

**GUGGENHEIM SECURITIES, LLC AND SUBSIDIARY**  
(An indirect wholly owned subsidiary of Guggenheim Capital, LLC)

Consolidated Statement of Financial Condition

December 31, 2016

(With Report of Independent Registered Public Accounting Firm Thereon)



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

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

The Member of  
Guggenheim Securities, LLC:

We have audited the accompanying consolidated statement of financial condition of Guggenheim Securities, LLC and subsidiary (the Company) as of December 31, 2016 (the financial statement). The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statement referred to above presents fairly, in all material respects, the financial position of Guggenheim Securities, LLC and subsidiary as of December 31, 2016, in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

New York, New York  
February 28, 2017

**GUGGENHEIM SECURITIES, LLC  
AND SUBSIDIARIES**  
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(Amounts in thousands)

<b>Assets</b>	
Cash	\$ 21,160
Due from clearing organizations	185,571
Securities purchased under agreements to resell	13,241,822
Securities borrowed	2,379,212
Securities owned, at fair value (\$953,153 pledged as collateral)	994,862
Accounts receivable	32,313
Accrued interest receivable	23,406
Notes receivable from employees	6,500
Due from affiliates	780
Fixed assets, net of accumulated depreciation and amortization of \$10,576	6,215
Goodwill	21,290
Other assets	9,126
	<hr/>
Total assets	\$ 16,922,257
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<b>Liabilities and Equity</b>	
Securities sold under agreements to repurchase	\$ 16,306,313
Securities sold, not yet purchased, at fair value	77,551
Due to clearing organizations	88,448
Note payable	12,000
Due to affiliates	3,672
Accrued expenses and other liabilities	190,800
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Total liabilities	16,678,784
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Total member's equity	243,473
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Total liabilities and member's equity	\$ 16,922,257
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See accompanying notes to consolidated financial statements.

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**(1) Organization and Nature of Business**

Guggenheim Securities, LLC (Company) is a broker-dealer registered with the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), and the Securities Investor Protection Corporation (SIPC). The Company is a wholly owned subsidiary of Links Holdings, LLC (Parent) whose ultimate parent is Guggenheim Capital, LLC (Guggenheim). The consolidated statement of financial condition includes the account of Guggenheim Trust Assets, LLC, which is a wholly owned subsidiary of the Company.

The Company withdrew its \$5 million investment in Slate Rock Facility Series 2015-1 (Slate Rock) on July 15, 2016. The Series was terminated on July 19, 2016. Slate Rock was a wholly owned subsidiary of the Company, which was established on October 9, 2015, and was a credit facility through Macquarie Bank Limited.

The Company engages in investment banking and advisory services for merger-and-acquisition, financial restructuring, and underwriting transactions; principal and agency sales and trading of fixed-income securities, exchange-traded futures, and structured products; matched book activities using repurchase and reverse repurchase agreements collateralized by fixed-income securities; equity research; interest rate swaps; agency and principal trading of equity securities.

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

**(a) Basis of Presentation**

The accompanying consolidated statement of financial condition of the Company has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The consolidated statement of financial condition includes the accounts of the Company and all other entities in which the firm has a controlling financial interest. All material intercompany accounts and transactions have been eliminated in consolidation.

**(b) Use of Estimates**

The preparation of the consolidated statement of financial condition in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated statement of financial condition.

**(c) Cash**

The Company maintains cash at federally insured banking institutions. Cash on deposit with financial institutions may, at times, exceed federal insurance limits.

**(d) Securities Owned, Including Those Pledged, and Securities Sold, but Not Yet Purchased**

Securities transactions are recorded on the consolidated statement of financial condition on trade-date, as if they had settled. Securities are recorded at fair value in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurements*. Fair value is generally based on quoted market prices or dealer observable quotations. In certain

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markets where observable prices are not available for all products, fair value is determined using techniques appropriate for each particular product.

