

# STATEMENT OF FINANCIAL CONDITION

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*[Signature]*  
Audited December 31, 2020

**GLADSTONE GLOBAL ADVISORY**

9-10, St Andrew Square, Edinburgh EH2 2AF, United Kingdom

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**GLADSTONE GLOBAL ADVISORY**  
**STATEMENT OF FINANCIAL CONDITION**

**June 30, 2021**

**(in thousands, except share and par value amounts)**

**Assets:**

Cash and cash equivalents	£	1,104,111
Cash segregated under federal and other regulations		2,589,227
Securities purchased under agreements to resell		377,456
Securities borrowed		150,327
Financial instruments, at fair value:		
Securities owned (includes £603,106 pledged as collateral)		800,617
Other Investments (includes £6,645 pledged as collateral)		86,466
Brokerage client receivables, net		2,528,970
Receivables from broker-dealers and clearing organizations		208,752
Other receivables		407,044
Loans to financial advisors, net		623,675
Property and equipment, net		350,063
Deferred income taxes, net		59,151
Goodwill and identifiable intangible assets, net		368,628
Other assets		101,802
Total assets	£	<u>9,756,289</u>

**Liabilities and stockholder's equity:**

Securities sold under agreements to repurchase	£	142,791
Securities loaned		304,503
Securities sold, not yet purchased, at fair value		322,030
Brokerage client payables		4,748,368
Payables to brokers-dealers and clearing organizations		183,376
Accrued compensation, commissions and benefits		327,081
expenses and other liabilities		139,928
Other borrowings		26,424
Payables to affiliates		809,077
Income taxes payable		28,031
Total liabilities		<u>7,031,609</u>
Commitments and Contingencies (see Note 11)		
Stockholder's equity:		
Common stock; £.10 par value; authorized 4,000,000 shares; issued and outstanding 1,083,500 shares		108
Additional paid-in capital		1,536,937
Retained earnings		1,187,635
Total stockholder's equity		<u>2,724,680</u>
Total liabilities and stockholder's equity	£	<u>9,756,289</u>

See accompanying Notes to Statement of Financial Condition.

**GLADSTONE GLOBAL ADVISORY**

**NOTES TO STATEMENT OF FINANCIAL CONDITION**

**June 30, 2021**

**NOTE 1 – ORGANIZATION AND NATURE OF BUSINESS**

Gladstone Global Advisory (“GGA,” the “Company”, “we,” “our,” “ours” or “us”) is a United Kingdom corporation engaged in most aspects of securities distribution and investment banking. GGA is a full-service broker-dealer offering financial planning services for individuals and corporations.

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

We conform our Second Quarter of June 30, 2021. The accompanying Statement of Financial Condition is prepared in accordance with accounting principles generally accepted in both the United States of America (“GAAP”), and UK (“GAAP FRS 102 Standard”) the more significant of which are summarized below.

**Accounting estimates and assumptions**

The preparation of the Statement of Financial Condition in conformity with GAAP requires us to make certain 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. Actual results could differ from those estimates and could have a material impact on the Statement of Financial Condition.

**Cash and cash equivalents**

Our cash equivalents include money market funds or highly liquid investments with original maturities of 90 days or less, other than those used for trading purposes.

**Cash segregated under federal and other regulations**

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934 we, as a broker-dealer carrying client accounts, are subject to requirements to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of our clients. Segregated cash consists of cash and cash equivalents.

**Repurchase agreements and other collateralized financings**

We purchase securities under short-term agreements to resell (“reverse repurchase agreements”). Additionally, we sell securities under agreements to repurchase (“repurchase agreements”). Both reverse repurchase agreements and repurchase agreements are accounted for as collateralized financings and are carried at contractual amounts plus accrued interest. To mitigate credit exposure, we receive collateral with a fair value equal to or in excess of the principal amount loaned under the reverse repurchase agreements. To ensure that the market value of the underlying collateral remains sufficient, the securities are valued daily, and collateral is obtained from or returned to the counterparty when contractually required.

## **Securities owned, securities sold but not yet purchased at fair value**

“Securities owned” and “Securities sold but not yet purchased” are recorded at fair value. Fair value is defined by GAAP as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date in the principal or most advantageous market for the asset or liability.

In determining the fair value of our securities in accordance with GAAP, we use various valuation approaches, including market and/or income approaches. Fair value is a market-based measurement considered from the perspective of a market participant. As such, our fair value measurements reflect assumptions that we believe market participants would use in pricing the asset or liability at the measurement date. GAAP provides for the following three levels to be used to classify our fair value measurements:

*Level 1* - Securities included in Level 1 are highly liquid securities valued using unadjusted quoted prices in active markets for identical assets or liabilities. These include equity and corporate debt securities traded in active markets and certain U.S. Treasury securities and other governmental obligations.

*Level 2* - Securities reported in Level 2 include those that have pricing inputs that are other than quoted prices in active markets, but which are either directly or indirectly observable as of the reporting date (i.e., prices for similar securities). Securities that are generally included in this category are equity securities and corporate debt obligations that are not actively traded, certain government and municipal obligations, asset-backed securities (“ABS”), collateralized mortgage obligations (“CMOs”), and most mortgage-backed securities (“MBS”).

*Level 3* - Securities reported in Level 3 have little, if any, market activity and are measured using one or more inputs that are significant to the fair value measurement and unobservable. These valuations require significant judgment or estimation. Securities in this category generally include equity securities with unobservable inputs such as those investments made in our principal capital activities and certain non-agency investments.

GAAP requires that we maximize the use of observable inputs and minimize the use of unobservable inputs when performing our fair value measurements. The availability of observable inputs can vary from security to security and, in certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a security’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement of a security requires judgment and consideration of factors specific to the security.

We offset our long and short positions for identical securities recorded at fair value as part of our securities owned (long positions) and securities sold but not yet purchased (short positions).

### *Valuation techniques and inputs*

The fair value for certain of our securities is derived using pricing models and other valuation techniques that involve significant management judgment. The price transparency of securities is a key determinant of the degree of judgment involved in determining the fair value of our securities. Securities which are actively traded will generally have a higher degree of price transparency than securities that are thinly traded. In accordance with GAAP, the criteria used to determine whether the market for a security is active or inactive is based on the particular asset or liability. For equity securities, our definition of actively traded is based on average daily volume and other market trading statistics. We have determined the market for certain other types of securities, including certain CMOs, ABS, and certain collateralized debt obligations, to be uncertain or inactive as of June 30, 2021. As a result, the valuation of these securities included significant management judgment in determining the relevance and reliability of market information available. We considered the inactivity of the market to be evidenced by several factors, including low levels of price transparency caused by decreased volume of trades relative to historical levels, stale transaction prices and transaction prices that varied significantly either over time or among market makers.

