

BMO CAPITAL MARKETS CORP.

(An Indirect Wholly Owned Subsidiary of Bank of Montreal)

Statement of Financial Condition

June 30, 2023

BMO CAPITAL MARKETS CORP.
(An Indirect Wholly Owned Subsidiary of Bank of Montreal)
STATEMENT OF FINANCIAL CONDITION
June 30, 2023
(Dollars in thousands)

Assets

Cash and cash equivalents	\$ 86,633
Securities borrowed	9,988,206
Securities purchased under agreements to resell	7,577,376
Deposits with and receivable from brokers, dealers, and clearing organizations	3,025,092
Receivable from customers	137,214
Receivable from affiliates	9,683
Financial instruments owned, at fair value (\$4,835,496 is pledged as collateral)	5,097,523
Securities received as collateral	1,297,353
Accrued interest receivable	192,053
Right-of-use lease asset, less accumulated depreciation of \$66,914	228,678
Furniture, equipment, and leasehold improvements at cost, less accumulated depreciation of \$28,925	79,833
Goodwill and intangible assets at cost, less accumulated amortization of \$75,044	210,774
Other assets	166,035
Total Assets	<u>\$ 28,096,453</u>

Liabilities

Bank loan payable	\$ 150,000
Securities loaned	6,093,698
Securities sold under agreements to repurchase	9,059,173
Payable to brokers, dealers, and clearing organizations	4,699,599
Payable to customers	143,088
Financial instruments sold, not yet purchased, at fair value	3,329,275
Obligation to return securities received as collateral	1,297,353
Operating lease obligations	268,759
Accounts payable and accrued expenses	700,771
Total Liabilities	<u>\$ 25,741,716</u>

Commitments and Contingent Liabilities

Stockholder's Equity	<u>\$ 2,354,737</u>
Total Liabilities and Stockholder's Equity	<u>\$ 28,096,453</u>

The accompanying notes are an integral part of the Statement of Financial Condition.

1. Organization and Description of Business

BMO Capital Markets Corp. (the "Company") is organized under the laws of Delaware and is a wholly owned subsidiary of BMO Financial Corp. ("BFC"), which is a wholly owned U.S. subsidiary of Bank of Montreal ("BMO"), a Canadian company. The Company operates as a self-clearing, institutional broker-dealer providing investment banking and brokerage services to corporate, institutional, and affiliate clients. It conducts its principal operations from office facilities in New York City and Chicago, maintains additional offices in New York State, California, Florida, Virginia, Arizona, New Jersey, Maryland, Massachusetts, Minnesota, Colorado, Texas, Washington, Wisconsin and Toronto, and also maintains an operations center in Jersey City, New Jersey. The Company is registered with the Securities and Exchange Commission ("SEC") as a U.S. securities broker-dealer and as an investment advisor and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"), the Securities Investor Protection Corporation ("SIPC"), and a member of various exchanges. The Company is also registered with the Commodities Futures Trading Commission ("CFTC") as a result of self clearing futures trades.

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The Company maintains its financial records in United States dollars. The Statement of Financial Condition is prepared in accordance with U.S. generally accepted accounting principles ("GAAP").

(b) Use of Estimates

The preparation of the Statement of Financial Condition in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of contingent assets and liabilities at the date of the Statement of Financial Condition. Actual results could differ from those estimates.

(c) Cash and Cash Equivalents

Cash and cash equivalents includes funds held in the Company's bank accounts for firm operating activities and overnight cash deposits. Restricted cash is cash that is considered legally restricted as to withdrawal or usage. The Company has not identified any restricted cash at June 30, 2023.

(d) Securities Transactions

Proprietary securities transactions in regular-way trades are recorded on a trade-date basis. Profit and loss arising from all securities and derivatives transactions entered into for the account and risk of the Company are recorded on a trade-date basis. Customers' securities transactions are reported on a settlement-date basis.

Amounts receivable and payable for securities transactions that have not reached their contractual settlement date are recorded on the Statement of Financial Condition and netted where right of offset exists. Financial instruments are recorded in the Statement of Financial Condition at estimated fair value.

(e) Securities Purchased or Sold Under Agreements to Resell or Repurchase

Reverse repurchase agreements and repurchase agreements are accounted for as collateralized financing transactions. These transactions are collateralized by U.S. government and U.S. government agency securities, Canadian government and Canadian provincial securities, commercial paper, corporate bonds, and mortgage-backed securities, and are carried at contract amount plus accrued interest.

The Company's policy is to take possession of securities purchased under agreements to resell and to value the securities on a daily basis to protect the Company in the event of default by a counterparty. In addition, actions are taken to obtain additional collateral if the market value of the underlying assets is not sufficient to protect the Company.

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Reverse repurchase and repurchase agreements with common counterparties, along with their respective interest receivable and payable, are offset in the accompanying Statement of Financial Condition when they meet the criteria for netting as prescribed by GAAP.

(f) Securities Lending Activities

Securities borrowed transactions require the Company to deposit cash, or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral 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. Securities borrowed and securities loaned transactions are recorded at the amount of collateral advanced or received. Interest income and expense on such transactions is accrued and is included in the Statement of Financial Condition in accrued interest receivable and accounts payable and accrued expenses, respectively.

