

Cognitive Capital, LLC

Statement of Financial Condition December 31, 2021

Filed as PUBLIC Information pursuant to Rule 17a-5(d)
Under the Securities Exchange Act of 1934

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

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FILING FOR THE PERIOD BEGINNING 01/01/21 AND ENDING 12/31/21
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF FIRM: Cognitive Capital, 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.)

141 W. Jackson Blvd., Suite 1620

(No. and Street)

Chicago

Illinois

60604

(City)

(State)

(Zip Code)

PERSON TO CONTACT WITH REGARD TO THIS FILING

Patrick Stack 312-431-0400 pstack@cogcap.com
(Name) (Area Code – Telephone Number) (Email Address)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose reports are contained in this filing*

RSM US LLP

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

30 South Wacker Dr., Suite 3300

Chicago

Illinois

60606

(Address)

(City)

(State)

(Zip Code)

9/24/2003

#49

(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.

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Arthur S. Margulis, Jr., swear (or affirm) that, to the best of my knowledge and belief, the financial report pertaining to the firm of Cognitive Capital, LLC, as of December 31, 2021, is true and correct. I further swear (or affirm) that neither the company nor any partner, officer, director, or equivalent person, as the case may be, has any proprietary interest in any account classified solely as that of a customer.

Signature: [Signature]

Title: Managing Principal

[Signature]
Notary Public



This filing contains (check all applicable boxes):**

- ☒ (a) Statement of financial condition.
- ☒ (b) Notes to consolidated statement of financial condition.
- ☐ (c) Statement of income (loss) or, if there is other comprehensive income in the period(s) presented, a statement of comprehensive income (as defined in § 210.1-02 of Regulation S-X).
- ☐ (d) Statement of cash flows.
- ☐ (e) Statement of changes in stockholders' or partners' or sole proprietor's equity.
- ☐ (f) Statement of changes in liabilities subordinated to claims of creditors.
- ☐ (g) Notes to consolidated financial statements.
- ☐ (h) Computation of net capital under 17 CFR 240.15c3-1 or 17 CFR 240.18a-1, as applicable.
- ☐ (i) Computation of tangible net worth under 17 CFR 240.18a-2.
- ☐ (j) Computation for determination of customer reserve requirements pursuant to Exhibit A to 17 CFR 240.15c3-3.
- ☐ (k) Computation for determination of security-based swap reserve requirements pursuant to Exhibit B to 17 CFR 240.15c3-3 or Exhibit A to 17 CFR 240.18a-4, as applicable.
- ☐ (l) Computation for Determination of PAB Requirements under Exhibit A to § 240.15c3-3.
- ☐ (m) Information relating to possession or control requirements for customers under 17 CFR 240.15c3-3.
- ☐ (n) Information relating to possession or control requirements for security-based swap customers under 17 CFR 240.15c3-3(p)(2) or 17 CFR 240.18a-4, as applicable.
- ☐ (o) Reconciliations, including appropriate explanations, of the FOCUS Report with computation of net capital or tangible net worth under 17 CFR 240.15c3-1, 17 CFR 240.18a-1, or 17 CFR 240.18a-2, as applicable, and the reserve requirements under 17 CFR 240.15c3-3 or 17 CFR 240.18a-4, as applicable, if material differences exist, or a statement that no material differences exist.
- ☐ (p) Summary of financial data for subsidiaries not consolidated in the statement of financial condition.
- ☒ (q) Oath or affirmation in accordance with 17 CFR 240.17a-5, 17 CFR 240.17a-12, or 17 CFR 240.18a-7, as applicable.
- ☐ (r) Compliance report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (s) Exemption report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☒ (t) Independent public accountant's report based on an examination of the statement of financial condition.
- ☐ (u) Independent public accountant's report based on an examination of the financial report or financial statements under 17 CFR 240.17a-5, 17 CFR 240.18a-7, or 17 CFR 240.17a-12, as applicable.
- ☐ (v) Independent public accountant's report based on an examination of certain statements in the compliance report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (w) Independent public accountant's report based on a review of the exemption report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (x) Supplemental reports on applying agreed-upon procedures, in accordance with 17 CFR 240.15c3-1e or 17 CFR 240.17a-12, as applicable.
- ☐ (y) Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit, or a statement that no material inadequacies exist, under 17 CFR 240.17a-12(k).
- ☐ (z) Other: _____

****To request confidential treatment of certain portions of this filing, see 17 CFR 240.17a-5(e)(3) or 17 CFR 240.18a-7(d)(2), as applicable.**

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RSM US LLP

Report of Independent Registered Public Accounting Firm

Members of Cognitive Capital, LLC

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Cognitive Capital, LLC (the Company) as of December 31, 2021, and the related notes (collectively, 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

This 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 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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.

