

# **Park Avenue Securities LLC**

(An indirect wholly owned subsidiary of  
Guardian Life Insurance Company of America)

**Statement of Financial Condition**  
**December 31, 2018**

**Park Avenue Securities LLC**  
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## **Report of Independent Registered Public Accounting Firm**

To the Board of Managers of  
Park Avenue Securities LLC:

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

We have audited the accompanying Statement of Financial Condition of Park Avenue Securities LLC (the “Company”) as of December 31, 2018, including the related notes (collectively referred to as the “financial statement”). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

We conducted our audit of this financial statement in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

New York, NY  
February 28, 2019

We have served as the Company's auditor since 1999.

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**Assets**

Cash and cash equivalents	\$ 24,587,245
Cash Segregated in compliance with federal and other regulations	1,100
Deposits with clearing organizations	270,000
Receivable from broker-dealer	6,201,960
Receivable from registered representatives, less allowance for bad debts of \$334,714	2,232,925
Commissions receivable	7,773,830
Deferred tax asset	233,706
Other assets	<u>1,965,389</u>
Total assets	<u>\$ 43,266,155</u>

**Liabilities and Member's Equity**

Due to Guardian Life	\$ 4,573,733
Commissions payable	12,559,031
Other liabilities	<u>1,559,212</u>
Total liabilities	<u>18,691,976</u>
Member's equity	<u>24,574,179</u>
Total liabilities and member's equity	<u>\$ 43,266,155</u>

See accompanying notes to financial statement.

# **Park Avenue Securities LLC**

## **Notes to Statement of Financial Condition**

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#### **1. Organization and Nature of Business**

Park Avenue Securities LLC (the “Company”) is a registered broker-dealer with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”) and Securities Investor Protection Corporation (“SIPC”). The Company is also a registered investment advisor under the Investment Advisers Act of 1940. The Company is a Delaware Limited Liability Company that is a wholly owned subsidiary of The Guardian Insurance and Annuity Company, Inc. (“GIAC”), which is ultimately a wholly owned subsidiary of Guardian Life Insurance Company of America (“Guardian Life”).

The Company, through its parent, GIAC, employs agencies as its distribution system through which all securities transactions are conducted. All agencies are subject to an Agency Agreement with GIAC that outlines the rights and responsibilities of GIAC and its affiliates. Registered representatives and investment advisors are agency employees whose rights and responsibilities are governed by a Registered Representative Agreement or Investment Advisor Representative Agreement, respectively, by and between the Company and the representative.

The Company’s business as a securities broker-dealer consists of selling products currently offered by GIAC as well as third party sponsors to retail customers. Such products include mutual funds, variable annuities, variable life insurance, 401(k) plans and investment advisory services. Brokerage transactions are executed by the Company on behalf of its customers and are conducted on an agency or riskless principal basis and are introduced on a fully disclosed basis to Pershing LLC (the “Clearing Broker”). The Company does not carry customer accounts or perform custodial functions related to customer securities. Direct customer transactions are executed by third party sponsors, or GIAC on behalf of the customers. The Company also acts as a broker in the purchase and sale of securities which are conducted on a give-up basis.

#### **2. Significant Accounting Policies**

##### **Basis of Presentation**

The Company’s financial statements are prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”).

##### **Use of Estimates**

The preparation of these financial statements 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 financial statements, as well as the reported amounts of revenues and expenses during the accounting period. Actual results could differ from those estimates.

##### **Cash, Cash Equivalents and Restricted Cash**

Cash and cash equivalents include amounts on deposit with banks and highly liquid investments with an original maturity of three months or less. They are reported at cost, which approximates fair value because of the relatively short period of time between their origination and expected maturity.

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Cash segregated in compliance with federal and other regulations represents restricted cash segregated for the exclusive benefit of customers of Park Avenue Securities.

**Receivable from Broker-Dealer**

The Company clears certain customer transactions through the Clearing Broker. The Receivable from broker-dealer includes advisory fees, annual account fees and non-proprietary trail commission receivable.

**Commissions Receivable**

All transactions, other than those cleared through the Clearing Broker, represent activity conducted directly between the client and third-party sponsors. Commissions receivable include investment advisory service fees receivable from turnkey asset management programs (TAMPs), direct sponsor trailing commissions from mutual funds and revenue sharing receipts.

**Receivable from Registered Representatives**

Receivable from registered representatives relate to annual fees (registered representative fees) charged for support functions, such as technology tools, licensing, compliance and regulatory oversight, and administrative services. Receivables are stated net of an allowance for bad debt, which is estimated based upon the evaluation of accounts receivable aging, specific exposures and historical trends.

**Other Assets**

Other Assets include loans from the Company to registered representatives as well as prepaid licensing fees.

**Due to Guardian Life Insurance Company of America**

Amounts payable consist of general operating expenses payable and income tax payable to Guardian Life.