The level within the fair value hierarchy, specific valuation techniques and other significant accounting policies pertaining to securities presented in our Statement of Financial Condition are described as follows.

#### Level 1:

Securities owned and securities sold but not yet purchased are comprised primarily of the financial instruments held by us. These securities are recorded at fair value.

When available, we use quoted prices in active markets to determine the fair value of our securities owned. Such securities are

classified within Level 1 of the fair value hierarchy.

#### Level 2:

When securities owned are traded in secondary markets and quoted market prices for identical securities do not exist, we utilize valuation techniques including matrix pricing to estimate fair value. Matrix pricing generally utilizes spread-based models periodically re-calibrated to observable inputs such as market trades or to dealer price bids in similar securities in order to derive the fair value of the securities. Valuation techniques may also rely on other observable inputs such as yield curves, interest rates and expected principal repayments and default probabilities. We utilize prices from independent services to corroborate our estimate of fair value. Depending upon the type of security, the pricing service may provide a listed price, a matrix price or use other methods including broker-dealer price quotations.

#### Level 3:

Positions in illiquid securities that do not have readily determinable fair values require significant judgment or estimation. For these securities we use pricing models, discounted cash flow methodologies or similar techniques. Assumptions utilized by these techniques include estimates of future delinquencies, loss severities, defaults and prepayments or redemptions. Securities valued using these techniques are classified within Level 3 of the fair value hierarchy.

Included within securities owned are to be announced (“TBA”) security contracts with investors for generic MBS at specific rates and prices to be delivered on settlement dates in the future. We enter into these TBAs to hedge interest rate risk that arises as part of a program our fixed income public finance operations offers to certain state and local housing finance agencies (“HFA”). Under this program, we enter into forward commitments to purchase Government National Mortgage Association (“GNMA”) or Federal National Home Mortgage Association (“FNMA”) MBS. The MBS are issued on behalf of various HFA clients and consist of the mortgages originated through their lending programs. Our forward GNMA or FNMA MBS purchase commitments arise at the time of the loan reservation for a borrower in the HFA lending program. The underlying terms of the GNMA or FNMA MBS purchase, including the price for the MBS (which is dependent upon the interest rates associated with the underlying mortgage(s)) are also fixed at loan reservation. We typically sell such MBS upon acquisition as part of our fixed income operations. The TBA securities used to hedge these transactions are accounted for at fair value and are classified within Level 1 of the fair value hierarchy. The TBA securities may aggregate to either a net asset or net liability at any reporting date, depending upon market conditions. The offsetting purchase commitment is accounted for at fair value and is included in either “Securities Owned” or “Securities sold, not yet purchased”, depending upon whether the TBA securities aggregate to a net asset or net liability. The fair value of the purchase commitment is classified within Level 3 of the fair value hierarchy.

#### **Brokerage client receivables, net**

Brokerage client receivables are principally for amounts due on cash and margin transactions and are generally collateralized by securities owned by the clients. Brokerage client receivables are reported at their outstanding principal balance, adjusted for any allowance for doubtful accounts. When the receivable held is considered to be impaired, the amount of the impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources such as listed market prices or broker-dealer price quotations. Securities beneficially owned by customers, including those that collateralize margin or other similar transactions, are not reflected in our Statement of Financial Condition. See Note 4 for additional information regarding this collateral. We present “Brokerage client receivables, net” on our Statement of Financial Condition, net of the allowance for doubtful accounts. Our allowance for doubtful accounts was £510 thousand at December 31, 2020.

#### **Receivables from brokers-dealers and clearing organizations**

Receivables from broker-dealers and clearing organizations include amounts receivable for securities failed to deliver and restricted cash on deposit with clearing organizations. Deposits with clearing organizations consist of cash and cash equivalents or other marketable securities held by other clearing organizations or exchanges. Deposits with clearing organizations to satisfy requirements at June 30, 2021 include £106.8 million in cash. We present “Receivables from broker-dealers and clearing organizations” on our Statement of Financial Condition, net of the allowance for doubtful accounts. Our allowance for doubtful accounts was insignificant at June 30, 2021.

### **Loans to financial advisors, net**

We offer loans to financial advisors and certain other key revenue producers, primarily for recruiting, transitional cost assistance and retention purposes. These loans are generally repaid over a five to eight-year period. We assess future recoverability of these loans through analysis of individual financial advisor production or other performance standards. In the event that the financial advisor is no longer affiliated with us, any unpaid balance of such loan becomes immediately due and payable to us. In determining the allowance for doubtful accounts related to former employees, management primarily considers our historical collection experience as well as other factors including: amounts due at termination, the reasons for the terminated relationship, and the former financial advisor's overall financial position. When the review of these factors indicates that further collection activity is highly unlikely, the outstanding balance of such loan is written off and the corresponding allowance is reduced. Based upon the nature of these financing receivables, we do not analyze this asset on a portfolio segment or class basis. Further, the aging of this receivable balance is not a determinative factor in computing our allowance for doubtful accounts, as concerns regarding the recoverability of these loans primarily arise in the event that the financial advisor is no longer affiliated with us. We present the outstanding balance of loans to financial advisors on our Statement of Financial Condition, net of the allowance for doubtful accounts. Of the gross balance outstanding, the portion associated with financial advisors who are no longer affiliated with us was approximately £11.8 million at June 30, 2021. Our allowance for doubtful accounts was approximately £2.0 million at June 30, 2021.

### **Securities borrowed and securities loaned**

Securities borrowed and securities loaned transactions are reported as collateralized financings and recorded at the amount of collateral advanced or received. In securities borrowed transactions, we are required to deposit cash with the lender. With respect to securities loaned, we receive collateral in the form of cash in an amount in excess of the market value of securities loaned. We monitor the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. See Note 4 for additional information regarding this collateral.

### **Property and equipment**

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Additions, improvements and expenditures that extend the useful life of an asset are capitalized.

### **Identifiable intangible assets**

Certain identifiable intangible assets we acquire such as customer relationships, trade names, developed technology, intellectual property, and non-compete agreements are evaluated for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable.

### **Goodwill**

Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. GAAP does not provide for the amortization of indefinite-life intangible assets such as goodwill. Rather, these assets are subject to an evaluation of potential impairment on an annual basis, or more often if events or circumstances indicate there may be impairment. Goodwill impairment is determined by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not deemed to be impaired. However, if the estimated fair value is below carrying value, further analysis is required to determine the amount of the impairment. This further analysis involves assigning tangible assets and liabilities, identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount.

In the course of our evaluation of the potential impairment of goodwill, we may perform either a qualitative or a quantitative assessment. Our qualitative assessment of potential impairment may result in the determination that a quantitative impairment analysis is not necessary. Under this elective process, we assess qualitative factors to determine whether the existence of events or circumstances leads us to determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If after assessing the totality of events or circumstances, we determine it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then performing a quantitative analysis is not required. However, if we conclude otherwise, then we perform a quantitative impairment analysis.