Securities sold, but not yet purchased, represent obligations of the Company to deliver specified securities, thereby creating a liability to purchase those securities at current market prices. These transactions may result in additional risk if the market price of the securities changes subsequent to December 31, 2016. The Company seeks to limit this risk by holding offsetting positions or other financial instruments.

**(e) *Securities Sold under Agreements to Repurchase (Repurchase Agreements) and Securities Purchased under Agreements to Resell (Reverse Repurchase Agreements)***

Repurchase agreements and reverse repurchase agreements are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase value as specified in the respective agreements.

The Company executes a large portion of its repurchase and reverse repurchase agreements with members of Fixed Income Clearing Corporation (FICC). FICC minimizes the risks to its members by guaranteeing the settlement of each transaction. FICC interposes itself between the Company and other members and becomes the legal counterparty for settlement purposes. On a daily basis, FICC calculates the fair value of each participant's position and compares it to the contract amount. Any difference is collected from, or paid to, each counterparty by FICC, as applicable.

It is the policy of the Company to obtain possession of collateral with a fair value equal to or in excess of the principal amount loaned under resale transactions. The Company monitors the fair value of securities purchased and sold on a daily basis, with additional collateral obtained or refunded as necessary.

Reverse repurchase agreements and repurchase agreements are presented on a net-by-counterparty basis when the requirements of ASC 210-20-45, *Balance Sheet*, are satisfied.

**(f) *Securities Borrowed***

Securities borrowed are generally reported as collateralized financings except where letters of credit or other securities are used as collateral. Securities borrowed require the Company to deposit cash, letters of credit, or other collateral with the lender. The Company monitors the fair value of securities borrowed on a daily basis, with additional collateral obtained as necessary. Securities borrowed are recorded at the amount of cash collateral advanced adjusted for additional collateral obtained. Interest on such transactions is accrued and is included in receivable from clearing organizations.

**(g) *Fixed Assets***

Fixed assets consist of computers and software, leasehold improvements, office equipment and furniture, and capitalized project costs, which are reported at historical cost less accumulated depreciation and amortization. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets ranging from three to five years. Leasehold improvements are

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amortized using the straight-line method over the shorter of the useful life of the improvement or the remaining lease term.

Capitalized project costs are accounted for under ASC Topic 350-40, *Intangibles-Goodwill-Other-Internal-Use Software*, and consist of costs related to internally developed software for the Company's internal use.

**(h) Goodwill**

Goodwill, which was recognized as a result of the acquisition of the Parent and its subsidiaries, including the Company, by Guggenheim in 2001, has been recorded in accordance with the provisions of ASC 350, *Intangibles – Goodwill and Other*. Goodwill is subject to review annually for impairment. During the year, Guggenheim completed the annual impairment test, which did not indicate any goodwill impairment for the Company and, therefore, did not have an effect on the Company's financial condition.

**(i) Income Taxes**

The Company is organized as a Delaware single member limited liability company and treated as a disregarded entity for U.S. income tax purposes and has no federal tax liability. State tax liabilities are determined under individual state laws. The Company's income is included in the federal and state income tax returns of the Parent.

ASC 740-10, *Income Taxes – Overall*, requires the evaluation of 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 not deemed to meet the more-likely than-not threshold should not be recognized in the year of determination. Management has reviewed the Company's tax positions for all open years and concluded that the Company has no material uncertain tax positions at December 31, 2016. Further, as of December 31, 2016, the Company has recorded no liability for net unrecognized tax benefits relating to uncertain tax positions it has taken or expect to take in future tax returns. The Company has not recorded any penalties and/or interest related to uncertain tax positions.

As the Company is organized as a single member limited liability company, disregarded for U.S. income tax purposes, and its taxable income is reported by the Parent, there is no tax expense/benefit recorded by the Company. If the Company had been a taxable entity, income tax expense for the year ended December 31, 2016 would have been calculated at the federal statutory tax rate of 35%.