With respect to securities received as collateral in noncash securities lending transactions that are subsequently repledged as collateral, the Company records the fair value of the securities received as collateral and a corresponding obligation to return securities received as collateral on the Statement of Financial Condition. As of June 30, 2023, the Company has securities received as collateral of \$1,297,353, of which \$1,297,353 was subsequently repledged.

(g) Collateralized Short-Term Transactions

As part of the Company's financing and securities settlement activities, the Company uses securities as collateral to support various secured financings. If the counterparty does not meet its obligation to return securities used as collateral, the Company may be exposed to the risk of re-acquiring the securities at prevailing market prices to satisfy its obligations. The Company controls this risk by monitoring the market value of securities pledged each day, and by requiring collateral levels to be adjusted for changes in market exposure.

(h) Income Taxes

ASC Topic 740, "Income Taxes", establishes financial accounting and reporting standards for the effect of income taxes. The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for future tax consequences of events that have been recognized in an entity's financial statements or tax returns. Judgment is required in assessing the future tax consequences of events that have been recognized in the Company's financial statements or tax returns.

Deferred tax assets and liabilities, as determined by the temporary differences between financial reporting and tax bases of assets and liabilities, are computed using currently enacted tax rates and laws.

The Company files a consolidated Federal tax return with BFC and its eligible subsidiaries ("consolidated group"). The Company files separate state tax returns in certain states and is included in combined state tax returns with other affiliates in other states. The Company is party to a tax-sharing agreement with its parent, BFC, under which the Company records its provision for income taxes as if it were a separate company. BFC will make a payment to the Company for its separately computed taxable loss utilized by the consolidated/combined group or BFC will receive payment from the Company where a separately computed tax liability exists for consolidated/combined filings.

Under ASC 740, the Company evaluates tax positions taken or expected to be taken in the course of preparing the Company's tax returns to determine whether the tax positions are "more-likely than-not" of being sustained by applicable tax authority based upon technical merits of the position. Tax benefits from tax positions no longer deemed to meet the "more-likely than-not" threshold are derecognized in the year of determination.

(i) Stock-Based Compensation

BMO offers mid-term and long-term incentive programs for certain of the Company's senior employees. Under these plans, participants are granted awards in restricted stock units that are cash settled either in three installments, based upon BMO's common stock price at the time of vesting, over a three-year period or in a single payment at the end of the three-year

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period. Amounts owed to/from BMO for the Company's share of the plans liabilities is included within accounts payable and accrued expenses in the Statement of Financial Condition.

The Company participates in the BFC Stock Option Program which was established under the BMO Stock Option Plan for certain designated executives and other employees of the Company in order to provide incentive to attain long-term strategic goals and to attract and retain services of key employees. Options to acquire BMO stock are granted at an exercise price equal to the closing price of BMO's common shares on the day prior to the grant date. Options granted prior to 2013 vest 25% per year over a four-year period starting from their grant date. Options granted in 2013 and later vest 50% in the third year from the grant date and 50% in the fourth year from the grant date. All options expire 10 years from their grant date. Under certain conditions, options are subject to forfeiture. BMO estimates the fair value of stock options on their grant date, and the fair value of options granted to employees is allocated to the Company. The fair value allocated to the Company is recorded as an increase to additional paid-in-capital. The expense recorded for this program is adjusted for estimated forfeitures. Stock options granted to employees eligible to retire are expensed at the grant date. When stock options are exercised, BMO issues shares and receives the cash proceeds.

(j) Exchange Memberships

Exchange memberships, which represent ownership interests in exchanges and provide the Company with the right to conduct business on the exchanges, are included in other assets and are carried at cost, or if an other than temporary impairment in value has occurred, at a value that is net of estimated impairment.

(k) Goodwill and Intangible Assets

The Company records business combinations by allocating the purchase price paid to the assets acquired, including identifiable intangible assets, and the liabilities assumed based on their fair values at the date of acquisition. Any excess of the amount paid over fair value of those net assets is considered to be goodwill.

Goodwill is not amortized, but is tested for impairment annually, or whenever events or circumstances would more likely than not reduce the fair value of a reporting unit below its carrying value.

The Company has the option of performing a qualitative assessment of goodwill for any reporting units to determine whether it is more likely than not that the fair value is less than the carrying value of a reporting unit. If it is more likely than not that the fair value exceeds the carrying value of the reporting unit, then no further testing is necessary; otherwise the Company must perform a two-step quantitative assessment of goodwill.

Intangible assets subject to amortization are reviewed for impairment when events or future assessments of profitability indicate that the carrying value may not be recoverable.

(l) Leases

The Company accounts for its leases in accordance with FASB ASC 842, "Leases". The Company is the lessee of any assets for which a contract provides the Company with the right to control the use of that asset for a period of time in exchange for consideration. The Company is a lessee in several noncancellable operating leases for office space. The Company determines if an arrangement is a lease, or contains a lease, at inception of a contract and when the terms of an existing contract are changed. The Company recognizes a lease liability and a right-of-use (ROU) asset at the commencement date of the lease. The Company's leases are all classified as operating leases.

Leases are recorded on the Company's balance sheet as a lease liability and a corresponding right-of-use asset. A lease liability is recorded upon commencement of the lease at an amount equal to the present value of unpaid lease payments. The discount rate used to determine present value is based on the yield on a risk-free note with a maturity similar to the lease term, with a credit adjustment that is specific to the Company and a further adjustment to reflect a secured rate. The Company updates its discount rate monthly. The initial right-of-use asset is generally equal to the lease liability plus initial direct costs incurred (if any), less any lease incentives received.

