

# **Tradeweb Direct LLC**

(SEC I.D. NO. 8-52278)

STATEMENT OF FINANCIAL CONDITION AS OF DECEMBER 31, 2021,  
AND REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING  
FIRM

Filed pursuant to Rule 17a-5(e)(3) under the Securities Exchange Act of  
1934 as a PUBLIC DOCUMENT.

# PUBLIC

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**ANNUAL REPORTS  
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PART III**

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FILING FOR THE PERIOD BEGINNING 01/01/21 AND ENDING 12/31/21  
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**A. REGISTRANT IDENTIFICATION**

NAME OF FIRM: Tradeweb Direct LLC

TYPE OF REGISTRANT (check all applicable boxes):

- ☒ Broker-dealer ☐ Security-based swap dealer ☐ Major security-based swap participant  
☐ Check here if respondent is also an OTC derivatives dealer

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use a P.O. box no.)

1177 Avenue of the Americas

(No. and Street)

New York

NY

10036

(City)

(State)

(Zip Code)

PERSON TO CONTACT WITH REGARD TO THIS FILING

Jonathan Pittinsky 646-430-6092

jonathan.pittinsky@tradeweb.com

(Name)

(Area Code - Telephone Number)

(Email Address)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose reports are contained in this filing\*

Deloitte & Touche LLP

(Name - if individual, state last, first, and middle name)

30 Rockefeller Plaza

New York

NY

10012

(Address)

(City)

(State)

(Zip Code)

10/20/2003

34

(Date of Registration with PCAOB)(if applicable)

(PCAOB Registration Number, if applicable)

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\* Claims for exemption from the requirement that the annual reports be covered by the reports of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis of the exemption. See 17 CFR 240.17a-5(e)(1)(ii), if applicable.

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Managers and Member of Tradeweb Direct LLC

### **Opinion on the Financial Statement**

We have audited the accompanying statement of financial condition of Tradeweb Direct LLC (the "Company") as of December 31, 2021, and 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, 2021, 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 this 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 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 of the financial statement provides a reasonable basis for our opinion.

A handwritten signature in cursive script that reads "Deloitte &amp; Touche LLP".

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March 1, 2022

We have served as the Company's auditor since 2019.

**Tradeweb Direct LLC**  
**Statement of Financial Condition**  
**December 31, 2021 (in thousands)**  
**(Confidential)**

**Assets**

|                                |    |               |
|--------------------------------|----|---------------|
| Cash and cash equivalents      | \$ | 32,132        |
| Accounts receivable            |    | 14,178        |
| Deposits with clearing brokers |    | 950           |
| Other assets                   |    | 13            |
| Total assets                   | \$ | <u>47,273</u> |

**Liabilities and Member's Capital**

**Liabilities**

|  |    |              |
|--|----|--------------|
| Accounts payable and accrued liabilities | \$ | 223          |
| Accrued compensation                     |    | 3,758        |
| Payable to affiliates                    |    | 5,802        |
| Total liabilities                        |    | <u>9,783</u> |

**Member's capital**

|  |    |               |
|--|----|---------------|
| Member's capital                       |    | <u>37,490</u> |
| Total liabilities and member's capital | \$ | <u>47,273</u> |

The accompanying notes are an integral part of this financial statement.

**Tradeweb Direct LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2021**

**1. Organization**

Tradeweb Direct LLC (the "Company") is a registered broker-dealer under the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is a consolidating subsidiary of Tradeweb Markets LLC ("Markets"). On April 3, 2019, Markets became a consolidating subsidiary of Tradeweb Markets Inc. ("TWMI") through a series of reorganization transactions ("Reorganization Transactions") that were completed in connection with TWMI's initial public offering ("IPO") which was completed on April 8, 2019. The Company's primary businesses are to operate, for its clients, a proprietary, internet-based bond trading platform (the "Tradeweb Direct" platform), dedicated to the market for fixed income securities and to maintain a riskless principal division, including retail and wholesale sectors, that provides execution services to dealers and institutional customers on a non-disclosed basis.