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**(j) Accounting Developments**

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (“ASU 2014-09”), an update to Topic 606 – Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU outlines key steps that an entity should follow to achieve the core principal. During 2015, the FASB issued ASU 2015-14, “Revenue from Contracts w/ Customers (Topic 606): Deferral of Effective Date”. This ASU deferred the effective date of update 2014-09 for public companies to fiscal years beginning after December 15, 2017 (a one year deferral). The Company is currently evaluating the impact of the adoption of ASU 2014-09 on the Company’s consolidated statement of financial condition.

In June 2014, the FASB issued ASU 2014-12, “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period” (“ASU 2014-12”), an update to Topic 718 – Compensation – Stock Compensation. The amendments require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 is effective for interim and annual periods beginning after December 15, 2015 with early adoption permitted. The Company adopted ASU 2014-12 effective January 1, 2016. The adoption did not have a significant impact on the Company’s consolidated statement of financial condition.

**(3) Fair Value**

**(a) Fair Value Hierarchy**

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., not a forced liquidation or distressed sale). A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

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

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities

Level 2 – Quoted prices for instruments that are identical or similar in markets that are not active and model-derived valuations for which all significant inputs are observable, either directly or indirectly in active markets

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Level 3 – Prices or valuations that require inputs that are both significant to the fair value measurement and are unobservable

The availability of observable inputs can vary from security to security and is affected by a wide variety of factors, including, for example, the type of security, the liquidity of markets, and other characteristics particular to the security. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

The inputs used to measure fair value may fall into different levels of the fair value hierarchy. As required by FASB ASC 820, the fair values of assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.



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**(b) Fair Value Measurements**

The following is a summary of the financial assets and liabilities that are accounted for on a recurring basis by level within the fair value hierarchy as of December 31, 2016:

Assets	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	(In thousands)			
Securities owned:				
U.S. government and agency	\$ 948,187	—	—	948,187
Collateralized debt obligations	—	18,798	38	18,836
Corporate debt	—	15,284	—	15,284
Mortgage-backed securities	—	9,132	773	9,905
Other asset-backed securities	—	1,892	439	2,331
Equities	—	311	—	311
Derivatives	8	—	—	8
Total	<u>\$ 948,195</u>	<u>45,417</u>	<u>1,250</u>	<u>994,862</u>
<b>Liabilities</b>				
Securities sold, not yet purchased:				
U.S. government and agency	\$ 70,997	—	—	70,997
Corporate debt	—	6,466	—	6,466
Derivatives	87	—	—	87
Equities	—	1	—	1
Total	<u>\$ 71,084</u>	<u>6,467</u>	<u>—</u>	<u>77,551</u>

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

**U.S. Government and Agency Securities**

U.S. government and agency securities are measured based on quoted market prices and categorized within Level 1 of the fair value hierarchy. Noncallable agency-issued debt securities are generally

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valued using quoted market prices. Callable agency-issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. Actively traded noncallable agency-issued debt securities are generally categorized in Level 1 of the fair value hierarchy. Callable agency-issued debt securities are generally categorized in Level 2 of the fair value hierarchy.

**Corporate Debt Securities**

Corporate bonds are measured primarily using pricing data from prices observed for recently executed market transactions of comparable size, and bond spreads or credit default swap spreads of the issuer adjusted for basis differences between the swap curve and the bond curve. Corporate bonds measured using these valuation methods are categorized within Level 2 of the fair value hierarchy. If pricing data or spread data is not available, alternative valuation techniques are used including cash flow models incorporating interest rate curves, single name, or index credit default swap curves for comparable issuers, and recovery rate assumptions. Corporate bonds measured using alternative valuation techniques are categorized within Level 3 of the fair value hierarchy.

High-yield corporate and convertible bonds are categorized within Level 2 of the fair value hierarchy and are measured primarily using prices observed for recently executed market transactions of comparable size. Where pricing data is less observable, valuations are categorized within Level 3 and are based on pending transactions involving the issuer or comparable issuers, prices implied from an issuer's subsequent financings or recapitalizations, models incorporating financial ratios, and projected cash flows of the issuer and market prices for comparable issuers.