RSM US LLP

We have served as the Company's auditor since 2015.

Chicago, Illinois
February 10, 2022

Cognitive Capital, LLC

**Statement of Financial Condition
December 31, 2021**

ASSETS

Cash	\$	256,719
Due from brokers		25,300,536
Equities owned, at fair value		141,568,992
Dividends receivable		116,301
Furniture and equipment, net		1,450,482
Right of use asset - lease		664,487
Other assets		<u>366,037</u>
Total Assets	\$	<u><u>169,723,554</u></u>

LIABILITIES AND MEMBERS' EQUITY

Liabilities

Due to brokers	\$	68,559
Equities sold, not yet purchased, at fair value		118,206,948
Dividends payable		136,612
Accounts payable and accrued expenses		4,091,851
Withdrawals payable		3,707,254
Operating lease		<u>1,222,338</u>
Total Liabilities		<u>127,433,562</u>

Members' Equity		<u>42,289,992</u>
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Total Liabilities and Members' Equity	\$	<u><u>169,723,554</u></u>
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See accompanying notes.

Cognitive Capital, LLC

Notes to Statement of Financial Condition Year Ended December 31, 2021

(1) NATURE OF BUSINESS

Cognitive Capital, LLC (the “Company”) engages in trading strategies primarily involving equities, equity derivative and futures derivative instruments on a proprietary basis. The Company is registered as a broker/dealer with the Securities and Exchange Commission (“SEC”).

The Company is not exempt from Rule 15c3-3, but it does not transact a business in securities with or for customers and does not carry margin accounts, credit balances or securities for any person defined as a “customer” pursuant to Rule 17a-5(c)(4).

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company follows Generally Accepted Accounting Principles “GAAP” set by the Financial Accounting Standards Board to be applied by nongovernmental entities, *Accounting Standards Codification “ASC”*, in the preparation of their financial statements.

Securities transactions are recorded on the trade date and, accordingly, gains and losses are recorded on unsettled transactions.

Futures and swap transactions resulting in gains and losses are recorded on the trade date. Gains and losses on open futures and swap contracts are reflected in income.

Dividend income on equities owned and dividend expense on equities sold, not yet purchased are recorded on the ex-dividend date. Interest income and expense are recognized on the accrual basis.

Furniture and equipment are recorded at cost and depreciated over their estimated useful lives using accelerated methods. At December 31, 2021, accumulated depreciation was approximately \$6,700,000.

While the Company’s functional currency is the U.S. dollar, it also transacts business in currencies other than the U.S. dollar. Assets and liabilities denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the rates in effect at the date of the statement of financial condition. Revenue and expense items denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the rates in effect during the period.

The preparation of 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 and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

No provision has been made for income taxes as the taxable income or loss of the Company is included in the income tax return of the members.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Management has reviewed the Company's tax positions for all tax years open to examination which include the current and prior three years and concluded that a provision for income taxes is not required.

ASC 740-10-50, "Accounting for Uncertainty in Income Taxes", provides guidance regarding how uncertain income tax positions should be recognized, measured, presented and disclosed in the financial statements. ASC 740-10-50 requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's tax return to determine whether its tax positions are "more-likely-than-not" of being sustained by the applicable tax authority. The Company has not identified any uncertain income tax positions as of December 31, 2021.

Financial instruments recorded at fair value on the Company's statement of financial condition include equities owned and equities sold, not yet purchased.

Credit Losses on Financial Assets: The Company evaluates all financial assets that are measured at amortized cost for credit losses under the Current Expected Credit Losses model. Financial assets evaluated include cash and due from brokers. Expected credit losses are measured based on historical experience, current conditions and forecasts that affect the collectability of the reported amount. Due to the short duration of the financial assets, there are no material estimates of credit losses related to these financial assets as of December 31, 2021.

