24,006,958Member's equity1,131,928	Financial instruments owned, not readily marketable, at fair value		•
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Collateralized financing agreements:  Securities loaned  Securities sold under agreements to repurchase  Payable to brokers, dealers and clearing organizations  Payable to customers  Financial instruments sold, not yet purchased, at fair value  Obligation to return securities received as collateral  Accounts payable, accrued expenses and other liabilities  Total liabilities  Member's equity  1,131,928	Short-term loan from affiliate	\$	25,000
Securities loaned Securities sold under agreements to repurchase Payable to brokers, dealers and clearing organizations Payable to customers Pinancial instruments sold, not yet purchased, at fair value Obligation to return securities received as collateral Accounts payable, accrued expenses and other liabilities  Total liabilities  6,405,273 14,815,948 186,017 26,641 15,786 25,786 25,786 25,786 25,786 24,006,958  Member's equity  1,131,928	Collateralized financing agreements:	•	•
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Payable to brokers, dealers and clearing organizations  Payable to customers  Financial instruments sold, not yet purchased, at fair value  Obligation to return securities received as collateral  Accounts payable, accrued expenses and other liabilities  Total liabilities  186,017  26,641  15,786  2,525,786  Accounts payable, accrued expenses and other liabilities  6,507  Total liabilities  1,131,928	Securities sold under agreements to repurchase		
Payable to customers Financial instruments sold, not yet purchased, at fair value Obligation to return securities received as collateral Accounts payable, accrued expenses and other liabilities  Total liabilities  26,641 15,786 2,525,786 Accounts payable, accrued expenses and other liabilities 6,507 24,006,958  Member's equity  1,131,928			•
Financial instruments sold, not yet purchased, at fair value  Obligation to return securities received as collateral  Accounts payable, accrued expenses and other liabilities  Total liabilities  15,786  2,525,786  6,507  24,006,958  Member's equity  1,131,928	• • • • • • • • • • • • • • • • • • • •		•
Obligation to return securities received as collateral Accounts payable, accrued expenses and other liabilities  7.525,786 6,507 Total liabilities  24,006,958  Member's equity  1,131,928	Financial instruments sold, not yet purchased, at fair value		•
Accounts payable, accrued expenses and other liabilities 6,507  Total liabilities 24,006,958  Member's equity 1,131,928			-
Total liabilities 24,006,958  Member's equity 1,131,928	<del>-</del>		
Member's equity 1,131,928			
			,000,,00
	Member's equity		1.131.928
	Total liabilities and member's equity	\$	

See accompanying notes to the statement of financial condition.

### Notes to the Statement of Financial Condition

December 31, 2012 (In Thousands)

### 1. Organization

ING Financial Markets LLC (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 was incorporated in Delaware on March 28, 2002. The Company is a registered broker-dealer with the Securities and Exchange Commission ("SEC"), a member of the Financial Industry Regulatory Authority ("FINRA"), a member of the Securities Investor Protection Corporation ("SIPC") and a member of various exchanges. The Company primarily provides customer facilitation services for equity and fixed income securities, securities lending activities, repurchase and resale transactions, principal trading in equities and futures, limited underwriting services, and clearing and custodial services for affiliates.

The Company clears and settles its equity derivative business (including equities and futures) on an omnibus basis through an unaffiliated securities clearing firm. The Company self-clears all other products, including fixed income securities (U.S. government and foreign debt), U.S. exchange traded funds, equity securities, securities borrowed and loaned, securities purchased under agreements to resell and securities sold under agreements to repurchase.

### 2. Summary of Significant Accounting Policies

#### **Basis of Presentation**

The Company prepares its statement of financial condition in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"). All intercompany balances and transactions are eliminated. In preparing the statement of financial condition, 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 statement of financial condition. Management believes that the estimates utilized in the preparation of the statement of financial condition are reasonable; however, actual results could differ from those estimates.

Notes to the Statement of Financial Condition (continued)

(In Thousands)

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

## Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing transactions and are carried at amounts at which the securities will be subsequently resold or repurchased. Accrued interest receivable and payable for these agreements are reported within Receivable from and Payable to brokers, dealers and clearing organizations in the statement of financial condition. Such transactions are collateralized by U.S. Treasuries, mortgage-backed securities, government agencies, and corporate bonds. 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 repurchased or resold is valued daily and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. The market value of the reverse repurchase and repurchase agreements approximates cash value.