**Collateralized Debt Obligations**

Collateralized debt obligations measured based on prices observed for recently executed market transactions are categorized within Level 2 of the fair value hierarchy. If external prices or spread data is not available and alternate valuation techniques using cash flow models incorporating assumptions for constant prepayment rates, constant default rates, and severity for comparable securities are utilized, then these securities are categorized as Level 3 of the fair value hierarchy.

**Mortgage-Backed Securities**

Mortgage-backed securities are valued based on price or spread data obtained from observed transactions. When position-specific external price data are not observable, the fair value determination may require benchmarking to similar instruments and/or analyzing expected credit losses, default, and recovery rates. In evaluating the fair value of each security, the Company considers security collateral-specific attributes including payment priority, credit enhancement levels, type of collateral, delinquency rates, and loss severity. Market standard models, such as Intex, Trepp, or others, may be deployed to model the specific collateral composition and cash flow structure of each transaction. Key inputs to these models are market spreads, forecasted credit losses, default, and prepayment rates for each asset category. Valuation levels of indexes are also used as an additional data point for benchmarking purposes or to price outright index positions.

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Mortgage-backed securities are generally categorized in Level 2 of the fair value hierarchy. If external prices or significant spread inputs are unobservable or if the comparability assessment involves significant subjectivity related to property type differences, cash flows, performance, and other inputs, then the securities are categorized in Level 3 of the fair value hierarchy.

**Other Asset-Backed Securities**

Other asset-backed securities are bonds or notes backed by financial assets. Typically these assets consist of, but are not limited to securities backed by auto-loans, credit card receivables, aircraft loans, and student loans, and are categorized within Level 2 or Level 3 of the fair value hierarchy. Valuations are determined by similar securities that are recently traded in the market and/or valuation models.

**Equities**

Exchange-traded equity securities are generally valued based on quoted prices from the exchange. To the extent these securities are actively traded, valuation adjustments are not applied, and they are categorized as Level 1 of the fair value hierarchy; otherwise, they are categorized within Level 2 of the fair value hierarchy.

Nonexchange-traded equity securities are measured primarily using valuation prices observed for subsequent financing or capital issuances by the company and are categorized within Level 3 of the fair value hierarchy.

**Derivatives**

Derivatives include listed options contracts that are actively traded and are valued based on quoted prices from the exchange categorized. The Company also entered into a CDX Index Swap whose value is based upon a CDX Index. They are all categorized as Level 1 of the fair value hierarchy.

**Level 3 Securities**

The availability of observable inputs can vary and is affected by a wide variety of factors, including, for example, the type of financial instrument and market conditions. As the observability of prices and inputs may change for a financial instrument from period to period, this condition may cause a transfer of an instrument among the fair value hierarchy levels. Transfers among the levels are recognized at the beginning of each period. The degree of judgment exercised in determining fair value is the greatest for instruments categorized in Level 3.

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The following is a reconciliation of the beginning and ending balances for assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended December 31, 2016:

	<b>Balance at January 1, 2016</b>	<b>Realized Gains/(losses)</b>	<b>Unrealized Gains (losses)</b>	<b>Purchases (sales), net</b>	<b>Transfers in/(out), net</b>	<b>Balance at December 31, 2016</b>
	(In thousands)					
Securities owned:						
Collateralized debt obligations	\$ 891	(616)	435	(672)	—	38
Mortgage-backed securities	864	(39)	(88)	96	(60)	773
Other asset-backed securities	<u>4,317</u>	<u>778</u>	<u>228</u>	<u>(4,884)</u>	<u>—</u>	<u>439</u>
Total	<u>\$ 6,072</u>	<u>123</u>	<u>575</u>	<u>(5,460)</u>	<u>(60)</u>	<u>1,250</u>

During fiscal year 2016, there was a net decrease of \$4.8 million in Level 3 securities. This was primarily due to net sales of collateralized debt obligations and other asset-backed securities during the year offset by unrealized gains on securities held at December 31, 2016.