If we either choose not to perform a qualitative assessment, or we choose to perform a qualitative assessment but are unable to qualitatively conclude that no impairment has occurred, then we perform a quantitative evaluation. In the case of a quantitative assessment, we estimate the fair value of the reporting unit which the goodwill that is subject to the quantitative analysis is associated

(Generally defined as the businesses for which financial information is available and reviewed regularly by management) and compare it to the carrying value. If the estimated fair value of a reporting unit is less than its carrying value, we estimate the fair value of all assets and liabilities of the reporting unit, including goodwill.

We have elected January 1 as our annual goodwill impairment evaluation date, evaluating balances as of December 31 (see Note 7 for additional information regarding the outcome of our goodwill impairment assessments).

### **Contingent liabilities**

We recognize liabilities for contingencies when there is an exposure that, when fully analyzed, indicates it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. Whether a loss is probable, and if so, the estimated range of possible loss, is based upon currently available information and is subject to significant judgment, a variety of assumptions, and uncertainties. When a range of possible loss can be estimated, we accrue the most likely amount within that range; if the most likely amount of possible loss within that range is not determinable, we accrue a minimum based on the range of possible loss. No liability is recognized for those matters which, in management's judgment, the determination of a reasonable estimate of loss is not possible.

We record liabilities related to legal and regulatory proceedings in "Accrued expenses and other liabilities" on our Statement of Financial Condition. The determination of these liability amounts requires significant judgment on the part of management. Management considers many factors including, but not limited to: the amount of the claim; the amount of the loss in the client's account; the basis and validity of the claim; the possibility of wrongdoing on the part of one of our employees or financial advisors; previous results in similar cases; and legal precedents and case law. Each legal proceeding or significant regulatory matter is reviewed with counsel in each accounting period and the liability balance is adjusted as deemed appropriate by management. The actual costs of resolving legal matters or regulatory proceedings may be substantially higher or lower than the recorded liability amounts for such matters.

### **Share-based and other compensation plans**

Certain employees participate in GGA Stock Incentive Plan, which provides for the issuance of GGA common stock or restricted stock awards. GGA estimates the fair value of share-based awards on the date of grant. See Note 12 for further information.

Certain employees participate in GGA's various deferred compensation plans that provide a return to the participant based upon the performance of various referenced investments. For certain of these plans, GGA directly holds investments related to their obligations to perform under the deferred compensation plans. For other such plans, including the Long Term Incentive Plan ("LTIP"), GGA purchases and holds life insurance on the lives of certain current and former participants to earn a competitive rate of return for participants and to provide a source of funds available to satisfy their obligation under the plan.

### **Leases**

We lease office space and equipment under operating leases. The lease term commences on the earlier of the date when we become legally obligated for the rent payments or the date on which we take possession of the property. For tenant improvement allowances and rent holidays, we record a deferred rent liability in "Accrued expenses and other liabilities" in the Statement of Financial Condition.

## **Income taxes**

The results of our operations are included in the consolidated federal and certain consolidated state income tax returns of GGA. As a result of the inclusion in consolidated filings, the majority of income taxes payable and receivable reported on the Statement of Financial Condition are payable to and receivable from GGA. Federal and state income taxes are computed, under a tax sharing agreement based on the separate return method.

The objectives of accounting for income taxes are to recognize the amount of taxes payable or refundable for the current year. We utilize the asset and liability method to provide income taxes on all transactions recorded in the Statement of Financial Condition. This method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets or liabilities for book and tax purposes. Accordingly, a deferred tax asset or liability for each temporary difference is determined based on the tax rates that we expect to be in effect when the underlying items of income and expense are realized. Judgment is required in assessing the future tax consequences of events that have been recognized in our Statement of Financial Condition or tax returns. Variations in the actual outcome of these future tax consequences could materially impact our financial position. See Note 10 for further information on our income taxes.

## **Accounting guidance recently adopted**

**Income Taxes** - In June 30, 2021, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-05 which amended income tax accounting guidance to include guidance issued by the SEC related to the implementation of the Tax Cuts and Jobs Act (the “Tax Act”), which we applied during our first fiscal quarter of 2021 when it was issued by the SEC. See Note 10 for more information.

## **Accounting guidance not yet adopted**

**Lease accounting** - In February 2016, the FASB issued new guidance related to the accounting for leases (ASU 2016-02). The new guidance requires the recognition of assets and liabilities on the balance sheet related to the rights and obligations created by lease agreements with terms greater than twelve months, regardless of whether they are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement and presentation of expenses and cash flows arising from a lease will primarily depend upon its classification as a finance or operating lease. The new guidance requires new disclosures to help financial statement users better understand the amount, timing and cash flows arising from leases. The new guidance, including subsequent amendments, is first effective for our fiscal year beginning on June 30, 2021. Although permitted, we do not plan to early adopt. Upon adoption, we will use a modified retrospective approach, with a cumulative effect adjustment to opening retained earnings. Our implementation efforts include reviewing existing leases and service contracts, which may include embedded leases. This new guidance will impact our financial position and results of operations. We are evaluating the magnitude of such impact.

**Credit losses** - In December 2016, the FASB issued new guidance related to the measurement of credit losses on financial instruments (ASU 2016-13). The amended guidance involves several aspects of the accounting for credit losses related to certain financial instruments including assets measured at amortized cost, available-for-sale debt securities and certain off-balance sheet commitments. The new guidance broadens the information that an entity must consider in developing its estimated credit losses expected to occur over the remaining life of assets measured either collectively or individually to include historical experience, current conditions and reasonable and supportable forecasts, replacing the existing incurred credit loss model and other models with the Current Expected Credit Losses (“CECL”) model. This new guidance expands the disclosure requirements regarding an entity’s assumptions, models, and methods for estimating credit losses and requires new disclosures of the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. The new guidance is first effective for our fiscal year beginning December 1, 2020 and will be adopted under a modified retrospective approach. Early adoption is permitted although not prior to our fiscal year beginning December 1, 2020. We have begun our implementation and evaluation efforts by establishing a cross-functional team to assess the required changes to our credit loss estimation methodologies and systems, as well as determine additional data and resources required to comply with the new guidance. We are evaluating the impact the adoption of this new guidance will have on our financial position and results of operations, which will depend on, among other things, the current and expected macroeconomic conditions and the nature and characteristics of financial assets held by us on the date of adoption.

**Goodwill** - In January 2018, the FASB issued amended guidance to simplify the subsequent measurement of goodwill, eliminating “Step 2” from the goodwill impairment test (ASU 2018-04). In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under this amended guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing



the fair value of a reporting unit with its carrying amount and subsequently recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is first effective for our fiscal year beginning December 31, 2020 and will be adopted on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2019. We will adopt this simplification guidance in the earliest period it applies to our facts and circumstances.