It is the Company's policy to net securities purchased under agreements to resell and securities sold under agreements to repurchase transactions with the same counterparty provided the conditions of Accounting Standards Codification ("ASC") 210-20-45-11, Balance Sheet – Offsetting: Repurchase and Reverse Repurchase Agreements, are met.

### Securities Borrowed and Securities Loaned

Securities borrowed and securities loaned are collateralized financing arrangements that are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash with the lender of the securities. With respect to securities loaned, the Company receives collateral in the form of cash and securities in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis with additional collateral obtained or refunded as necessary.

## Notes to the Statement of Financial Condition (continued)

(In Thousands)

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

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

Financial Instruments Owned and Financial Instruments Sold, Not Yet Purchased, at Fair Value Financial instruments owned and financial instruments sold, not yet purchased, are primarily used in principal trading activities. These financial instruments are principally exchange traded funds, equities and futures and are recorded at fair value based upon quoted market prices. These financial instruments are recorded on a trade-date basis.

### **Securities Transactions**

The Company records principal securities transactions on a trade-date basis. Customers' securities transactions are recorded on a settlement-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.

### **Income Taxes**

The Company is included in the consolidated Federal income tax return filed by the Parent. Federal income taxes are calculated as if the Company filed on a separate company basis 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*. ASC 740 requires the recording of deferred income taxes that reflect the net tax effect of temporary differences between the carrying amounts of the Company's assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, including operating loss carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

## Notes to the Statement of Financial Condition (continued)

(In Thousands)

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

### **Translation of Foreign Currencies**

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 date.

### **New Accounting Developments**

In May 2011, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU"), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04") to Topic 820, Fair Value Measurements, which provide clarifying guidance on how to measure fair value and additional disclosure requirements. This update results in common principles and requirements for measuring fair value and for disclosing information about fair value measurement in accordance with U.S. GAAP and International Financial Reporting Standards. The Company has adopted the guidance and noted no material impact on the financial position or results of operations.

In December 2012, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update 2013-01 ("ASU 2013-01"), Scope Clarification of Disclosures about Offsetting Assets and Liabilities, to limit the scope of the new balance sheet offsetting disclosure requirements to derivatives (including bifurcated embedded derivatives), repurchase agreements and reverse repurchase agreements, and securities borrowing and lending transactions. This new ASU addresses preparer concerns that the scope of the disclosure requirements under ASU 2011-11, Disclosures about Offsetting Assets and Liabilities, was overly broad and imposed unintended costs that were not commensurate with estimated benefits to financial statement users. Both ASUs are effective for fiscal years beginning on or after January 1, 2013 and applied retrospectively for all comparative periods presented. The Company does not expect the adoption of the guidance will have any material impact on the Company's financial position or result of operations. At December 31, 2012, the Company netted reverse repurchase agreements with repurchase agreements of \$5,573,823.

### 3. Securities Segregated under Federal and Other Regulations

At December 31, 2012, the Company had securities in the amount of \$79,374 segregated in a special reserve bank account for the exclusive benefit of customers pursuant to the SEC's Customer Protection Rule (Rule 15c3-3).

Notes to the Statement of Financial Condition (continued)

(In Thousands)

### 4. Securities Received and Pledged as Collateral

The Company enters into secured borrowing and lending transactions as a part of its normal course of business. The Company receives collateral in connection with securities purchased under agreements to resell, securities borrowed transactions, and borrow/pledge transactions. The Company generally is permitted to sell or repledge these securities held as collateral and use them to secure securities sold under agreements to repurchase, enter into securities lending transactions or deliver to counterparties to cover short positions.

At December 31, 2012, the fair value of securities received as collateral that the Company was permitted to sell or repledge was \$31,812,680. The fair value of securities received as collateral that the Company sold or repledged was \$30,606,407 at December 31, 2012.

In addition, the Company receives securities as collateral in connection with certain securities for securities transactions in which the Company is the lender. In instances where the Company is permitted to sell or repledge these securities, the Company reports the fair value of the collateral received and the related obligation to return the collateral in the statement of financial condition. At December 31, 2012, \$2,525,786 was reported as Securities received as collateral and an Obligation to return securities received as collateral in the statement of financial condition.