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The Company has elected to combine lease and non-lease components for its real estate leases. The Company has not elected the short-term lease exemption for any of its leases.

(m) Recently Adopted Accounting Standards

The Financial Accounting Standards Board ("FASB") issued ASU 2020-04, "Reference Rate Reform (Topic 848)" in March 2020. The amendments in this update are elective and apply to all contracts and transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The amendments in this update provide optional expedients and exceptions for applying GAAP to contract modifications and other transactions affected by reference rate reform if certain criteria are met. The expedients and exceptions provided by these amendments originally did not apply to contract modifications made after December 31, 2022 because LIBOR was expected to be discontinued as of December 31, 2021. Subsequently, it was announced that certain tenors of LIBOR would be published until June 30, 2023, and as a result, the FASB issued ASU 2022-06 "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848" in December 2022 to extend the optional expedients to December 31, 2024. The amendments also contain optional expedients related to hedge accounting, which do not apply to the Company. The ASU was effective upon issuance and the optional amendments in this update are permitted to be elected at any time through December 31, 2024. Additionally, the FASB issued ASU 2021-01 "Reference Rate Reform (Topic 848): Scope" in January 2021. This ASU clarifies that the scope of the ASU 2020-04 optional expedients includes derivative instruments impacted by changes in the interest rate used for margining, discounting, or contract price alignment. The adoption of the reference rate reform guidance has not impacted the Company, and the publication of LIBOR rates ceased on June 30, 2023.

(n) Recently Issued Accounting Standards

The FASB issued ASU 2022-03, "Fair Value Measurement – Fair Value Measurement of Equity Securities Subject to Contractual Sales Restrictions" in June 2022. The amendments in this update clarify existing guidance on measuring the fair value of an equity security that is subject to contractual restrictions that prohibit sale of that security. Such restrictions are not considered to be part of the unit of account of the equity security, and therefore, are not considered in measuring fair value. The ASU also introduces new disclosure requirements for equity securities subject to contractual sales restrictions that are measured at fair value. This ASU is effective for the Company on January 1, 2024, with early adoption permitted. The Company is evaluating the impact of this ASU on its financial position.

3. Securities Purchased Under Agreements to Resell, Securities Sold Under Agreements to Repurchase and Securities Lending Activity

In accordance with FASB ASC 210-20-50-3, the following table presents as of June 30, 2023 the gross and net securities purchased under resale agreements and securities borrowed, and the gross and net securities sold under repurchase agreements and securities loaned. The gross assets and liabilities are adjusted to take into consideration the effect of legally enforceable master netting agreements that meet the accounting criteria for netting under GAAP in order to derive the net balance sheet amount.

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The column titled "Financial Instruments" in the table below represents securities received under repurchase agreements and securities borrowing agreements, as well as securities pledged under repurchase and securities lending agreements where there are legally enforceable master netting agreements in place. These amounts are not offset on the Statement of Financial Condition, but are shown as a reduction to the net balance sheet amount in order to derive a net asset or liability. Securities collateral received or pledged where the legal enforceability of master netting agreements are uncertain is not included in the table below:

	Gross Assets/ Liabilities	Amounts Offset	Net Balance Sheet Amount	Financial Instruments	Net Assets/ Liabilities
Securities borrowed	\$ 9,988,206	\$ —	\$ 9,988,206	\$ (4,191,011)	\$ 5,797,195
Securities purchased under agreements to resell	8,193,342	(615,966)	7,577,376	(5,142,129)	2,435,247
Securities received as collateral	1,297,353	—	1,297,353	(1,297,353)	—
	<u>\$ 19,478,901</u>	<u>\$ (615,966)</u>	<u>\$ 18,862,935</u>	<u>\$ (10,630,493)</u>	<u>\$ 8,232,442</u>
Securities loaned	\$ 6,093,698	\$ —	\$ 6,093,698	\$ (3,959,906)	\$ 2,133,792
Securities sold under agreements to repurchase	9,675,139	(615,966)	9,059,173	(6,149,864)	2,909,309
Obligation to return securities received as collateral	1,297,353	—	1,297,353	(1,297,353)	—
	<u>\$ 17,066,190</u>	<u>\$ (615,966)</u>	<u>\$ 16,450,224</u>	<u>\$ (11,407,123)</u>	<u>\$ 5,043,101</u>

As of June 30, 2023, the fair value of assets that the Company has pledged to counterparties under repurchase and securities lending transactions is \$16,094,367. These assets primarily consist of securities where the counterparty has the right to repledge or sell the security. The Company has also received similar assets as collateral for reverse repurchase and securities borrowing transactions as of June 30, 2023, with a fair value of \$18,185,480.

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In accordance with FASB ASC 860-30-50-7 the following table presents, as of June 30, 2023, the gross liability for securities sold under repurchase agreements and securities loaned disaggregated by class of collateral pledged and by remaining contractual maturity of the agreements.