During the fiscal year 2016, there were \$0.1 million in transfers from level 3 to level 2. Such transfers out of Level 3 represent securities for which relative pricing data had not been available at December 31, 2015, but became available during fiscal year 2016 because of recent trading activity.

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	Change in unrealized appreciation (depreciation) in 2016 for assets held at <u>December 31, 2016</u> (in thousands)
Securities owned:	
Collateralized debt obligations	\$ 435
Mortgage-backed securities	(88)
Other asset-backed securities	<u>228</u>
Total	<u>\$ 575</u>

***Quantitative Information about Significant Unobservable Inputs Used in Recurring Level 3 Fair Value Measurements***

The table below presents information on the valuation techniques, significant unobservable inputs and their ranges for financial assets subject to threshold levels related to the market value of the positions held, measured at fair value on a recurring basis with a significant Level 3 balance. The range of unobservable inputs could differ significantly across different firms given the range of products across different firms in the financial services sector. The inputs are not representative of the inputs that could have been used in the valuation of any one financial instrument; that is, the input used for valuing one financial instrument within a particular class of financial instruments may not be appropriate for valuing other financial instruments within that given class. Additionally, the ranges of inputs presented

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below should not be construed to represent uncertainty regarding the fair values of the Company's financial instruments.

<b>Financial instruments owned</b>	<b>Market value</b>	<b>Valuation technique</b>	<b>Significant unobservable input(s)</b>	<b>Range</b>
Collateralized debt obligations	\$ 38	Discounted cash flows	Constant prepayment rate Constant default rate Loss severity	0% to 25% 0% to 5% 30% to 50%
Mortgage-backed securities	773	Discounted cash flows	Constant prepayment rate Constant default rate Loss severity	0% to 18% 0% to 12% 30% to 110%
Other asset-backed securities	439	Discounted cash flows	Constant prepayment rate Constant default rate Loss severity	0% to 25% 0% to 12% 30% to 110%
			Futue lease rates	\$ 1,000 to 400,000 per month
			Residual Values	\$ 0 to 30,250,000

***Sensitivity of Fair Value Changes in Significant Unobservable Inputs***

For recurring fair value measurements within Level 3 of the fair value hierarchy, the sensitivity of the fair value measurement to changes in significant unobservable inputs and interrelationships between those unobservable inputs (if any) are described below:

- Collateralized debt obligations, mortgage-backed securities, and other asset backed securities using discounted cash flow valuation technique. A significant increase (decrease) in isolation in the constant default rate or loss severities would result in significantly lower (higher) fair value measurement. The impact of changes in the constant prepayment rate would have differing impacts depending on the capital structure of the security.

The fair values of other financial assets and liabilities carried at cost (consisting primarily of due to and due from clearing organizations, accounts receivable, securities borrowed and reverse repurchase and repurchase agreements) are considered to approximate fair value because they have limited counterparty credit risk and are short-term, replicable on demand, or bear interest at market rates.

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**(4) Due to and Due from Clearing Organizations**

The balance due to and due from clearing organizations represents the net amount due to or from the clearing organizations for settled and unsettled transactions and related activity. As of December 31, 2016, balances due to and from clearing organizations consist of the following:

	<u>Due from</u>	<u>Due to</u>
	(In thousands)	
Receivable from clearing organizations	\$ 185,571	—
Payable to clearing organizations	—	87,406
Securities failed-to-deliver/receive	—	1,042
	<u>\$ 185,571</u>	<u>88,448</u>

The Company clears certain of its principal and customer transactions through another broker-dealer, Pershing, LLC (Pershing) on a fully disclosed basis. The amount receivable relates primarily to the aforementioned transactions.

**(5) Collateral**

The Company's agreements with its clearing organizations permit the clearing organizations to use the Company's securities as collateral for Company-related borrowings and as collateral for securities sold but not yet purchased and related activity. The Company also pledges securities to collateralize repurchase transactions where the counterparty has the right by contract or custom to sell or repledge the securities. Pledged securities that can be sold or repledged by counterparties equal approximately \$953 million and are identified in the consolidated statement of financial condition.

