

**Tradeweb Direct LLC**  
**(a wholly-owned subsidiary of BondDesk Group LLC)**

**NOTES TO FINANCIAL STATEMENT**

**December 31, 2016**

**NOTE 1 – ORGANIZATION AND BUSINESS**

Tradeweb Direct LLC (formerly BondDesk Trading LLC) (the “Company”) was incorporated as a limited liability corporation in the State of Delaware on November 3, 1999. The Company is registered as a broker/dealer with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority, Inc. The Company is a wholly-owned subsidiary of BondDesk Group LLC (“BondDesk”), a Delaware limited liability company. BondDesk Group LLC is a wholly-owned subsidiary of Tradeweb Markets LLC (“Tradeweb”). The Company’s primary business is to operate, for its clients, a proprietary, internet-based bond trading platform developed and owned by BondDesk (the “Tradeweb Direct” platform), dedicated to the market for fixed income securities. The Company maintains a riskless principal division, titled Tradeweb Direct Middle Markets, that provides execution services to small and mid-sized dealers and institutional customers on a non-disclosed basis.

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

Basis of Presentation

The preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates and such differences could be material.

Usage Fees Receivable

The Company evaluates the probability of collecting usage fees receivable on an ongoing basis and records an allowance to write-off receivables when appropriate. Delinquency status is determined on a case-by-case basis and includes considerations of payment history. As of December 31, 2016, the Company recorded an allowance for doubtful accounts of \$251,263.

Property and Equipment

Property and equipment is comprised of computer equipment and purchased software, furniture and fixtures, and leasehold improvements, and is carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of related assets, ranging from three to seven years.

Financial Instruments

The Company does not enter into forwards, swaps, futures or other derivative product transactions that result in on or off-balance-sheet risk. The carrying amounts of other financial instruments recorded in the statement of financial condition (which include cash, receivables, and payables) approximate fair value at December 31, 2016.

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**NOTES TO FINANCIAL STATEMENT (continued)**

**December 31, 2016**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fair Value Measurement

Certain financial instruments that are not carried at fair value on the balance sheet are carried at amounts that approximate fair value due to the short-term nature of the financial instruments.

The fair value hierarchy under ASC 820 prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are described below:

Basis of Fair Value Measurement

- 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 in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3    Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

The Company's Cash is classified within level 1 of the fair value hierarchy. The Company's usage fees receivable, receivable from clearing broker, receivable from affiliates, other assets, accounts payable and accrued liabilities and payable to affiliates are classified within level 2 of the fair value hierarchy because all significant inputs are observable, either directly or indirectly. The Company has no instruments that are classified within level 3 of the fair value hierarchy.

Off-Balance-Sheet Risk and Concentration of Credit Risk

The Company has agreed to indemnify the clearing broker for losses that it may sustain from the customer accounts introduced by the Company. Pursuant to the clearing agreement, the Company is required to reimburse the clearing broker without limit for any losses incurred due to any counterparty's failure to satisfy its contractual obligations. However, the transactions are collateralized by the underlying security, thereby reducing the associated risk to changes in the market value of the security through the settlement date. As a result of the settlement of these transactions, there were no amounts to be indemnified to the clearing broker for the customer accounts at December 31, 2016.

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**NOTES TO FINANCIAL STATEMENT (continued)**

**December 31, 2016**

**NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Stock Based Compensation

The Company accounts for stock based compensation allocated from Tradeweb in accordance with ASC 718, which focuses primarily on accounting for a transaction in which an entity obtains employee services in exchange for share-based payments. Under ASC 718, the share-based payments received by the employees of the Company are accounted for as liability awards. As a liability award, the cost of employee services received in exchange for an award of equity instruments is generally measured based on the grant-date fair value of the award and remeasured at the end of each reporting period until settlement. Changes in the liability instrument's fair value during the requisite service period are recognized as compensation cost over that period.

Under ASC 718, share-based awards that do not require future service (e.g., vested awards) are expensed immediately. Share-based employee awards that require future service are amortized over the relevant service period.

**NOTE 3 – RECEIVABLE FROM CLEARING BROKER**

Receivable from clearing broker at December 31, 2016 consists of a \$200,000 deposit with National Financial Services LLP (“NFS”) through which the Company clears its trades. This deposit is covered under a Proprietary Accounts of Brokers (“PAB”) agreement with NFS.