The Company also pledges assets that it owns to counterparties who have the right to repledge them. Trading assets, pledged in connection with repurchase agreements, securities lending agreements and other secured financings to counterparties, are included in Financial instruments owned, at fair value in the statement of financial condition and were \$14,972 at December 31, 2012.

### 5. Receivable from and Payable to Customers

Receivable from and payable to customers include amounts due to/from customers on cash and margin transactions. For receivables, securities owned by customers are held as collateral. Such collateral is not reflected in the statement of financial condition. Amounts receivable from and payable to customers at December 31, 2012 were \$66,426 and \$26,641, respectively.

## Notes to the Statement of Financial Condition (continued)

(In Thousands)

## 6. Receivable from and Payable to Brokers, Dealers and Clearing Organizations

Amounts receivable from and payable to brokers, dealers and clearing organizations at December 31, 2012 consist of the following:

		eceivable	Payable		
Securities failed to deliver/receive	\$	96,026	\$	146,024	
Deposits with clearing organizations		32,508		´ <b>-</b>	
Due to/from brokers, dealers, and clearing organizations		2,241			
Net unsettled trades		8		_	
Fees, interest, rebates, and other receivable/payable		45,229		39,993	
Total	\$	176,012	\$	186,017	

Securities failed to deliver and receive represent the contract value of securities which have not been delivered or received by the Company on settlement date.

## 7. Financial Instruments Owned and Financial Instruments Sold, Not Yet Purchased, at Fair Value

Financial instruments owned and financial instruments sold, not yet purchased, as of December 31, 2012 consist of equity securities, futures and exchange traded funds valued at quoted market prices. At December 31, 2012, these amounts were as follows:

	In	inancial struments Owned	In: Sol	inancial struments d, Not Yet urchased
Equities	\$	563	\$	15,783
Futures		2		_
Exchange traded funds		15,803		_
Other		_		3
Total	\$	16,368	\$	15,786

## Notes to the Statement of Financial Condition (continued)

(In Thousands)

## 7. Financial Instruments Owned and Financial Instruments Sold, Not Yet Purchased, at Fair Value (continued)

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. Related Party Transactions

The Company is involved in secured financing and other transactions with affiliates and has significant related party balances with affiliates.

At December 31, 2012, the Company holds \$29 of cash with affiliated entities.

At December 31, 2012, the Company had a receivable of \$1,009 classified as Receivable from affiliate in the statement of financial condition and a payable to affiliates of \$5,860 included in Accounts payable, accrued expenses and other liabilities in the statement of financial condition.

In addition, 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 payable to affiliates includes \$3,881 in tax payable to its Parent.

At December 31, 2012, the Company had recorded \$2,880 and \$26,641 within Receivable from and Payable to customers related to amounts due from/to affiliated entities, respectively. This balance reflects agency transactions performed for related parties.

At December 31, 2012, the Company had \$639,344 of Securities borrowed and \$4,516,468 of Securities loaned with affiliates. In relation to these transactions, the Company had \$1,721 of accrued rebates receivable and \$3,524 of accrued rebates payable. Further, the Company recorded \$72,806 of Securities received as collateral and Obligation to return securities received as collateral related to an affiliate at December 31, 2012.

## Notes to the Statement of Financial Condition (continued)

(In Thousands)

### 8. Related Party Transactions (continued)

At December 31, 2012, the Company had \$712,533 of Securities purchased under agreements to resell and \$1,083,403 of Securities sold under agreements to repurchase with affiliates. The Company, through these agreements, recorded \$303 and \$149 of accrued interest receivable and payable, respectively, with affiliates at December 31, 2012.

The Company maintains a revolving loan agreement with an affiliate in the amount of \$7.5 billion (dollars as stated). The revolving loan agreement is an overnight facility and bears a market rate of interest of three-month LIBOR. The loan agreement does not have a stated maturity date as it may be terminated by either party upon at least 45 days prior written notice. The Company had an outstanding balance of \$25,000 at December 31, 2012, which is included in Short-term loan from affiliate in the statement of financial condition.

In 2012, the Company repaid \$83,000 subordinated promissory note to the Parent. See Note 11 for further information.