### **NOTE 3 – FAIR VALUE**

Our "Financial instruments owned" and "Securities sold, not yet purchased" on our Statement of Financial Condition are recorded at fair value under GAAP. See Note 2 for further information about such instruments and our significant accounting policies related to fair value.

The table below presents assets and liabilities measured at fair value on a recurring basis.

June 30, 2021.

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair Value
	(in thousands)			
Assets:				
Securities owned:				
Municipal obligations	£ —	£ 287,849	£ —	£ 287,849
Corporate obligations	7,108	139,337	—	146,445
Government and agency obligations	—	28,538	—	28,538
Agency MBS and CMOs	1,257	208,814	—	210,071
Non-agency CMOs and ABS	—	67,559	5	67,564
Total debt securities	8,365	732,097	5	740,467
Equity securities	24,828	447	—	25,275
Brokered certificates of deposit	—	34,142	—	34,142
Other assets	29	—	704	733
Total securities owned	33,222	766,686	709	800,617
Other investments <sup>(1) (2) (4)</sup>	85,689	297	480	86,466
Total assets at fair value	<u>£ 118,911</u>	<u>£ 766,983</u>	<u>£ 1,189</u>	<u>£ 887,083</u>
Liabilities:				
Securities sold, but not yet purchased:				
Municipal obligations	£ 7	£ 123	£ —	£ 130
Corporate obligations	1,275	12,757	—	14,032
Government obligations	294,867	—	—	294,867
Agency MBS and CMOs	573	—	—	573
Non-agency CMOs and ABS	—	—	—	—
Total debt securities	296,722	12,880	—	309,602
Equity securities	12,401	27	—	12,428
Total securities sold, but not yet purchased	309,123	12,907	—	322,030
Derivative contracts <sup>(3)</sup>	—	19,432	—	19,432
Total liabilities at fair value	<u>£ 309,123</u>	<u>£ 32,339</u>	<u>£ —</u>	<u>£ 341,462</u>

(1) Consists of deposits we provide to clearing organizations or exchanges that are in the form of government and agency securities.

(2) Includes the fair value of forward commitments to purchase GNMA or FNMAMBS arising from our fixed income public finance operations. See Notes 2 and 14 for additional information.

## Transfers between levels

We had £1.7 million in transfers of securities from Level 1 to Level 2 during the six months ended December 31, 2020. These transfers were a result of decreased market activity in these instruments. Our transfers from Level 2 to Level 1 were £804 thousand during the six months ended June 30, 2021. These transfers were a result of an increased market activity in these instruments. Our policy is to treat transfers between levels as having occurred at the end of the reporting period.

## Changes in Level 3 recurring fair value measurements

The table below presents the changes in fair value for Level 3 assets and liabilities measured at fair value on a recurring basis. The realized and unrealized gains and losses in the table below may include changes in fair value that were attributable to both observable and unobservable inputs. Our policy is to treat transfers between levels of the fair value hierarchy as having occurred at the end of the reporting period.

	Level 3 assets at fair value					
	Non-agency CMOs and ABS	Other Investments	Other Assets			
	(in thousands)					
	£	5	£	262	£	907
Total gains / (losses) for the six months ended June 30, 2021 included in earnings		—		—		(203)
Purchases Sales Distributions		—		218		—
Transfers:		—		—		—
Into Level 3		—		—		—
Out of Level 3		—		—		—
Fair value June 30, 2021		—		—		—
	£	5	£	480	£	704
realized gains/(losses) for the period included in earnings for instruments held at the end of the reporting period	£	—	£	—	£	704

## Fair value option

The fair value option is an accounting election that allows the reporting entity to apply fair value accounting for certain financial assets and liabilities on a security-by-security basis. As of June 30, 2021, we had not elected the fair value option for any of our financial assets or liabilities not already recorded at fair value.

## Additional disclosures about the fair value of securities that are not carried on the Statement of Financial Condition at fair value

Many, but not all, of the securities we hold are recorded at fair value in the Statement of Financial Condition.

The following represent securities in which the ending balance at June 30, 2021 was not carried at fair value, as computed in accordance with GAAP on our Statement of Financial Condition:

*Short-term securities:* The carrying value of short-term securities, including cash and cash equivalents, cash segregated under federal and other regulations and securities either purchased or sold under agreements to resell are recorded at amounts that approximate the fair value of these securities. These securities generally expose us to limited credit risk and have no stated maturities or have short-term maturities and carry interest rates that approximate market rates. Under the fair value hierarchy, cash and cash equivalents and cash segregated under federal and other regulations are classified as Level 1. Securities either purchased or sold under agreements to resell are classified as Level 2 under the fair value hierarchy because they are generally overnight and

are collateralized by U.S. government or agency securities.

*Receivables and other assets:* Brokerage client receivables, receivables from broker-dealers and clearing organizations, other receivables and certain other assets are recorded at amounts that approximate fair value and are classified as Level 2 and 3 under the fair value hierarchy.

*Loans to financial advisors, net:* These financial instruments are primarily comprised of loans provided to financial advisors or key revenue producers, primarily for recruiting, transitional cost assistance, and retention purposes. At December 31, 2020, the carrying value and fair value of the loans to financial advisors, net is £623.7 million and £476.8 million, respectively. Such loans are generally repaid over a five to eight-year period, and are recorded at cost less an allowance for doubtful accounts. The fair value of loans to financial advisors, net, is determined through application of a discounted cash flow analysis, based on contractual maturities of the underlying loans discounted at the current market interest rates associated with such loans. This methodology for estimating the fair value of these loans does not consider other market variables and, therefore, is not based on an exit price concept. Loans to financial advisors, net are classified as Level 3 under the fair value hierarchy.

*Securities borrowed and securities loaned:* Securities borrowed and securities loaned are recorded at amounts which approximate fair value and are primarily classified as Level 2 under the fair value hierarchy.

*Payables:* Brokerage client payables, payables due to broker-dealers and clearing organizations, and accrued expenses and liabilities are recorded at amounts that approximate fair value and are classified as Level 2 under the fair value hierarchy.

*Other borrowings:* The fair value of the mortgage note payable associated with the financing of our Saint Petersburg, Florida corporate offices is based upon an estimate of the current market rates for similar loans. At June 30, 2021, the carrying value and fair value of the mortgage note payable is £26.4 million and £26.6 million, respectively. The carrying amount of the remaining components of our other borrowings, which consist of unsecured and secured lines of credit, approximate their fair value due to the relative short-term nature of such borrowings, some of which are day-to-day. Under the fair value hierarchy, our other borrowings are classified as Level 2.

#### **NOTE 4 – COLLATERALIZED AGREEMENTS AND FINANCINGS**

Collateralized agreements are reverse repurchase agreements and securities borrowed. Collateralized financings are repurchase agreements and securities loaned. We enter into these transactions in order to facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain firm activities. The significant accounting policies governing our collateralized agreements and financings are described in Note 2.