**Commissions payable**

The Company remits commissions payments to the registered representatives on behalf of the general agents. Commissions payable represents balances owed to the registered representatives.

**Income Taxes**

The Company is organized as a limited liability company and is treated as a disregarded entity for federal and state income tax purposes. The Company's results are included in GIAC's pro-forma federal income tax return, which is ultimately included in the consolidated federal income tax return with its Parent, Guardian Life. The Internal Revenue Code ("the Code") limits the amount of non-life insurance losses that may offset life insurance company taxable income. The consolidated income tax liability is allocated among the members of the group in accordance with a tax allocation agreement. The tax allocation agreement provides that each member of the group is allocated its share of the consolidated tax provision or benefit, determined generally on a separate company basis, but may, where applicable, recognize the tax benefits of net operating losses or capital losses utilizable in the consolidated group. For state tax purposes, since GIAC is an insurance company, it is generally subject to tax on gross premium rather than tax on income. However, in those years where GIAC is subject to a state income tax, such income will be subject to the group's tax allocation agreement. Intercompany tax balances are settled quarterly on an

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estimated basis with a final settlement within 30 days of the filing of the consolidated return.

Current Federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year and any adjustments to such estimates from prior years. Deferred Federal income tax assets ("DTA's") and liabilities ("DTL's") are recognized for expected future tax consequences of temporary differences between GAAP and taxable income. Temporary differences are identified and measured using a balance sheet approach whereby GAAP and tax balance sheets are compared. Deferred income tax assets and liabilities are recognized for the future tax consequence of temporary differences between financial statement carrying amounts and income tax basis of assets and liabilities.

The Company determines whether it is more-likely-than-not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. The amount of tax benefit recognized for an uncertain tax position is the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement. Unrecognized tax benefits are included within the Statement of Financial Condition and are charged to earnings in the period that such determination is made.

**Recent Accounting Pronouncements**

*Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued guidance related to accounting for credit losses on financial instruments. The amendments replace current incurred loss impairment methodology with the expected credit loss methodology. Entities are required to estimate lifetime credit losses related to such financial assets and exposures based on relevant information about past events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. The new guidance retains most of the existing impairment guidance for available-for-sale debt securities but amends the presentation of credit losses to be presented as an allowance as opposed to a write-down and permits the reversal of credit losses when reassessing changes in the credit losses each reporting period. In November 2018, the FASB issued Codification Improvements to Topic 326, Financial Instruments – Credit Losses which clarifies that receivables arising from operating leases are not within the scope of the credit loss standard. The standard is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Company is currently assessing the impact of the guidance on the Company's financial statements.

*Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement*

In August 2018, the FASB issued guidance to clarify the accounting for implementation costs related to a cloud-computing arrangement that is a service contract. The new guidance would align the accounting for such costs with the guidance on capitalizing costs associated with developing or obtaining internal-use software. This would allow all cloud computing arrangements classified as service contracts to capitalize certain implementation costs. The guidance also requires entities to disclose certain qualitative and quantitative information about implementation costs associated with internal-use software and all hosting arrangements. The standard is effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. The Company is currently assessing the impact of the guidance on the Company's financial statements.

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**3. Related Party Transactions**

A significant portion of the Company's revenues and expenses relate to transactions with Guardian Life and its affiliates.

Pursuant to an expense sharing agreement, Guardian Life charges the Company for the services of certain employees of Guardian Life engaged in the Company's business and for the Company's use of Guardian Life's centralized services. The Due to Guardian Life under this agreement was \$4,573,733, which is inclusive of income tax payable of \$238,257.

Refer to Note 6 for Income Tax related party transactions.

During the year, the Company earned revenues from GIAC for sales of GIAC's variable annuity and variable life insurance products. The receivable for such revenues was \$60,136 and is included in Commissions receivable.

**4. Fair Value of Financial Instruments**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's view of market assumptions based on internally developed data in the absence of observable market information. The guidance requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs when determining the fair value of an asset or liability. The statement classifies all assets and liabilities carried or disclosed at fair value in one of the following three categories:

Level 1 – inputs are quoted market prices available in active markets for identical assets or liabilities on the reporting date.

Level 2 – inputs are quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 – significant inputs are unobservable where there is little or no market activity for the asset or liability and the Company makes estimates and assumptions based on internally derived information and other analytical techniques.

In determining fair value, the carrying value of Cash and cash equivalents, Cash segregated under federal regulations, receivable from broker-dealer, commissions receivable and payables arising in the ordinary course of business approximate fair value because of the relatively short period of time between their origination and expected maturity or because we expect the assets and liabilities to be settled within a period of one year.



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**5. Regulatory Matters, Contingencies and Other Liabilities**

Other liabilities include reserves for loss contingencies and unpaid operating expenses.

The Company has accrued \$778,211 in other liabilities as its estimate for loss contingencies. See Note 9 for further discussion of Contingencies.