Reverse repurchase agreements and repurchase agreements are presented on a net-by-counterparty basis when the requirements of ASC 210-20-45, are satisfied. The following table presents the gross and net resale and repurchase agreements and the related offsetting amount permitted under ASC 210-20-45. The Company does not have resale and repurchase agreements that are not permitted to be offset under

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ASC 210-20-14 but would be eligible for offsetting to the extent an event of default occurred and a legal opinion supporting enforceability of the offsetting rights has been obtained.

	<b>Gross amounts of recognized assets/ liabilities</b>	<b>Gross amounts offset on the consolidated statement of financial condition</b>	<b>Net amounts of assets/ liabilities included on the consolidated statement of financial condition</b>
		(In thousands)	
Securities purchased under agreements to resell	\$ 23,234,054	(9,992,232)	13,241,822
Securities borrowed	2,379,212	—	2,379,212
Securities sold under agreements to repurchase	26,298,545	(9,992,232)	16,306,313

In accordance with FASB ASC 860-30-50-7, the following tables present, as of December 31, 2016, the gross liability for securities sold under repurchase agreements disaggregated by classes of collateral pledged and by remaining contractual maturity of the agreements.

	<b>Securities Sold Under Resale Agreements</b>
	(In thousands)
U.S. government and agency	\$ 24,636,286
Mortgage-backed securities	1,635,742
Other asset-backed securities	24,632
Corporate Debt	1,885
Total	<u>\$ 26,298,545</u>



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	<u>Overnight and Open</u>	<u>Up to 30 days</u>	<u>30-90 days</u>	<u>Greater than 90 days</u>	<u>Total</u>
	(In thousands)				
Securities sold under resale agreements	\$ 13,338,532	10,935,131	1,762,882	262,000	26,298,545

Note that the collateral pledged as part of repurchase agreements is subject to changes in market price and thus may decline in value during the time of the agreement. In that 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.

**(6) Related-Party Transactions**

On April 30, 2014, the Company entered into a Services Agreement with an affiliate whereby the Company is paid a fee for services provided in connection with the affiliate's leveraged loan business. At December 31, 2016, approximately \$0.1 million is included in due from affiliates in the consolidated statement of financial condition.

Affiliates may pay certain expenses on behalf of the Company throughout the year. The Company records an expense and an associated payable and remits cash payment to the affiliates on a monthly basis. At December 31, 2016, approximately \$3.6 million is included in due to affiliates in the consolidated statement of financial condition. The Company may also pay expenses on behalf of affiliates throughout the year. The Company records a receivable and collects cash payment from the affiliates on a monthly basis. At December 31, 2016, approximately \$0.1 million is included in due from affiliates in the consolidated statement of financial condition.

The Company has a Service Agreement with the Parent and certain subsidiaries of Guggenheim under which the following services are provided: premises; technology services, including hardware, software, and telecommunications; corporate finance, including accounting, tax, and planning; human resources and benefits administration; executive management; general administration; legal; and marketing.

The Company provided customer introduction services and transaction advisory services to various affiliates. At December 31, 2016, \$0.5 million is included in due from affiliates in the consolidated statement of financial condition.

The Company facilitates commission based fixed-income and equity trading along with providing access to underwriting transactions to various affiliates and clients of affiliates in the ordinary course of business.

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As of December 31, 2016, the Company has provided loans directly to employees (none of which are executive officers or directors) totaling \$6.5 million. The loan maturity dates range from March 2017 to July 2021 and pay interest ranging from 6-8%. At December 31, 2016, \$6.5 million is included in notes receivable from employees in the consolidated statement of financial condition.

As of December 31, 2016, Guggenheim has provided loans directly to employees of the Company (none of which are executive officers or directors) totaling \$35,000.

**(7) Off-Balance-Sheet Risk and Concentrations of Credit Risk**

***Off-Balance-Sheet Risk***

Customer securities transactions are cleared through Pershing, on a fully disclosed basis. These activities may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contractual obligations. As a result, the Company's exposure to credit risk can be directly impacted by volatile trading markets, which may impair the customers' ability to satisfy their obligations.