**2. Significant Accounting Policies**

**Basis of Accounting**

The statement of financial condition has been presented in conformity with accounting principles generally accepted in the United States of America.

**Use of Estimates**

The preparation of the financial statement 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 and disclosures of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates and the difference may be material to the financial statement.

**Cash and cash equivalents**

Cash and cash equivalents consists of cash and highly liquid investments (such as short-term money market instruments) with original maturities of less than three months.

**Allowance for Credit Losses**

The Company continually monitors collections and payments from its clients and maintains an allowance for credit losses. The allowance for credit losses is based on an estimate of the amount of potential credit losses in existing accounts receivable, as determined from a review of aging schedules, past due balances, historical collection experience and other specific account data. Careful analysis of the financial condition of the Company's counterparties is also performed.

**Translation of Foreign Currency**

Assets and liabilities denominated in foreign currencies are translated at the rate prevailing at the statement of financial condition date.

**Income Tax**

No income tax provision is required to be recorded by the Company as it is a disregarded entity for income tax purposes and therefore not subject to income tax. The tax effects of its income and losses accrue directly to Markets. The Company elected not to be allocated a share of the consolidated amount of current and deferred tax expense incurred by Markets. This election was made in order to simplify the Company's accounting for income taxes.

The Company, together with Markets and other affiliates, is a multiple member limited liability company which is taxed as a partnership. As a partnership, Markets is subject to unincorporated business taxes on income earned, or losses incurred, in certain state and local jurisdictions. The taxable income or loss of the Company is also includable in the Federal and state income tax returns of Markets' individual members.

**Tradeweb Direct LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2021**

**Stock-Based Compensation**

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation – Stock Compensation*. ASC 718 focuses primarily on accounting for a transaction in which an entity obtains employee services in exchange for stock-based payments. Under ASC 718, the stock-based payments received by the employees of the Company are accounted for as equity awards.

As an equity award, the Company measures and recognizes the cost of employee services received in exchange for awards of equity instruments based on their estimated fair values measured as of the grant date. These costs are recognized as an expense over the requisite service period with an offsetting increase to member's capital.

For periods following the Reorganization Transactions and the IPO, the fair value of new equity instrument grants is determined based on the price of TWMI's Class A common stock on the grant date.

Under ASC 718, the grant-date fair value of stock-based awards that do not require future service (i.e., vested awards) are expensed immediately. The grant-date fair value of stock-based awards that require future service, and are graded-vesting awards, are amortized over the relevant service period on a straight-line basis, with each tranche separately measured. The grant-date fair value of stock-based awards that require both future service and the achievement of performance-based conditions for TWMI, are amortized over the relevant service period for the performance-based condition. If in a reporting period it is determined that the achievement of a performance target for a performance-based tranche is not probable, then no expense is recognized for that tranche and any expenses already recognized relating to that tranche in prior reporting periods are reversed in the current reporting period.

Prior to the IPO, the TWMI awarded options to management and other employees, including employees of the Company (collectively, the "Special Option Award") under the Amended and Restated Tradeweb Markets Inc. Option Plan (the "Option Plan"). In accounting for the options issued under the Option Plan, compensation expense is measured and recognized for all awards based on their estimated fair values measured as of the grant date. Costs related to these options are recognized as an expense in the statement of income over the requisite service period, with an offsetting increase to member's capital.

Determining the appropriate fair value model and calculating the fair value of the stock-based awards requires the input of highly subjective assumptions, including the expected life of the stock-based awards and the stock price volatility. The Company uses the Black-Scholes pricing model to value some of its stock-based awards.

**Fair Value Measurement**

The fair value of a financial instrument is the amount 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 (the exit price). Instruments that the Company owns (long positions) are marked to bid prices, and instruments that the Company has sold, but not yet purchased (short positions) are marked to offer prices. Fair value measurements do not include transaction costs.