	June 30, 2023				Total Gross Liabilities
	Remaining Contractual Maturity				
	Overnight and Continuous	Up to 30 days	30 - 90 days	Greater than 90 days	
	(In thousands)				
Securities loaned					
U.S Treasury securities	\$ 73				\$ 73
Corporate debt obligations	924,919				924,919
Equities	4,537,513	631,193	—	—	5,168,706
Total securities loaned	<u>\$ 5,462,505</u>	<u>\$ 631,193</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,093,698</u>
Securities sold under agreements to repurchase					
U.S Treasury securities	2,246,084	9,875	—	—	2,255,959
U.S government agency securities	4,321,339	—	—	—	4,321,339
Corporate debt securities	1,244,052	291,613	—	—	1,535,665
Other	1,234,167	328,009	—	—	1,562,176
Total securities sold under agreements to repurchase	<u>\$ 9,045,642</u>	<u>\$ 629,497</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 9,675,139</u>
Obligation to return securities received as collateral					
Equities	1,297,353	—	—	—	1,297,353
Total obligation to return securities received as collateral	<u>\$ 1,297,353</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,297,353</u>
Total	<u><u>\$15,805,500</u></u>	<u><u>\$ 1,260,690</u></u>	<u><u>\$ —</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 17,066,190</u></u>

The collateral pledged as part of repurchase agreements and securities loaned is subject to changes in market price and thus may decline in value during the time of the agreement. In this case, the Company may be required to post additional collateral to the counterparty to appropriately collateralize the contract (and similarly may receive a portion of the collateral posted back when the collateral posted experiences a market value increase). The market risk of the collateral posted is reviewed by the Company's risk function, and these risks are managed using a variety of mechanisms including review of the type and grade of securities posted as collateral and the Company entering into offsetting agreements to hedge a decline in the market value of collateral posted.

4. Securities and Cash Segregated Pursuant to Federal and Other Regulations

U.S. Treasury securities with a market value of \$94,532 have been segregated in a "special reserve bank account for the exclusive benefit of customers" under Rule 15c3-3 of the SEC and are included in the Statement of Financial Condition in financial instruments owned, at fair value.

The Company has satisfied collateral requirements with clearing corporations and other broker-dealers by depositing securities of \$5,854,686 included in the Statement of Financial Condition in securities purchased under agreements to resell and financial instruments owned, at fair value and cash in the amount of \$143,252 included in the Statement of Financial Condition in deposits with and receivable from brokers, dealers, and clearing organizations as of June 30, 2023.

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5. Deposits with and Receivable From and Payable to Brokers, Dealers, and Clearing Organizations

Deposits with and amounts receivable from and payable to brokers, dealers, and clearing organizations at June 30, 2023 consist of the following:

	<u>Receivable</u>	<u>Payable</u>
Securities failed-to-deliver/receive	\$ 281,543	\$ 199,209
Receivable from/payable to brokers and dealers	2,563,988	4,358,893
Receivable from/payable to clearing organizations	36,309	141,497
Deposits	143,252	—
	<u>\$ 3,025,092</u>	<u>\$ 4,699,599</u>

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

The Company trades in U.S. government and U.S. government agency securities, money market instruments, Canadian government and Canadian provincial securities, corporate debt securities, mortgage-backed securities, asset-backed securities, equity securities, interest rate futures and swaps, forward securities contracts, TBAs, forward currency options, credit default swaps, and equity option contracts.

Financial instruments owned and financial instruments sold, not yet purchased consisted of the following at June 30, 2023:

	<u>Owned</u>	<u>Sold, not yet Purchased</u>
U.S. treasury securities	\$ 323,369	\$ 2,702,611
Mortgage-backed and debt securities issued by the U.S. government agency and U.S. government-sponsored enterprises	3,563,754	255
Corporate obligations and other debt securities	377,122	141,072
Other asset-backed securities	404,256	—
Equity securities	389,018	376,673
Money market instruments	—	23
Fair value of derivative instruments	40,004	108,641
Total	<u>\$ 5,097,523</u>	<u>\$ 3,329,275</u>

The Company finances the majority of its financial instruments owned through repurchase or securities loaned agreements. Financial instruments sold, not yet purchased are generally sourced through reverse repurchase or securities borrowed agreements.

7. Fair Value of Financial Instruments and Fair Value Measurement

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, provides disclosure requirements around fair value, and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for *identical* instruments in active markets

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Level 2 – Quoted prices for *similar* instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets

Level 3 – Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are *unobservable*

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. GAAP also precludes the use of block discounts for instruments traded in an active market, and requires the recognition of trade-date gains after consideration of all appropriate valuation adjustments related to certain derivative trades that use unobservable inputs in determining their fair value.

(a) Determination of Fair Value

The fair value of the majority of the Company's financial instruments is based on quoted prices in active markets, observable inputs, or external pricing service data. These instruments include U.S. government and agency obligations, money market instruments, Canadian government and provincial obligations, corporate debt securities, mortgage-backed securities, asset-backed securities, listed equity securities, exchange-traded derivatives, over-the-counter derivatives, and forward currency contracts. The Company validates the prices obtained from third-party pricing vendors to ensure that the Company's fair value determination is reasonable. The Company evaluates the methodology of third-party pricing vendors as well as the asset or liability class and security level information the vendors supply. The Company often has multiple sources to support fair value pricing, and discrepancies among sources are vetted for consistency with guidelines under GAAP.