The agreement between the Company and Pershing provides that the Company is obligated to assume any exposure related to nonperformance by its customers. The Company seeks to mitigate the risk associated with nonperformance by monitoring all customer activity and reviewing information it receives from Pershing on a daily basis. In addition, the Company has a policy of reviewing, as considered necessary, the credit standing of customers and counterparties with which it conducts business.

The Company engages in short-term principal trading activities, including entering into securities sold, not yet purchased positions, in order to manage exposure to market risk. The Company has recorded these obligations in the consolidated statement of financial condition at December 31, 2016 at the fair values of the related securities.

As part of the Company's financing and hedging activities, the Company enters into forward repurchase agreements, futures, and options transactions. In connection with these transactions, there are potential market or credit risks to the Company. Credit risk relates to the potential for failure by counterparties to perform according to terms of the contracts. The Company is subject to market risk arising from unfavorable changes in the market price of the underlying financial instrument.

As part of the Company's fixed-income business, the Company enters into foreign exchange transactions to facilitate the settlement of trades in local currencies. As these foreign currency transactions are typically converted to U.S. dollars to match the settlement of the underlying transactions, the Company expects the risk of loss due to foreign currency exposure to be minimal.

Additionally, the Company enters into contracts that contain a variety of customary representations and warranties, which provide customary general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. The Company expects the risk of loss to be remote.

The Company enters into futures, and when-issued securities, which provide for the delayed delivery of the underlying instrument. The Company's futures transactions are executed on an exchange, and cash settlement is made on a daily basis for market movements. Accordingly, these futures transactions generally

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do not have credit risk. The credit risk for when-issued securities is limited to the unrealized fair valuation gains recorded in the consolidated statement of financial condition. Market risk is substantially dependent upon the value of the underlying financial instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

Open equity in futures transactions are recorded as receivable from or payable to clearing organizations, as applicable. The gross notional amounts of futures contracts as of December 31, 2016 are \$11 million (asset) and \$670 million (liability) with a weighted average maturity of approximately 2 months. The average monthly trading volume of futures is approximately 2,824 contracts.

The gross notional amounts of option contracts as of December 31, 2016 are \$343 million (asset) and \$0 million (liability) with a weighted average maturity of approximately 2 months. The average monthly trading volume of options is approximately 933 contracts.

The gross notional amounts of CDX contracts as of Dec 31, 2016 are \$10 million (asset) and \$0 million (liability) with a weighted average maturity of approximately 60 months.

***Concentrations of Credit Risk***

The Company is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counterparty. It is also the policy of the Company to obtain possession of collateral with market value equal or in excess of the principal account loaned under resale agreements.

**(8) Fixed Assets**

At December 31, 2016, fixed assets consisted of the following (in thousands):

Computers and software	\$ 13,681
Leasehold improvements	1,508
Office equipment and furniture	973
Capitalized project costs	627
Other	<u>2</u>
	16,791
Less accumulated depreciation and amortization	<u>(10,576)</u>
Net book value	<u><u>\$ 6,215</u></u>

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**(9) Note Payable**

On September 15, 2014, the Company entered into a loan agreement with Northeast Bank in the amount of \$12.0 million. The loan bears interest at a rate of LIBOR plus 0.53% with a daily extending 1 year maturity date.

**(10) Regulatory Requirements**

As a registered broker-dealer, the Company is subject to the SEC Uniform Net Capital Rule 15c3-1 (Rule 15c3-1), which requires the maintenance of minimum net capital and an additional minimum net capital requirement for reverse repurchase overcollateralization. At December 31, 2016, the Company had net capital of \$128.4 million, which was \$127.7 million in excess of its required net capital of \$673,000.