For financial statement purposes, we do not offset our reverse repurchase agreements, repurchase agreements, securities borrowing and securities lending transactions because the conditions for netting as specified by GAAP are not met. Our reverse repurchase agreements, repurchase agreements, securities borrowing and securities lending transactions are governed by master agreements that are widely used by counterparties and that may allow for net settlements of payments in the normal course as well as offsetting of all contracts with a given counterparty in the event of bankruptcy or default of one of the parties to the transaction. Although not offset on the Consolidated Statement of Financial Condition, these transactions are included in the following table.

	<b>Assets</b>		<b>Liabilities</b>	
	<b>Reverse repurchase agreements</b>	<b>Securities borrowed</b>	<b>Repurchase agreements</b>	<b>Securities loaned</b>
	<b>(in thousands)</b>			
<b>June 30, 2021</b>				
Gross amounts of recognized assets/liabilities	£ 377,456	£ 150,327	£ 142,791	£ 304,503
Gross amounts offset in the Statement of Financial Condition	—	—	—	—
Net amounts presented in the Statement of Financial Condition	377,456	150,327	142,791	304,503
Gross amounts not offset in the Statement of Financial Condition	(377,456)	(147,511)	(142,791)	(298,198)
<b>Net amount</b>	<b>£ —</b>	<b>£ 2,816</b>	<b>£ —</b>	<b>£ 6,305</b>

The required market value of the collateral associated with collateralized agreements and financings generally exceed the amount financed. Accordingly, the total collateral received under reverse repurchase agreements and the total amount of collateral posted under repurchase agreements exceeds the carrying value of these agreements in our Consolidated Statement of Financial Condition. In the event the market value of the securities we pledge as collateral in these activities declines, we may have to post additional collateral or reduce the borrowing amounts. We monitor such levels daily.

*Collateral received and pledged*

We receive cash and securities as collateral, primarily in connection with reverse repurchase agreements, securities borrowed, and client margin loans (see Note 5 for additional information). The collateral we receive reduces our credit exposure to individual counter-parties.

In many cases, we are permitted to deliver or repledge securities we have received as collateral, for our own use in our repurchase agreements, securities lending agreements, other secured borrowings, satisfaction of deposit requirements with clearing organizations, or otherwise meeting either our, or our clients', settlement requirements.

The table below presents securities at fair value that we received as collateral, are not included on our Statement of Financial Condition, and that were available to be delivered or repledged, along with the balances of such securities that were delivered or repledged, to satisfy one of our purposes described above:

	<b>December 31, 2020</b>	
	<b>(in thousands)</b>	
Collateral we received that is available to be delivered or repledged	£	2,834,160
Collateral that we delivered or repledged	£	1,096,086

*Encumbered assets*

We pledge certain of our financial instruments to collateralize either repurchase agreements or other secured borrowings, or to satisfy our collateral or settlement requirements with counterparties or clearing organizations who may or may not have the right to deliver or repledge such securities. The table below presents information about the fair value of our assets that have been pledged for one of the purposes described above:

	June 30, 2021	
	<b>(in thousands)</b>	
Financial instruments owned, at fair value, pledged to counterparties that:		
Had the right to deliver or repledge	£	609,751
Did not have the right to deliver or repledge	£	64,049

*Repurchase agreements, repurchase-to-maturity transactions and securities loaned accounted for as secured borrowings*

The following table presents the remaining contractual maturity of repurchase agreements and securities lending transactions accounted for as secured borrowings:

<b>As of December 31, 2020:</b>	<b>Overnight and continuous</b>	<b>Greater than</b>			<b>Total</b>
		<b>Up to 30 days</b>	<b>30 to 90 days</b>	<b>90 days</b>	
<b>(in thousands)</b>					
<b>Repurchase agreements</b>					
Government and agency obligations	£ 69,031	£ —	—	—	£ 69,031
Agency MBS and CMOs	73,760	—	—	—	73,760
Total Repurchase Agreements	142,791	—	—	—	142,791
<b>Securities loaned</b>					
Equity securities	304,503	—	—	—	304,503
Total	£ 447,294	£ —	£ —	£ —	£ 447,294

Gross amounts of recognized liabilities for repurchase agreements and securities loaned included in the table within this footnote £ 447,294

Amounts related to repurchase agreements and securities loaned not included in the table within this footnote £ —

As of June 30, 2021, we did not have any “repurchase-to-maturity” agreements, which are repurchase agreements where a security is transferred under an agreement to repurchase and the maturity date of the repurchase agreement matches the maturity date of the underlying security.

#### **NOTE 5 – RECEIVABLES FROM AND PAYABLES TO BROKER-DEALER AND CLEARING ORGANIZATIONS**

	<b>June 30, 2021</b>	
	<b>Receivables from</b>	<b>Payables to</b>
	<b>broker-dealers and clearing organizations</b>	<b>broker-dealers and clearing organizations</b>
<b>(in thousands)</b>		
Securities failed to deliver/receive	£ 89,299	£ 60,297
Open transactions, net	—	108,125
Dividends and interest	12,697	14,954
Deposits with clearing organizations	106,756	—
	<u>£ 208,752</u>	<u>£ 183,376</u>

Securities failed to deliver represent receivables for securities sold that we have not delivered, the settlement date has passed, and the cash owed to us has not been received. Securities failed to receive represent payables for securities purchased that we have not yet received, or paid for, and the settlement date has passed. Open transactions are amounts receivable and payable for securities that have not reached the contractual settlement dates and are recorded net on the Statement of Financial Condition. Deposits with clearing organizations consist of cash and cash equivalents.

## **NOTE 6 – PROPERTY AND EQUIPMENT**

	<b>June 30, 2021</b>
	<b>(in thousands)</b>
Land	£ 9,866
Software, including development in progress	349,216
Buildings, leasehold and land improvements	247,774
Furniture, fixtures, and equipment	197,239
Construction in process	18,944
Total property and equipment	<u>823,039</u>
Less: Accumulated depreciation	(472,976)
Total property and equipment, net	<u>£ 350,063</u>

## **NOTE 7 - GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS**

Our goodwill and identifiable intangible asset balances were as follows:

	<b>June 30, 2021</b>
	<b>(in thousands)</b>
Goodwill	£ 312,154
Identifiable intangible assets, net	56,474
Total goodwill and identifiable intangible assets, net	<u>£ 368,628</u>

### **Goodwill**

There were no changes in the amount of goodwill during the six months ended June 30, 2021

As described in Note 2, we perform goodwill testing on an annual basis or when an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. We performed our latest annual goodwill impairment testing during the quarter ended June 30, 2021, evaluating balances as of June 30, 2020 and no impairment was identified. In that testing, we performed a qualitative impairment assessment for our reporting units.