The Company provides certain custodial and related services to affiliates.

The Company has a management agreement with an affiliate, whereby the affiliate provides certain trading, sales, accounting, operations, and other administrative support to the Company.

### 9. Financial Instruments with Off-Balance Sheet Risk

The Company enters into futures contracts with off-balance sheet risk for trading purposes. These contracts are carried at fair value.

Futures contracts are for delayed delivery of a financial instrument in which the seller agrees to make delivery at a specified future date at a specified price or yield. Futures contracts are exchange traded contractual commitments to either receive (purchase) or deliver (sell) a standard amount or value of a financial instrument or commodity. Maintaining a futures contract requires the Company to deposit with the exchange an amount of cash or other specified asset as security for its obligation. The credit risk of futures contracts is limited since futures exchanges generally require the daily cash settlement of unrealized gains/losses on open contracts with the futures exchange. Futures contracts may be settled by physical delivery of the underlying asset or cash

Notes to the Statement of Financial Condition (continued)

(In Thousands)

### 9. Financial Instruments with Off-Balance Sheet Risk (continued)

settlement on the settlement date or by entering into an offsetting futures contract with the futures exchange prior to the settlement date. The notional amounts of futures reflect the contractual basis upon which daily mark to market calculations are computed and do not reflect the amount at risk. Unrealized gains or losses, rather than notional amounts, represents the fair value of future cash flows. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market volatility. There was 1 open futures contract as of December 31, 2012, with a fair value of \$2 included in the Financial instruments owned, at fair value in the statement of financial condition.

The Company does not apply hedge accounting as defined in ASC 815-10-15, *Derivatives and Hedging*, as all financial instruments are recorded at fair value.

As of December 31, 2012, the gross notional amount of derivative financial instruments used for trading purposes was \$512.

All trading instruments are subject to market risk, the risk that future changes in market conditions may make an instrument less valuable. The instruments are recognized at market value. Exposure to market risk is managed in accordance with risk limits set by senior management, by buying or selling instruments or entering into offsetting positions.

## 10. Fair Value of Financial Instruments

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.

Valuation techniques that are consistent with the market, income or cost approach, as specified by ASC 820, are used to measure fair value.

## Notes to the Statement of Financial Condition (continued)

### (In Thousands)

### 10. Fair Value of Financial Instruments (continued)

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.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following tables present the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at December 31, 2012:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

A4-	Level 1		Level 2		Level 3	Total
Assets		:		_		
Securities received as collateral	\$ 2,525,786	\$	_	\$		\$ 2,525,786
Financial instruments owned:						
Equities	563		_		_	563
Exchange traded funds	15,803		_		_	15,803
Futures	2		_		_	2
Total	\$ 2,542,154	\$		\$	_	\$ 2,542,154
Liabilities						
Obligation to return securities						
received as collateral	\$ 2,525,786	\$		\$	_	\$ 2,525,786
Financial instruments, sold not yet purchased, at fair value:	<b>4</b> 2,020,100	•		•		<b>4 2,</b> 020,700
Equities	15,783		_		_	15,783
Other	´ <b>-</b>		3		_	3
Total	\$ 2,541,569	\$	3	\$		\$ 2,541,572

## Notes to the Statement of Financial Condition (continued)

(In Thousands)

### 10. Fair Value of Financial Instruments (continued)

There were no Level 3 financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2012. There was a single Level 2 liability with a fair value of \$3.

Securities received as collateral and Obligation to return securities received as collateral primarily consists of U.S. equities. These equities as well as futures and exchange traded funds are valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied and they are categorized in Level 1 of the fair value hierarchy.

## Financial Instruments Not Measured at Fair Value on a Recurring Basis

Some of the Company's financial instruments are not measured at fair value on a recurring basis but are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include: Cash, Securities borrowed, Securities purchased under agreements to resell, Securities loaned, Securities sold under agreements to repurchase, Receivable from customers, Receivable from brokers, dealers and clearing organizations, Payable to customers, Payable to brokers, dealers and clearing organizations, and certain short-term borrowings.

Financial instruments owned, not readily marketable are Level 3 financial assets. The Company held \$328 of financial instruments owned, not readily marketable as of December 31, 2012 pertaining to the Company's investment in Depository Trust & Clearing Corporation ("DTCC") common shares. These securities are valued based on information provided by DTCC.