The Company currently does not carry any customer accounts and various customer transactions are cleared through other broker-dealers on a fully disclosed basis. The only transactions that are self-clearing are the repurchase and reverse repurchase agreement transactions and most U.S. government and agency transactions. The U.S. government and agency business may trigger a reserve formula requirement only in the case of a failed transaction.

The Company has a signed proprietary accounts of introducing brokers (PAIB) agreement with Pershing to enable it to include certain assets as allowable assets in its net capital computation.

**(11) Employee Benefit Plans**

All participating employees are eligible to participate in the Guggenheim 401(k) plan (the Plan). For the year ended December 31, 2016, the Company made discretionary matching contributions of \$2.7 million for its pro-rata share of the Plan. At December 31, 2016, such contributions are included in accrued expenses and other liabilities on the consolidated statement of financial condition.

**(12) Consolidated Subsidiaries**

The following is a summary of certain financial information of the Company's consolidated subsidiaries as of December 31, 2016:

**Guggenheim  
Trust Assets,  
LLC**

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Total assets	\$	—
Member's equity		—

The member's equity of these subsidiaries is excluded from the Company's computation of net capital per Rule 15c3-1.

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**(13) Commitments and Contingencies**

The Company has obligations under operating leases for premises with noncancelable terms in excess of one year, which expire at various dates through 2028 and have various renewal options and escalation clauses. For the year ended December 31, 2016, \$0.4 million of accrued rent was included in accrued expenses and other liabilities on the consolidated statement of financial condition.

The Company is involved in various pending and threatened legal proceedings arising out of the normal course of business. In the opinion of management, the ultimate resolution of such litigation will not have a material adverse effect on the operation of the Company or its consolidated financial position.

In the normal course of business, the Company enters into underwriting commitments. There were no underwriting transaction commitments open at December 31, 2016.

**(14) Unit-Based Compensation**

Certain employees of the Company are awarded phantom units by Guggenheim as part of its plan to retain key employees. Guggenheim grants the awards under the Guggenheim Capital Phantom Unit Plan (the Plan). Participants are credited with “phantom units” that track the value of common units of Guggenheim. Participants receive dividend distributions and liquidating distributions in cash, on a pari passu basis with Guggenheim’s common units. Phantom awards issued as part of the Company’s annual incentive compensation are classified as equity awards granted by Guggenheim to Company personnel. The ultimate settlement of “phantom units” through conversion to Guggenheim common units or cash distributions is Guggenheim’s obligation.

The Company recognizes Phantom Plan awards in accordance with ASC Topic 718. Under ASC 718, these awards were issued at the grant date fair value. Non-cash capital contributions from the Parent are presented as a liability in due to affiliates depending on the date of grant. For the twelve months ended December 31, 2016, the Company awarded 85,591 phantom units to certain key employees. The Company received \$3.0 million of non-cash capital contributions from Guggenheim and \$2.5 million is included in due to affiliates related to the grant of current and prior year awards. Generally, the awards will be amortized over a four year pro-rata vesting schedule from the grant date. However awards held by participants whose age plus years of service (minimum of 5 years) is equal to at least 60 have an accelerated vesting period. These awards will be amortized from the grant date through the date at which the terms are satisfied, which in many cases may be the grant date.

At December 31, 2016, the total number of units outstanding under the Phantom Plan specifically related to Company employees was as follows:

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	<u>Units</u>	<u>Weighted- Average price</u>
Outstanding at December 31, 2015	6,888,344	\$ 11.29
Issued during 2016	3,366,187	12.79
Redemptions	(735,619)	7.62
Forfeitures	(63,169)	12.73
Transfers in	197,506	11.56
Transfers out	(20,718)	7.37
Outstanding at December 31, 2016	<u>9,632,531</u>	12.10

**(15) Subsequent Events**

Management has evaluated all subsequent events for the Company after the consolidated statement of financial condition date through February 28, 2017, the date the consolidated statement of financial condition was available to be issued, and except as discussed below, has concluded there are no recognized or nonrecognized events that require financial statement disclosure.

The \$12.0 million loan agreement with Northeast Bank was paid off January 27, 2017.