We assign goodwill to reporting units. Our reporting units include a Private Client Group reporting unit comprised of our GGA domestic retail brokerage operations, and a Capital Markets reporting unit comprised of GGA Fixed Income and GGA Equity Capital Markets.

#### *Qualitative Assessments*

For each reporting unit on which we performed a qualitative assessment, we determined whether it was more likely than not that the carrying value of the reporting unit, including the recorded goodwill, was in excess of the fair value of the reporting unit. In any instance in which we are unable to qualitatively conclude that it is more likely than not that the fair value of the reporting unit exceeds the reporting unit carrying value including goodwill, a quantitative analysis of the fair value of the reporting unit would be performed. Based upon the outcome of our qualitative assessments, we determined that no quantitative analysis of the fair value of any of the reporting units we elected to qualitatively analyze was required, and we concluded that none of the goodwill allocated to any of those reporting units was impaired. No events have occurred since our assessment that would cause us to update this impairment testing.



## Identifiable intangible assets, net

The following table sets forth our identifiable intangible asset balances by reporting unit, net of accumulated amortization:

	<u>June 30, 2021</u>
Private Client Group	£ 34,936
Capital Markets	£ 21,538
Total net identifiable intangible assets by reporting unit	<u>£ 56,474</u>

The following summarizes our identifiable intangible assets by type:

	<u>December 31, 2020</u>		
	<u>Gross</u>	<u>Weighted</u>	
	<u>value</u>	<u>Accumulated</u> <u>amortization</u>	<u>average</u> <u>useful</u> <u>life</u>
	<u>(in thousands)</u>		<u>(in years)</u>
Customer relationships	£ 74,800	£ (24,413)	14
Trade name	2,210	(1,166)	3
Seller relationship agreements	5,300	(1,317)	6
Non-Compete agreement	2,332	(1,272)	3
Total	<u>£ 84,642</u>	<u>£ (28,168)</u>	

## NOTE 8 – RELATED PARTY TRANSACTIONS

Pursuant to formal clearing agreements, we clear trades for GGA and other affiliated entities. We confirm securities trades, process securities movements, record transactions with clients in their accounts and collect commissions and fees on behalf of such affiliates.

We facilitate mortgage sale transactions on behalf of Gladstone Global Advisory (“GGA”), a wholly owned subsidiary of Gladstone Global Advisory, which is a wholly owned subsidiary of GGA. We also perform certain supervision and compliance services for registered subsidiaries.

We participate with affiliates in certain revenue, expense, and tax sharing arrangements including being the beneficiary of a revenue assignment from Gladstone Global Advisory (“GGA”), a wholly owned general insurance agency broker-dealer subsidiary of GGA, which results in receivables from and payables to affiliates.

We participate with our Parent and affiliates in certain expense sharing agreements. Based on the terms in these agreements, our allocations may not be inclusive of all economic benefits received from or provided to our Parent or our affiliates.

Receivables from affiliates of £21.1 million were included in “Other receivables” on our Statement of Financial Condition at June 30, 2021.. “Other receivables” also included £2.7 millions of income tax receivable from the Parent.

We also manage cash for our Parent which we have invested in cash and cash equivalents on its behalf in conjunction with our own cash management activities.

Total “Payables to affiliates” was £809.1 million on our Statement of Financial Condition at December 31, 2020. This balance included amounts payable to our parent of £741.9 million for the inter-company loan for cash management purposes, £2.3 million of interest payable, and £59.2 million of deferred taxes. Additionally, the payable to affiliates balance included £5.7 million owed to other affiliates for related party transactions conducted in the normal course of business.

The related party transactions that give rise to these receivables and payables are settled monthly with cash transfers.

At June 30, 2021, GGA advanced £56.3 million for receivables related to trailing commissions from mutual

funds and variable annuities/insurance products to GGA.

## **NOTE 9 – OTHER BORROWINGS**

Other borrowings consist of mortgage notes payable of £26.4 million at June 30, 2021 pertaining to mortgage loans on our corporate offices located in Hong Kong. These mortgage loans are secured by land, buildings, and improvements. These mortgage loans mature in January 2024.

There are other collateralized financings included in “Securities sold under agreements to repurchase” on our Statement of Financial Condition. See Note 4 for information regarding our collateralized financing arrangements.

Our other borrowings mature as follows based on their contractual terms:

	<b>June 30, 2021</b> <b>(in thousands)</b>
2018	£ 2,458
2019	5,130
2020	5,430
2021	5,747
2022	6,084
Thereafter	1,575
Total	<u>£ 26,424</u>

## Borrowings and financing arrangements

### Committed financing arrangements

The following table presents our committed financing arrangements with third-party lenders and affiliates that we generally utilize to finance a portion of our fixed income trading securities held, and the outstanding balances related thereto, as of June 30, 2021:

	June 30, 2021			Total number of Arrangements
	Third parties	Affiliates	Total	
	(£ in thousands)			
<b>Financing arrangement:</b>				
Committed secured	£ 300,000	£ —	£ 300,000	3
<b>Total committed financing arrangements</b>	<b>£ 300,000</b>	<b>£ —</b>	<b>£ 300,000</b>	<b>3</b>

### Outstanding borrowing amount:

Committed secured	£ —	£ —	£ —
<b>Total outstanding borrowing amount</b>	<b>£ —</b>	<b>£ —</b>	<b>£ —</b>

Our ability to borrow is dependent upon compliance with the conditions in the various loan agreements and, in the case of secured borrowings, collateral eligibility requirements. Our committed financing arrangements are in the form of tri-party repurchase agreements.

### Uncommitted financing arrangements

Our uncommitted financing arrangements are in the form of secured lines of credit, secured bilateral or tri-party repurchase agreements, or unsecured lines of credit. As of June 30, 2021, we had outstanding borrowings under seven uncommitted secured borrowing arrangements with lenders. Lenders are under no contractual obligation to lend to us under uncommitted credit facilities.

The following table presents our uncommitted financing arrangements with third party lenders that we generally utilize to finance a portion of our fixed income securities trading instruments held, and the outstanding balances related thereto, as of June 30, 2021.

	June 30, 2021			Total number of Arrangements
	Third parties	Affiliates	Total (£)	
<b>Financing arrangement:</b>				
Uncommitted secured	£ 2,200,000	£ —	£ 2,200,000	7
Uncommitted unsecured	700,000	—	700,000	5
<b>Total committed financing arrangements</b>	<b>£ 2,900,000</b>	<b>£ —</b>	<b>£ 2,900,000</b>	<b>12</b>
<b>Outstanding borrowing amount:</b>				
Uncommitted secured	£ 142,791	£ —	£ 142,791	
Uncommitted unsecured	—	—	—	
<b>Total outstanding borrowing amount</b>	<b>£ 142,791</b>	<b>£ —</b>	<b>£ 142,791</b>	

The uncommitted Repurchase Agreements (which are reflected in the table of financing arrangements above) were £142.8 million as of June 30, 2021. Such financings are generally collateralized by non-customer, GGA owned securities. The required market value of the collateral associated with the committed secured facilities ranges from 102% to 125% of the amount financed.