**6. Income Taxes**

The components of the net deferred tax asset were as follows:

<b>Deferred Tax Assets</b>	<b><u>12/31/2018</u></b>
Reserve for Litigation	\$163,418
Allowance for Bad Debt	<u>70,290</u>
<b>Total Deferred Tax Assets</b>	<b>\$233,708</b>
 <b>Net Deferred Tax Asset</b>	 <b><u><u>\$233,708</u></u></b>
 <b>Deferred Tax Liabilities</b>	
Unrealized Gains	<u>2</u>
<b>Total Deferred Tax Liabilities</b>	<b>2</b>
 <b>Net Deferred Tax Asset</b>	 <b><u><u>233,706</u></u></b>

Deferred income taxes are generally recognized, based on enacted tax rates, when assets and liabilities have different values for financial statement and tax purposes.

A valuation allowance is recorded if it is more likely than not that some portion or all of the deferred tax asset will not be realized. The Company's management has concluded that the deferred tax assets are more likely than not to be realized. Therefore, no valuation allowance has been provided.

The Company recorded a current Federal income tax payable of \$238,257 due to Guardian Life in the accompanying Statement of Financial Condition and is included in due to Guardian Life.

GLIC files U.S. federal income tax returns along with various state and local income tax returns. The Company's federal income tax returns are routinely examined by the Internal Revenue service ("IRS") and provisions are made in the financial statements in anticipation of the results of these audits. In 2018, the IRS has completed its examinations for tax year 2011. There were no material effects on the Company's consolidated financial position and results of operations as a result of these examinations. Tax years 2012 through 2017 are subject to examination by the IRS. The Company believes that it has established adequate tax liabilities for uncertain tax positions for all open years.

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**7. Regulatory Requirements**

The Company is subject to the Uniform Net Capital requirements of the SEC under Rule 15c3-1, which requires that the Company maintain net capital equal to the greater of \$250,000 or 6 2/3% of aggregate indebtedness. The Company had net capital of \$12,752,110, which was \$11,504,764 above the \$1,247,346 required to be maintained. The ratio of aggregate indebtedness to net capital was 1.5 to 1. The Company claims an exemption from Rule 15c3-3 of the Securities Exchange Act of 1934 under paragraphs (k)(2)(i) and (k)(2)(ii) of that rule.

**8. Off-Balance Sheet Risk**

In the normal course of business, securities transactions of customers are introduced and cleared through the Clearing Broker. Pursuant to an agreement between the Company and the Clearing Broker, the Clearing Broker has the right to charge the Company for certain losses that result from transactions with such customers.

Direct customer transactions executed by third party sponsors on behalf of the customers may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contractual obligations and the Company has to sell the investment product at a loss.

The Company's policy is to monitor its customer and counter-party risk through the use of a variety of credit exposure reporting and control procedures, including reviewing, as considered necessary, the credit standing of each counterparty and customer with which it conducts business.

The Company, in its normal course of business, may enter into other legal contracts that contain several of these representations and warranties which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be against the Company that have not yet occurred. However, based on its experience, the Company expects the risk of loss to be remote.

**9. Contingencies**

The Company is subject to claims and lawsuits that arise in the ordinary course of business. The Company is also the subject of inquiries, investigations, and proceedings by regulatory and other governmental agencies.

The Company believes it has strong defenses in all significant matters currently pending and is contesting any liability and any damages claimed. Nevertheless, some of these matters may result in adverse judgments or awards, including penalties, injunctions or other relief, and the Company may also decide to settle a matter because of the uncertainty and risks of litigation. Based on current information and consultation with counsel, it does not appear reasonably possible that the outcome of any pending matter would be material to the financial condition, or cash flows of the Company but may be material to earnings in any one year. However, predicting the outcome of a litigation or regulatory matter is inherently difficult, requiring significant judgment and evaluation of various factors, including the procedural status of the matter and any recent developments; prior experience and the experience of similar cases; available defenses, including potential opportunities to dispose of a case on the merits of procedural grounds before trial (e.g., motions to dismiss for summary judgment); the progress of fact discovery; the opinions of counsel and experts

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regarding potential damages; potential opportunities for settlement and the status of any settlement discussions; and potential insurance coverage and indemnification. It may not be possible to reasonably estimate potential liability, if any, or a range of potential liability until the matter is closer to resolution – pending, for example, further proceedings, the outcome of key motions or appeals, or discussions among the parties. Numerous issues may have to be evaluated, such as discovery of important factual matters and determination of threshold legal issues, which include novel or unsettled questions of law.

Reserves are established or adjusted or further disclosure and estimates of potential loss are provided as the matter progresses and more information becomes available. To the extent that the Company has outstanding claims, the Company maintains various forms of insurance that sufficiently mitigates potential losses.

**10. Subsequent Events**

The Company considers events occurring after the Statement of Financial Condition date but prior to February 28, 2019, the issuance date of the financial statements, to be subsequent events. There were no subsequent events through February 28, 2019, the date the financial statements were available to be issued.