### 11. Subordinated Borrowing

On October 4, 2012, the Company repaid an \$83,000 subordinated promissory note with the Parent that bore interest at a rate of one-month LIBOR plus 1/16%. At December 31, 2012, the Company had no subordinated borrowing outstanding.

The subordinated borrowing was subordinated to all other creditors of the Company, was covered by agreements approved by the Company's designated regulatory organization, and was available in computing net capital under SEC regulations.

Notes to the Statement of Financial Condition (continued)

(In Thousands)

### 12. 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, 2012, it was not subject to federal, state and local corporate income taxes directly, but is included in the consolidated 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 separate entity basis and then allocated on a pro rata basis amongst the Parent group.

As of for the year ended December 31, 2012, the Company was not required to establish a liability for uncertain tax positions.

### 13. Concentrations of Credit Risk

As a securities broker-dealer, the Company is engaged in various securities trading and brokerage activities servicing a diverse group of domestic and foreign entities. The Company's transactions are collateralized and are executed with and on behalf of institutional investors, including other broker-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's principal activities are also subject to the risk of counterparty nonperformance.

The Company attempts to minimize credit risk associated with securities lending and borrowing transactions, and repurchase and reverse repurchase transactions, by monitoring counterparty credit exposure and creditworthiness and limiting such transactions with certain counterparties. The Company mitigates credit exposure arising from such transactions by entering into collateral and netting agreements. 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.

Notes to the Statement of Financial Condition (continued)

(In Thousands)

### 14. Guarantees

The accounting guidance ASC 460, Guarantees, requires the Company to disclose information about obligations under certain guarantee arrangements. It defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party.

### **Indemnifications/Other Guarantees**

In the normal course of business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of the Company or its affiliates. The Company also indemnifies some clients against potential losses incurred in the event third-party service providers, including sub-custodians and third-party brokers, improperly execute transactions. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the statement of financial condition for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of these representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the statement of financial condition for these indemnifications.

Notes to the Statement of Financial Condition (continued)

(In Thousands)

### 14. Guarantees (continued)

### **Exchange Membership Guarantees**

The Company is a member of various exchanges that trade and clear securities and/or futures contracts. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange. While the rules governing different exchange memberships vary, in general the Company's guarantee obligations would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the statement of financial condition for these agreements and believes that any potential requirement to make payments under these agreements is remote.

### 15. Commitments and Contingencies

The Company, together with various other broker-dealers, corporations, and individuals, has been named as a defendant in several class action lawsuits that allege violations of Federal and State securities laws and claim substantial damages. Management of the Company believes, after consultation with outside counsel, the resolution of these various lawsuits will not result in any material adverse effect on the Company's financial position or results of operations.

The Company enters into forward reverse repurchase and repurchase agreements that are primarily secured by fixed income securities. At December 31, 2012, the Company had commitments of \$1,500,081 and \$1,106,273, respectively, associated with these instruments.

In the normal course of business, the Company enters into underwriting commitments. There were no outstanding underwriting commitments at December 31, 2012.

### 16. Net Capital Requirements

The Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital. The Company has elected to use the Rule's alternative method, which requires maintaining net capital, as defined, equal to the greater of \$1,500 or 2% of aggregate debit items arising from customer transactions, as defined.

## Notes to the Statement of Financial Condition (continued)

(In Thousands)

### 16. Net Capital Requirements (continued)

SEC Rule 15c3-1 and the rules of the Financial Industry Regulatory Authority also provide that equity capital may not be withdrawn or cash dividends paid if resulting net capital is less than the greater of 2% of aggregate debit items or \$1,500. At December 31, 2012, the Company had net capital of \$1,064,158, of which \$1,061,864 was in excess of the required net capital of \$2,294.

The Company has entered into a written agreement with its unaffiliated clearing firm which requires the clearing firm to perform a "PAIB reserve computation" with regard to all the assets of the Company held by the respective clearing firm. Consequently, the assets of the Company held at the clearing firm are treated as allowable assets for purposes of the Company's net capital computation.

### 17. Subsequent Events

The Company evaluates subsequent events through the date the statement of financial condition was issued. The Company did not note any subsequent events requiring disclosure or adjustment to the statement of financial condition.

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