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(b) *Items Measured at Fair Value on a Recurring Basis*

The following table presents for each of the fair value hierarchy levels the Company's financial instruments that are measured at fair value on a recurring basis at June 30, 2023:

Description	Level 1	Level 2	Level 3	Netting (1)	Total
Assets:					
Securities owned:					
U.S. treasury securities	\$ 139,032	\$ 184,337	\$ —	\$ —	\$ 323,369
Mortgage-backed and debt securities issued by U.S. government agency and U.S. government-sponsored enterprises	2,082	3,006,347	555,325	—	3,563,754
Corporate obligations and debt securities	25,032	352,090	—	—	377,122
Other asset-backed securities	—	388,597	15,659	—	404,256
Equity securities	389,018	—	—	—	389,018
	<u>\$ 555,164</u>	<u>\$ 3,931,371</u>	<u>\$ 570,984</u>	<u>\$ —</u>	<u>\$ 5,057,519</u>
Equity options	93,140			(93,140)	—
Interest rate futures and FX forwards	37,899	—	—	—	37,899
TBA and delayed settlement forwards	—	101,398	—	(99,293)	2,105
Swap contracts	—	—	—	—	—
	<u>\$ 686,203</u>	<u>\$ 4,032,769</u>	<u>\$ 570,984</u>	<u>\$ (192,433)</u>	<u>\$ 5,097,523</u>
Liabilities:					
Securities sold, not yet purchased:					
U.S. treasury securities	\$ 551,991	\$ 2,150,620	\$ —	\$ —	\$ 2,702,611
Mortgage-backed and debt securities issued by U.S. government agency and U.S. government-sponsored enterprises	—	—	—	—	—
Corporate obligations and debt securities	20,925	120,147	—	—	141,072
Other asset-backed securities	—	255	—	—	255
Equity securities	376,673	—	—	—	376,673
Money market instruments	23	—	—	—	23
	<u>\$ 949,612</u>	<u>\$ 2,271,022</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 3,220,634</u>
Equity options	125,744	—	—	(93,140)	32,604
Interest rate futures and FX forwards	—	—	—	—	—
TBA and delayed settlement forwards	—	173,589	—	(99,293)	74,296
Swap contracts	1,741	—	—	—	1,741
	<u>\$ 1,077,097</u>	<u>\$ 2,444,611</u>	<u>\$ —</u>	<u>\$ (192,433)</u>	<u>\$ 3,329,275</u>

(1) The impact of netting represents an adjustment related to counterparty and cash collateral netting. The Company records the unrealized gains and losses of equity options, interest rate futures and FX forwards, TBA and delayed settlement forwards, and swap contracts within financial instruments owned and sold in the Statement of Financial Condition.

The Company classifies instruments in Level 3 of the fair value hierarchy when there is reliance on at least one significant unobservable input to the valuation model. In addition to these unobservable inputs, the valuation models for Level 3 financial instruments typically also rely on a number of inputs that are readily observable either directly or indirectly.

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Quantitative information and Significant Unobservable Inputs for Level 3 Instrument Valuations:

Prepayment Rates

Discounted cash flow models are used to fair value our U.S. agency MBS and CMOs. The cash flow model includes assumptions related to conditional prepayment rates, constant default rates and percentage loss on default. Prepayment rates impact our estimate of future cash flows. Changes in the prepayment rate tend to be negatively correlated with interest rates. In other words, an increase in the prepayment rate will result in a higher fair value when the asset interest rate is lower than the current reinvestment rate. A decrease in the prepayment rate will result in a lower fair value when the asset interest rate is higher than the current reinvestment rate. For 2023, the range of input values for prepayment rates are between 3% and 57%.

Comparability Adjustment

Market comparable pricing is used to evaluate the fair value of U.S. agency MBS and CMOs. This technique involves sourcing prices from third parties for similar instruments and applying adjustments to reflect recent transaction prices and instrument specific characteristics. For 2022, the range of input values on a price per security basis for the comparability adjustment are between (2.8) and 5.0.

(c) Other Fair Value Disclosure

Many but not all of the financial instruments held by the Company are recorded at fair value in the Statement of Financial Condition. Cash, repurchase and reverse repurchase agreements, securities borrowed or loaned, receivables or payables from customers or from brokers, dealers and clearing organizations, securities received as collateral and obligation to return securities received as collateral and bank loan payables are recorded at amounts that approximate fair value due to their highly liquid nature and short maturity.

The Company has a contingent liability related to the Clearpool acquisition. There is an Earn-Out in the amount of \$10,000 that is valued on the probability of achieving revenue targets for two consecutive months during the first four years from the closing date. This will be considered as Level 3 based on the method of valuation where there were no visible inputs. At June 30, 2023, the fair value of the contingent liability was \$7,650, which is shown as part of accounts payable and accrued expenses in the Statement of Financial Condition.

8. Goodwill and Intangible Assets

There have been no changes in the carrying amount of the Company's goodwill of \$152,528 for the period ended June 30, 2023. If the carrying value is not expected to be recovered and the carrying value exceeds the fair value, an impairment loss is recognized.