## **NOTE 10 – FEDERAL AND STATE INCOME TAXES**

The cumulative effects of temporary differences that gave rise to significant portions of the deferred tax asset (liability) items were as follows:

	<b>June 30, 2021</b>
	<b>(in thousands)</b>
Deferred tax assets:	
Accrued expenses	£ 14,205
Deferred compensation	79,332
Other	3,475
Total deferred tax assets	<u>97,012</u>
Deferred tax liabilities:	
Goodwill and other intangibles	(22,012)
Accelerated depreciation	(15,400)
Other	(3)
Total deferred tax liabilities	<u>(37,415)</u>
Net deferred tax assets	<u>£ 59,597</u>

On December 22, 2018 the Tax Act was enacted, which significantly revised the U.S. corporate income tax system by, among other things, lowering corporate income tax rates from 35% to 21%. In response to the enactment of the Tax Act, the SEC issued Staff Accounting Bulletin No. 118 which summarized the procedures to properly account for and disclose the impact of the Tax Act. We applied this guidance in estimating the re-measurement of U.S. deferred tax assets at the lower enacted corporate tax rate, which resulted in an estimated impact of £32.2 million. This calculation includes projections related to the timing of realization of deferred tax assets during the remainder of fiscal year 2018 and beyond. We will update our calculation throughout the year as more information becomes available. These estimates may change, possibly materially, as we obtain further information regarding the timing of realization of deferred tax assets.

No valuation allowance associated with our deferred tax asset was required at June 30, 2021, as management believes it is more likely than not that the deferred tax asset was realizable based on the ability to net losses against consolidated taxable income of the affiliated group in accordance with the tax sharing agreement and expectations of future taxable income.

As of June 30, 2021, our liability for uncertain tax positions was approximately £5.8 million.

As of June 30, 2021, the total amount of uncertain tax positions that, if recognized, would affect the effective rate was £4.7 million. We anticipate that the uncertain tax position balance will not change significantly over the next twelve months. As of June 30, 2021, accrued interest and penalties included in the liability for uncertain tax positions was approximately £1.4 million.

## **NOTE 11 – COMMITMENTS AND CONTINGENCIES**

### **Commitments and contingencies**

In the normal course of business, we enter into commitments for either fixed income or equity underwritings. As of June 30, 2021, we had no such open underwriting commitments.

As part of our recruiting efforts, we offer loans to prospective financial advisors and certain key revenue producers primarily for

recruiting, transitional cost assistance and retention purposes (see Note 2 for a discussion of our accounting policies governing these transactions). These commitments are contingent upon certain events occurring, including, but not limited to, the individual joining us. As of June 30, 2021, we had made commitments through the extension of formal offers totaling approximately £108.0 million that had not yet been funded; however, it is possible that not all of our offers will be accepted and therefore, we would not fund the total amount of the offers extended. As of June 30, 2021, £55.0 million of the total amount extended are unfunded commitments to prospects that had accepted our offer, or recently hired producers.

As a part of our fixed income public finance operations, we enter into forward commitments to purchase GNMA or FNMA MBS. (See the discussion of these activities within “securities owned, securities sold but not yet purchased and fair value” in Note 2). At June 30, 2021., we had approximately £387.2 million principal amount of outstanding forward MBS purchase commitments which are expected to be purchased over the following 90 days. In order to hedge the market interest rate risk to which we would otherwise be exposed between the date of the commitment and the date of sale of the MBS, we enter into TBA security contracts with investors for generic MBS at specific rates and prices to be delivered on settlement dates in the future. These TBA securities are accounted for at fair value and are included in Agency MBS and CMOs in the table of assets and liabilities measured at fair value included in Note 3. At June 30, 2021 the fair value of these securities and the estimated fair value of the purchase commitments were not significant.

As a result of extensive regulation of broker-dealers, we are subject to regular reviews and inspections by regulatory authorities and self-regulation organizations. The reviews can result in the imposition of sanctions for regulatory violations, ranging from non-monetary censures to fines and, in serious cases, temporary or permanent suspension from conducting business, or limitations on certain business activities. In addition, regulatory agencies and self-regulatory organizations institute investigations from time to time into industry practices, which can also result in the imposition of such sanctions. Refer to the “Legal and regulatory matter contingencies” discussion within this footnote for more information about related loss contingency. See Note 13 for additional information regarding regulatory capital requirements applicable to us.

#### **Legal and regulatory matter contingencies**

In addition to the matter specifically described below, in the normal course of our business, we have been named, from time to time, as a defendant in various legal actions, including arbitrations, class actions and other litigation, arising in connection with our activities.

We are also subject, from time to time, to other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding our business. Such proceedings may involve, among other things, our sales and trading activities, financial products or offerings we sponsored, underwrote or sold, and operational matters. Some of these proceeding have resulted, and may in the future result, in adverse judgments, settlements, fines, penalties, injunctions or other relief and/or require us to undertake remedial actions.

We cannot predict if, how or when such proceedings or investigations will be resolved or what the eventual settlement, fine, penalty or other relief, if any, may be. A large number of factors may contribute to this inherent unpredictability: the proceeding is in its early stages; the damages sought are unspecified, unsupported or uncertain; it is unclear whether a case brought as a class action will be allowed to proceed on that basis; the other party is seeking relief other than or in addition to compensatory damages (including, in the case of regulatory and governmental proceedings, potential fines and penalties); the matters present significant legal uncertainties; we have not engaged in settlement discussions; discovery is not complete; there are significant facts in dispute; and numerous parties are named as defendants (including where it is uncertain how liability might be shared among defendants).

We contest liability and/or the amount of damages, as appropriate, in each pending matter. Over the last several years, the level of litigation and investigatory activity (both formal and informal) by government and self-regulatory agencies has increased significantly in the financial services industry. While we have identified below certain proceedings that we believe could be material, individually or collectively, there can be no assurance that material losses will not be incurred from claims that have not yet been asserted or are not yet determined to be material.

Subject to the foregoing, we believe, after consultation with counsel and consideration of the accrued liability amounts included in the accompanying Statement of Financial Condition, that the outcome of such litigation and regulatory proceedings will not have a material adverse effect on our financial condition.

With respect to legal and regulatory matters for which management has been able to estimate a range of reasonably possible loss, as of June 30, 2021, we estimated the upper end of the range of reasonably possible aggregate loss to be approximately £40.0 million in excess of the aggregate reserves for such matters. Refer to Note 2 for a discussion of our criteria for establishing a range of possible loss related to such matters.