The fair value hierarchy under ASC 820, *Fair Value Measurement* 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:

**Tradeweb Direct LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2021**

**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.

Included in cash and cash equivalents are \$25,703,000 of money market funds which are classified within level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets. The Company has no instruments that are classified within levels 2 or 3 of the fair value hierarchy.

The Company's financial instruments not measured at fair value include accounts receivable, which are classified within level 2 of the fair value hierarchy, and deposits with clearing brokers, which are classified within level 1 of the fair value hierarchy, and approximate fair value due to the short-term nature of these assets.

**3. Deposits With Clearing Brokers**

Deposits with clearing brokers consists of a \$750,000 deposit with Pershing BNY Mellon ("Pershing") and a \$200,000 deposit with National Financial Services LLP ("NFS") through which the Company clears its trades relating to the riskless principal business. These deposits are covered under Proprietary Accounts of Brokers ("PAB") agreements with Pershing and NFS.

**4. Stock Based Compensation Plans**

TWMI and Markets have stock incentive plans which provide for the grant of performance-based restricted share units ("RSUs"), restricted share units ("RSUs") and options, to encourage employees of Markets and its subsidiaries and affiliates to participate in the long-term success of TWMI and Markets.

RSUs are promises to issue actual shares of common stock at the end of a three-year cliff vesting period. The number of shares a participant will receive upon vesting is determined by a performance modifier, which is adjusted as a result of the financial performance of the TWMI in the grant year. The performance modifier can vary between 0% (minimum) and 200% (maximum) of the target (100%) award amount.

RSUs are promises to issue actual shares of common stock at the end of a vesting period. RSUs vest one-third each year over a three-year period.

Prior to the IPO, Markets made a special award of options to management and other employees. Each option award vests one half based solely on the passage of time and one half only if Markets achieves certain performance targets. The time vesting portion of the options has a four-year graded vesting schedule, with accelerated vesting for time-based options granted prior to the initial public offering.

In accounting for the options issued under the Option Plan, compensation expense is measured and recognized for all awards based on their estimated fair values measured as of the grant date.

**Tradeweb Direct LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2021**

The fair value of the options is calculated on the grant date using the Black-Scholes model. The significant assumptions used to estimate the fair value of the options as of grant date did not reflect changes that would have occurred to these assumptions as a result of TWMI's IPO.

TWMI and Markets allocates to the Company compensation expense relating to PRSUs, RSUs and option awards granted to employees of the Company.

**5. Net Capital Requirements**

The Company conducts municipal securities brokers' brokers activities and, as such, is subject to SEC Rule 15c3-1(a)(8)(iii) which requires a minimum net capital of \$150,000, or 6 2/3% of aggregate indebtedness. The Company conducts riskless principal trading and operates pursuant to SEC Rule 15c3-3(k)(2)(ii) (the Customer Protection Rule), clearing all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer.

With respect to the name give up trading activity conducted across the Tradeweb Direct platform, the Company (1) does not carry accounts of or for customers; and (2) does not carry PAB accounts (as defined in SEC Rule 15c3-3). Therefore, in light of Footnote 74 of the 2013 Release adopting amendments to SEC to Rule 17a-5 and SEC guidance provided on July 1, 2020, the Company is considered a Non-Covered Firm.

At December 31, 2021, the Company had net capital of approximately \$22,784,000 which exceeded its requirement of \$ 652,000 by \$22,132,000. The Company's ratio of aggregate indebtedness to net capital was .43 to 1.

**6. Related Party Transactions**

The Company reimburses Markets and certain subsidiaries of Markets for expenses paid on its behalf under an expense sharing agreement.

**7. Credit Risk**

The Company may be exposed to credit risk regarding its receivables, which are primarily receivable from financial institutions, including investment managers and broker-dealers. As December 31, 2021, the Company maintained an allowance for credit losses of \$2,000 with regard to these receivables.

**8. Indemnifications**

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, 2021.

**9. Subsequent Events**

There were no other subsequent events requiring adjustment to the statement of financial condition or disclosure through March 1, 2022, the date that the Company's statement of financial condition was issued.