The gross carrying amount and accumulated amortization of the Company's amortizable assets as of June 30, 2023 are in the table below:

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Remaining Life
Deal Pipeline	\$ 1,400	\$ (1,400)	\$ —	N/A
Non-compete agreements	11,340	(11,340)	—	N/A
Customer relationship	69,000	(41,910)	27,090	9 years
Technology	50,200	(20,394)	29,806	5 years
Trade name	1,350	—	1,350	N/A
	<u>\$ 133,290</u>	<u>\$ (75,044)</u>	<u>\$ 58,246</u>	

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9. Borrowings

Short-term borrowings are generally used to finance securities inventories and to facilitate the securities settlement process. The level of these borrowings fluctuates daily and at times significantly, depending on daily settlement activity. The Company had a \$2,000,000 unsecured credit facility with BMO at June 30, 2023 at a fluctuating interest rate. As of June 30, 2023, \$50,000 was drawn, on an overnight basis, at an interest rate of 5.15%. The Company also had a \$1,500,000 unsecured credit facility with BFC at June 30, 2023 at a fluctuating interest rate, of which none was drawn. In addition, the Company had a \$200,000 secured credit facility with Bank of New York Mellon at June 30, 2023 at an interest rate dependent on market pricing, of which none was drawn.

The Company has an unsecured senior note agreement with a BMO affiliate, Irish FinCo for \$100,000, which was fully drawn at June 30, 2023. The interest rate for the senior note is the 30-day benchmark plus a fixed spread, with a stated maturity date of September 30, 2030.

10. Net Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital. The Company has elected to compute its net capital requirements under the alternative method, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$1,000 or 2% of aggregate debit items as shown in the Formula for Reserve Requirement pursuant to Rule 15c3-3. In addition, as a clearing member of the Chicago Mercantile Exchange, Inc. ("CME"), the Company is qualified to clear transactions for all CME futures and options on futures contracts. Therefore, the Company is subject to the Commodity Futures Trading Commission minimum net capital requirement of 8% of noncustomer risk maintenance margin as well.

The Company's minimum capital requirement may also be increased over such minimums by certain provisions of Rule 15c3-1. FINRA, the Company's designated self-regulatory organization, has certain additional capital requirements, which provide that equity capital may not be withdrawn nor may cash dividends be paid if the resulting net capital would be less than 5% of the calculated aggregate debits or 110% of the CFTC net capital requirement, whichever is greater.

At June 30, 2023, the Company had net capital of \$1,042,937, which was \$969,325 in excess of its required net capital of \$73,612.

11. Commitments, Contingencies and Guarantees

FASB ASC 460, Guarantees, requires the Company to disclose information about its obligations under certain guarantee arrangements. FASB ASC 460 effectively describes 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. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

The Company enters into underwriting commitments. At June 30, 2023, there were open underwriting commitments of \$83,450.

As a member of the Government Securities Division of the Fixed Income Clearing Corporation (FICC), the Company participates in the Capped Contingency Liquidity Facility (CCLF). CCLF is a commitment by FICC's solvent firms to enter into a repurchase agreement with FICC and in the event a member firm fails, the funding to offset FICC's portfolio would be sourced across FICC's solvent members. As of June 30, 2023, the Company's commitment to the CCLF was \$670,783 of which no utilization had occurred. This amount is calculated by FICC based on membership size and volumes and is subject to fluctuation.

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The Company has been named as a defendant in various legal actions. In August 2023, the Company, along with numerous other firms, settled with the U.S. Securities and Exchange Commission in connection with an investigation into record-keeping requirements related to business communications on unapproved messaging platforms. The \$25,000 accrual for the settlement is included in accounts payable and accrued expenses in the Statement of Financial Condition as of June 30, 2023.

Some contracts that the Company enters into include indemnification provisions that obligate the Company to make payments to the counterparty or others in the event certain events occur. The contingencies generally relate to the changes in the value of underlying assets or liabilities, or upon the occurrence of events, such as an adverse litigation judgment or an adverse interpretation of the tax law. The indemnification clauses are often standard contractual terms and were entered into based on an assessment that the risk of loss would be remote. Since there are no stated or notional amounts included in the indemnification clauses and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur, the Company is not able to estimate the maximum potential amount of future payments under these indemnification clauses. There are no amounts recorded in the Company's Financial Statements related to indemnification clauses at June 30, 2023.

The Company is a member of several securities and derivatives exchanges and clearinghouses. In the normal course of business, the Company provides collateral that is determined by the membership agreements with exchanges and clearinghouses or by regulation. The exchanges and clearinghouses guarantee the performance of other members in the event that a member is unable to satisfy its obligations to the exchange or clearinghouse. To mitigate these performance risks, the exchanges and clearinghouses typically require members to post collateral and may have a lien on a member's collateral in the event of a member default. The Company's obligation under such guarantees could exceed the amount of collateral posted. The Company's potential liability under these agreements is not quantifiable. Accordingly, the Company has not recorded a contingent liability in its Statement of Financial Condition and believes that potential to incur material losses under these agreements is remote.

12. Leases

The Company's lease obligations consist primarily of leases for its offices and operating facilities, primarily in New York and New Jersey, with various other locations in the United States. Certain leases contain options to extend the lease term, or to terminate the lease prior to its scheduled end date. Options that are within the Company's control are considered when calculating the lease liability and right-of-use asset when they are reasonably certain to be exercised.