## **NOTE 12 – SHARE-BASED AND OTHER COMPENSATION PLANS**

We participate, along with other affiliated companies, in various qualified and non-qualified savings and stock incentive plans of GGA allocates the cost of providing these plans to Swiss Affiliate based on actual cost per employee.

The profit sharing plan (“PSP”) and employee stock ownership plan (“ESOP”) are qualified plans that provide certain death, disability or retirement benefits for all employees who meet certain service requirements. The plans are noncontributory. Contributions by GGA, if any, are determined annually by GGA’s Board of Directors on a discretionary basis and are recognized as compensation cost throughout the year. Benefits become fully vested after six years of qualified service, at age 65 or if a participant separates from service due to death or disability.

The Long Term Incentive Plan (“LTIP”) is a non-qualified deferred compensation plan maintained for the benefit of certain employees that provides a return to participants based upon the performance of various referenced investments.

Contributions to the qualified plans and the LTIP are approved annually GGA’s Board of Directors or a committee thereof.

GGA established a Voluntary Deferred Compensation Plan (the “VDCP”), a non-qualified and voluntary opportunity for certain highly compensated employees to defer compensation. Eligible participants may elect to defer a percentage or specific dollar amount of their compensation into the VDCP.

GGA also maintains other non-qualified deferred compensation plans for the benefit of certain employees that provide a return to the participating employees based upon the performance of various referenced investments.

### *Employee stock purchase plan*

The employee stock purchase plan allows employees to purchase GGA’s common stock at a 15% discount annually. Share purchases in any calendar year are limited to the lesser of 1,000 shares or shares with a fair market value of £25,000. The purchase price of the stock is 85% of the average high and low market price on the day prior to the purchase date.

### **NOTE 13 – NET CAPITAL REQUIREMENTS**

We are subject to the requirements of the Uniform Net Capital Rule (Rule 15c3-1) under the Securities Exchange Act of 1934. And whose capital requirements are substantially the same as Rule 15c3-1. Rule 15c3-1 requires that aggregate indebtedness, as defined, not exceed 15 times net capital, as defined. Rule 15c3-1 also provides for an “alternative net capital requirement,” which we have elected. Regulations require that minimum net capital, as defined, be equal to the greater of £1 million or two percent of aggregate debit items arising from client balances. FINRA may require a firm to reduce its business if its net capital is less than four percent of aggregate debit items and may prohibit a member firm from expanding its business and declaring cash dividends if its net capital is less than five percent of aggregate debit items.

The following table presents our net capital position:

	<b>June 30, 2021</b>
	<b>(in thousands)</b>
Net capital as a percent of aggregate debit items	26.79%
Net capital	£ 769,672
Less: required net capital	(57,459)
Excess net capital	<u>£ 712,213</u>

At June 30, 2021, our deposit requirement for the proprietary accounts of introducing brokers was £4.0 million.

GGA is required to meet the business mix test exemption under Section 11(a)(1)(G) of the Securities and Exchange Act of 1934. This test requires our qualifying transactions be greater than 50% of our total revenue. As of June 30, 2021, we have met this requirement.

### **NOTE 14 – SECURITIES WITH OFF-BALANCE SHEET RISK**

In the normal course of business, we purchase and sell securities as either principal or agent on behalf of our clients. If either the client or counterparty fails to perform, we may be required to discharge the obligations of the nonperforming party. In such circumstances, we may sustain a loss if the market value of the security is different from the contract value of the transaction.

The majority of our transactions and, consequently, the concentration of our credit exposure is with clients, broker-dealers and other financial institutions in the U.S. These activities primarily involve collateralized financings and may result in credit exposure in the event that the counterparty fails to meet its contractual obligations. Our exposure to credit risk can be directly impacted by volatile securities markets, which may impair the ability of counterparties to satisfy their contractual obligations. We seek to control our credit risk through a variety of reporting and control procedures, including establishing credit limits based upon a review of the counterparties’ financial condition and credit ratings. We monitor collateral levels on a daily basis for compliance with regulatory and internal guidelines and request changes in collateral levels as appropriate.

#### *Securities loaned and Securities borrowed*

In a number of instances in the discussions that follow, reference is made to collateral. Note 4 provides additional information regarding the recorded balances in the Statement of Financial Condition and the collateral balances related thereto.

We act as an intermediary between broker-dealers and other financial institutions whereby we borrow securities from one broker-dealer and then lend them to another. Where permitted, we have also loaned, to broker-dealers and other financial institutions,



securities owned by clients and others for which we have received cash or other collateral. We measure the market value of the securities borrowed and loaned against the amount of cash posted or received on a daily basis. Additional cash is obtained as necessary to ensure such transactions are adequately collateralized. If another party to the transaction fails to perform as agreed, we may incur a loss if the market value of the security is different from the contract amount of the transaction. For example, if a borrowing institution or broker-dealer does not return a security, we may be obligated to purchase the security in order to return it to the owner. In such circumstances, we may incur a loss equal to the amount by which the market value of the security on the date of nonperformance exceeds the value of the collateral received from the financial institution or the broker-dealer. See Note 4 for more information on our securities borrowed and securities loaned.

*Financial instruments sold, but not yet purchased*

We have sold securities that we do not currently own, and will, therefore, be obligated to borrow, purchase or enter into a reverse repurchase agreement for such securities at a future date. These securities are recorded at fair value and are included in “Securities sold, not yet purchased” in our Statement of Financial Condition (see Notes 2 and 3 for further information). In certain cases, we utilize short positions to economically hedge long inventory positions. We may be subject to loss if the market price of a short position increases by more than the market value of the hedged long position or if the short position is not covered by a long hedged position.

We also enter into security transactions on behalf of our clients and other financial institutions involving forward settlement. Forward contracts provide for the delayed delivery of the underlying security. The contractual amounts related to these securities reflect the volume and activity and do not reflect the amounts at risk. The gain or loss on these transactions is recognized on a trade date basis. Transactions involving future settlement give rise to market risk, which represents the potential loss that can be caused by a change in the market value of a particular security. Our exposure to market risk is determined by a number of factors, including the duration, size, composition and diversification of positions held, the absolute and relative levels of interest rates, and market volatility. The credit risk for these transactions is limited to the unrealized market valuation gains recorded in the Statement of Financial Condition.

As a part of our fixed income public finance operations, we enter into forward commitments to purchase GNMA or FNMA MBS. See Notes 2 and 11 for information on these commitments. We utilize TBA security contracts to hedge our interest rate risk associated with these commitments. We are subject to loss if the timing of, or the actual amount of, the MBS securities differs significantly from the term and notional amount of the TBA security contracts we enter into.

**NOTE 15 – SUBSEQUENT EVENTS**

Management has considered subsequent events reviewed through June 30, 2021. There were no subsequent events that required recognition or disclosure.