**NOTE 4 – PROPERTY, EQUIPMENT AND SOFTWARE**

Property, equipment and software consisted of the following at December 31, 2016:

|                                 |                  |
|---------------------------------|------------------|
| Computer equipment and software | \$ 346,425       |
| Furniture and equipment         | <u>396,481</u>   |
|                                 | 742,906          |
| Less: accumulated depreciation  | <u>(658,883)</u> |
|                                 | <u>\$ 84,023</u> |

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**NOTES TO FINANCIAL STATEMENT (continued)**

**December 31, 2016**

**NOTE 5 – INCOME AND OTHER TAXES**

The Company operates as a single-member limited liability company. The Company is wholly-owned by its parent and is treated as a disregarded entity for U.S. federal income tax purposes. The Company's parent is owned by a partnership. The members of the partnership are individually liable for the income tax liability on the taxable income of the Company that eventually flows up to the partnership. The Company follows the authoritative guidance for uncertainty in income taxes included in FASB ASC 740, Income Taxes, as amended by Accounting Standards Update ("ASU") 2009-06, Implementation Guidance on Accounting for Uncertainty in Taxes and Disclosures Amendments for Nonpublic Entities. This guidance requires the Company to recognize a tax benefit from an uncertain position only if it is more likely than not that the position is sustainable, based solely on its technical merits and consideration of the relevant taxing authority's widely understood administrative practices and precedents. If this threshold is met, the Company should measure the tax benefit as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement.

Management has reviewed the Company's tax positions for the open tax years by major jurisdiction and has concluded that no provision for taxes is required in the Company's financial statements. Such open tax years vary by jurisdiction and remain subject to examination by taxing authorities. The earliest open year is 2013.

**NOTE 6 – RELATED PARTY TRANSACTIONS**

The Company has a formal expense-sharing agreement with BondDesk. The expense-sharing agreement, along with an amended licensing agreement between the Company and BondDesk, requires expenses paid on behalf of the Company by BondDesk to be reimbursed or directly paid by the Company.

The Company enters into transactions with members or affiliates of the ultimate owners of Tradeweb. At December 31, 2016, usage fees receivable included approximately \$1,691,000 of receivables from members or affiliates of the ultimate owners of Tradeweb. At December 31, 2016, all of the \$20,201,268 of cash is deposited in affiliates of the ultimate owners of Tradeweb.

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**NOTES TO FINANCIAL STATEMENT (continued)**

**December 31, 2016**

**NOTE 7 – STOCK BASED COMPENSATION PLANS**

Tradeweb has stock incentive plans which provide for the grant of stock appreciation rights (“SARs”) or performance-based restricted share units (“PRSUs”), to encourage employees of Tradeweb and its subsidiaries and affiliates to participate in the long-term success of Tradeweb.

Tradeweb measures the cost of employee services received in exchange for the award based on its current fair value. The fair value of that award is remeasured subsequently at each reporting date through to settlement. Changes in the award’s fair value during the requisite service period are recognized as compensation cost over that period.

The SARs have graded vesting schedules with expiration dates through December 31, 2016. If an employee is terminated without cause, all unvested SARs are forfeited. All vested SARs can only be exercised during a specific period of the year. No SARs were granted during 2016.

The fair value of the SARs awards is calculated at the date of grant and remeasurement date using an appropriate valuation model such as Black-Scholes. Consequently, the fair values of these awards are based on market value at that date. At December 31, 2016, the fair value of the SARs equals the intrinsic value. The weighted average exercise price is \$17,344.

The PRSUs vest on January 1, 2018 and January 1, 2019. The value of a PRSU upon vesting is based on the share price of Tradeweb, dividends paid by Tradeweb during the vesting period, adjusted by a performance modifier which is based on the performance of Tradeweb.

**NOTE 8 – NET CAPITAL REQUIREMENT**

The Company is subject to the SEC’s Uniform Net Capital Rule 15c3-1, which requires net capital to be the greater of \$100,000 or 6-2/3% of aggregate indebtedness, as defined. At December 31, 2016, the Company had net capital of \$16,651,148 which exceeded its net capital requirement of \$250,008 by \$16,401,140.

Proprietary accounts, the assets held at the clearing broker (“PAB Assets”), are considered allowable assets in the computation of net capital pursuant to an agreement between the Company and the clearing broker. The Company is claiming exemption from SEC rule 15c3-3 under paragraph (k)(2)(ii) of that rule.

**NOTE 9 – SUBSEQUENT EVENTS**

There were no subsequent events requiring adjustment to the financial statements or disclosure through February 28, 2017, the date that the Company’s financial statement was issued.