Amounts reported in the Statement of Financial Condition as of June 30, 2023 were as follows:

Operating leases:

Operating lease right-of-use assets	\$	228,678
Operating lease obligations	\$	268,759

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Additional information on the Company's leases for the year ended June 30, 2023 is set forth below:

	Period Ended
	June 30, 2023
Cash paid for amounts included in the measurement of lease liabilities for operating leases:	
Operating cash flows	\$ 12,700
Right-of-use assets obtained in exchange for new operating lease liabilities	\$ 2,384
Weighted average remaining lease term:	
Operating leases	13.93
Weighted average discount rate:	
Operating leases	2.32 %

Contractual undiscounted cash flows for operating leases as of June 30, 2023 are as follows:

2023	\$	12,776
2024		25,577
2025		23,933
2026		22,244
2027		22,809
2028		22,478
Thereafter		185,702
Total	\$	315,519
Less: Present Value Discount		(43,755)
Lease Liability	\$	271,764

13. Benefit Plans

The Company is a participating entity in retirement plans offered to BMO's eligible employees.

The non-contributory defined-benefit pension plan covers the Company's eligible employees at June 30, 2023 that were hired prior to April 1, 2016. Certain employees participating in the plan are also covered by a supplemental unfunded retirement plan. The purpose of the supplemental plan is to extend additional retirement benefits to individuals hired prior to April 1, 2016 without regard to certain statutory limitations for qualified funded plans.

For employees hired prior to January 1, 2002, the plan's benefit formula is a final average pay formula, based upon length of service and an employee's highest qualifying compensation during five consecutive years of active employment less an estimated Social Security benefit. For employees hired on or after January 1, 2002, the plan's benefit formula is an account-based formula based upon eligible pay, age and length of service.

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In 2016, the defined benefit pension plan and the supplemental unfunded retirement plan were amended to no longer offer plan benefits to employees hired on or after April 1, 2016 and to freeze the plans for employees hired prior to April 1, 2016. The final average pay formula continues to reflect future earnings and the account-based formula continues to reflect annual interest credits. However, service credits were stopped under both benefit formulas.

The policy for the defined benefit pension plan is to have the participating entities, at a minimum, fund annually an amount necessary to satisfy the requirements under the Employee Retirement Income Security Act, without regard to prior years' contributions in excess of the minimum. During the year ended June 30, 2023, the Company contributed \$739 to the pension trust. The Company's prepaid asset related to its participation in the defined benefit pension plan was \$7,778 as of June 30, 2023 and is included in other assets in the Statement of Financial Condition. The Company's liability related to its participation in the supplemental unfunded retirement plan was \$15,716 as of June 30, 2023 and is included in accounts payable and accrued expenses in the Statement of Financial Condition.

The Company is a participating entity in the post-retirement medical plan sponsored by BFC that provides medical care benefits for eligible retirees (and their dependents). In 2007, the plan was amended to no longer offer plan benefits to new hires and to eliminate plan benefits for employees under the age of 35 at that time. Under the terms of the plan, the Company contributes to the cost of coverage based primarily on employees' length of service. Additional cost sharing with plan participants is accomplished through deductibles, coinsurance and out-of-pocket limits. The post-retirement medical plan liability was \$1,720 as of June 30, 2023, which is included in accounts payable and accrued expenses in the Statement of Financial Condition.

The Company participates in a defined contribution plan that is available to eligible employees. The 401(k) employer matching contribution is based on the amount of eligible employee contributions. In 2016, the Company introduced an automatic employer core contribution to the 401(k) savings plan. The Company also participates in a non-qualified defined contribution plan. The purpose of the plan is to extend additional retirement benefits to individuals without regard to certain statutory limitations for qualified defined contribution plans.

14. Financial Instruments with Off-Balance-Sheet Risk

The Company enters into various transactions involving derivatives and other off-balance-sheet financial instruments. These financial instruments include forward contracts, swaps, exchange-traded futures and options, over-the-counter options, and securities purchased and sold on a when-issued or delayed delivery basis. These derivative financial instruments are used to facilitate customer transactions, conduct trading activities, and manage market risks, and are, therefore, subject to varying degrees of market and credit risk. Derivative transactions are entered into for trading purposes or to hedge other positions or transactions. Futures and forward contracts, swaps, when-issued securities and to-be-announced securities ("TBAs") entered into by the Company provide for delayed delivery of the underlying instrument.

The following table summarizes the notional amounts of derivatives held for trading purposes, the gross fair values of which are recorded on the Statement of Financial Condition at June 30, 2023:

	Fair Value	Fair Value	Notional	Notional
	Assets	Liabilities	Purchases	Sales
Equity options	\$ 93,140	\$ 125,744	\$ 2,597,462	\$ 2,416,985
Interest rate futures and FX forwards	37,899	—	14,295	20,007,991
TBA and delayed settlement forwards	101,398	173,589	27,157,313	25,597,523
Swap contracts	—	1,741	1,346,460	—

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The fair value of and equity options, futures, swaps, forward currency contracts, forward securities contracts, and TBAs is included in financial instruments owned and sold, not yet purchased in the Statement of Financial Condition.

The table below presents derivative fair values included on the Statement of Financial Condition at June 30, 2023. Swap contracts include Credit Default Swaps and Interest Rate Swaps. The gross assets and liabilities are adjusted to take into consideration the effect of legally enforceable master netting agreements or clearing agreements that meet the accounting criteria for netting under GAAP.

The amounts in the column titled "Financial Instruments/Cash" in the table below represent securities or cash pledged under various clearing agreements. These amounts are not offset on the Statement of Financial Condition, but are shown as a reduction to the net balance sheet amount in order to derive a net asset or liability.

	Gross Assets/ Liabilities	Amounts Offset	Net Balance Sheet Amount	Financial Instruments/ Cash	Net Assets/ Liabilities
Equity options	\$ 93,140	\$ (93,140)	\$ —	\$ —	\$ —
Interest rate futures and FX forwards	37,899	—	37,899	(37,899)	—
TBA and delayed settlement forwards	101,398	(99,293)	2,105	—	2,105
Swap contracts	—	—	—	—	—
Total Assets	<u>\$ 232,437</u>	<u>\$ (192,433)</u>	<u>\$ 40,004</u>	<u>\$ (37,899)</u>	<u>\$ 2,105</u>
Equity options	\$ 125,744	\$ (93,140)	\$ 32,604	\$ (32,604)	\$ —
Interest rate futures and FX forwards	—	—	—	—	—
TBA and delayed settlement forwards	173,589	(99,293)	74,296	—	74,296
Swap contracts	1,741	—	1,741	—	1,741
Total Liabilities	<u>\$ 301,074</u>	<u>\$ (192,433)</u>	<u>\$ 108,641</u>	<u>\$ (32,604)</u>	<u>\$ 76,037</u>

The contractual or notional amounts related to these financial instruments reflect the volume and activity and do not reflect the amounts at risk. Futures contracts are executed on an exchange, and cash settlements are made on a daily basis for market movements. Accordingly, futures contracts generally have limited credit risk. The credit risk for forward contracts, options, and when-issued securities is limited to the unrealized market valuation gains recorded in the Statement of Financial Condition. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by the market forces such as volatility and changes in interest rates.

The Company's activities involve the execution, clearance, and settlement of various securities transactions for institutional investors, and other broker-dealers. Customer securities activities are transacted on a delivery versus payment basis and cash basis, and are subject to exchange or Federal regulations. In accordance with industry practice, the Company records customer securities transactions on a settlement-date basis, which is generally one to three business days after trade date. These transactions may expose the Company to off-balance-sheet risk in the event that a customer is unable to fulfill its contracted obligations. 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 in order to fulfill its 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 reduce positions when necessary.

The Company's financing and securities settlement activities require the Company to pledge its securities as collateral in support of various collateralized repurchase agreements. In the event the counterparty is unable to meet its contractual obligation to return the securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. Additionally, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

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(a) Concentrations of Credit Risk

The Company is engaged in various securities trading activities servicing a diverse group of domestic and foreign corporations, governments, and institutional investors. A substantial portion of the Company's transactions are executed with institutional investors, including other brokers and dealers, commercial banks, insurance companies, pension plans, mutual funds, and other financial institutions. The Company's principal activities are also subject to the risk of counterparty nonperformance.

(b) Market Risk

The securities and derivative financial instruments traded by the Company involve varying degrees of off-balance-sheet market risk. Market risk is the potential change in value of the financial instrument caused by unfavorable changes in interest rates, or the market value of the securities underlying the instruments. The Company monitors its exposure to market risk through a variety of control procedures, including daily monitoring of trading positions and limits.

Financial instruments sold, not yet purchased commit the Company to deliver specified securities at predetermined prices. To satisfy the obligation, the Company must acquire the securities at market prices, which may differ from the values on the Statement of Financial Condition.

15. Interests in Variable Interest Entities (VIE)

In accordance with GAAP, the Company evaluates whether it has a controlling financial interest in variable interest entities ("VIE") through means other than voting rights and whether it should consolidate the entity. VIEs include entities where the equity is considered insufficient to finance the entity's activities for which the equity holders do not have a controlling financial interest. The Company is required to consolidate VIEs if the investments held in those entities and/or the relationships with them result in the Company holding both the power to direct activities that most significantly impact the VIE's economic performance, and the obligation to absorb losses or the rights to receive benefits resulting from those activities of the VIE.

The Company acts as servicing agent to Fairway and provides accounting and other administrative support to this entity, which is a VIE. Fairway is a US Asset-Backed Commercial Paper conduit sponsored by BMO, a related party. Fairway is organized under the laws of Delaware.

Fairway was established to purchase interests in receivables and similar assets, or in some instances, make loans secured by interests in receivables from clients. Fairway funds its purchases and loans primarily through the issuance of A-1/P-1 rated commercial paper notes.

The Company has determined that it does not have the power to direct activities that most significantly impact the VIE's economic performance and does not consolidate Fairway as of June 30, 2023.

16. Transactions with Affiliates

The Company has reverse repurchase and repurchase agreements with affiliates of \$2,300,534 and \$1,005,057, respectively, as of June 30, 2023, which is included in the Statement of Financial Condition. In addition, the Company has securities borrowed and loaned with affiliates of \$299,536 and \$1,076,545, respectively.

In connection with technical service agreements, the Company recorded a net receivable from affiliates of \$14,658 as of June 30, 2023, which is included in the Statement of Financial Condition.

The Company clears transactions for certain affiliates. This generated a payable to brokers, dealers, and clearing organizations of \$1,956,396 as of June 30, 2023.

17. Subsequent Events

Management has evaluated all subsequent events for the Company after the balance sheet date through August 31, 2023. In July 2023, the Company recorded a provision related to a potential settlement on a legal matter. In the opinion of management, based on consultation with legal counsel, this regulatory matter will not result in any material adverse effect on the Statement of Financial Condition.