The Company measures and records its leases in accordance with FASB ASC 842, Leases. The Company is a lessee in an operating lease, for office space, that expires on December 31, 2024. Due to the uncertainty of any renewal/termination, the Company has not included any renewal/termination as part of its lease term. The Company reviews contracts upon execution to determine whether recognition of right of use assets and lease liabilities are necessary. The Company records right of use assets and lease liabilities as of lease commencement date and is reflected in furniture, equipment and lease, net and operating lease in the statement of financial condition, respectively. The lease liability is based off of the present value of its future lease payments, and the discount rate is based off the Company's incremental borrowing rate as of lease commencement date. The right of use asset is remeasured each period at the amount of the lease liability less the unamortized balance of lease incentives. The Company does not recognize right of use assets and lease liabilities on short term leases with terms of 12 months or less. Lease costs for lease payments are reflected on the statement of operations, cash flows, or changes in members' equity, accordingly.

(3) COMMITMENTS

The Company leases office space under an operating lease that expires on December 31, 2024, with an option to renew for an additional five-year period ending December 31, 2029. The Company may choose to elect its one-time termination option to terminate the lease effective as of December 31, 2023. The lease contains escalation clauses providing for increased rentals based upon maintenance and tax increases. As of December 31, 2021, the statement of financial condition contained right of use asset and operating lease liabilities of \$664,487 and \$1,222,338, respectively.

Cognitive Capital, LLC

Notes to Statement of Financial Condition Year Ended December 31, 2021

(3) COMMITMENTS (continued)

At December 31, 2021, the minimum annual rental commitments under the lease, inclusive of certain stated expenses, are as follows:

<u>Year Ending December 31</u>	<u>Amount</u>
2022	\$ 414,702
2023	425,070
2024	435,697
	<u>\$ 1,275,469</u>

As of December 31, 2021, three years remained on the Company's lease.

The discount rate used in measurement of operating lease liabilities was 2.91%.

The Company is required to maintain a security deposit in the form of a letter of credit in the amount of \$50,000. A portion of the Company's other assets balance collateralizes this letter of credit.

(4) DERIVATIVE INSTRUMENTS AND OFF-BALANCE SHEET RISK

In the normal course of conducting business as a trading firm, the Company engages in transactions involving derivative instruments (futures and swaps) for trading purposes. The Company does not enter into derivatives for hedging purposes.

The following table indicates the fair values of futures contracts as gross assets and liabilities as of December 31, 2021.

Underlying Risk	Statement of Financial Condition Location	Assets at Fair Value	Liabilities at Fair Value	Net
Agriculture	Due to/from brokers	\$ 2,076	\$ (3,500)	\$ (1,424)
Equity	Due to/from brokers	79,184	(30,162)	49,022
		<u>\$ 81,260</u>	<u>\$ (33,662)</u>	<u>\$ 47,598</u>

The Company enters into various equity swaps, also known as contracts for differences ("CFDs"). An equity swap or CFD is an equity derivative contract that bases its value on the price of a stock index or common stock, without investing in the underlying physical share. As such, the Company has no rights or obligations relating to the underlying share. The CFD is a contract between two parties to exchange, at the close of the contract, the difference between the reset price and the closing price of the contract, multiplied by the number of shares specified within the contract.

Cognitive Capital, LLC

Notes to Statement of Financial Condition
Year Ended December 31, 2021

(4) DERIVATIVE INSTRUMENTS AND OFF-BALANCE SHEET RISK (continued)

During the term of the swap contract, changes in value are recognized as unrealized gains or losses by marking the contracts at fair value. Additionally, the Company records a realized gain or loss when a swap contract is terminated and when periodic payments (excluding collateral payments) are received or made at the end of each monthly reset period. Accruals related to periodic payments are reflected within unrealized gains or losses. As of December 31, 2021, there is no fair value recorded in the statement of financial condition related to equity swaps as all swaps had a reset date on December 31, 2021.

The Company is party to equity swap agreements with an international financial institution whereby firm funds are put on deposit to collateralize positions which possess the economic characteristics of foreign equity securities and/or equity indices. At December 31, 2021, the Company has funds on deposit totaling \$334,922.

The Company is required to disclose information about certain derivative instruments that are either eligible for offset in accordance with GAAP or subject to an enforceable master netting arrangement or similar agreement.

The following table provides disclosure regarding the potential effect of offsetting derivative asset and liabilities presented in the Statement of Financial Condition.

				Gross Amounts Not Offset in the Statement of Financial Position			
		Gross Amounts of Recognized Assets and Liabilities	Gross Amounts Offset in the Statement of Financial Position	Net Amounts of Assets and Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Received	Net Amount
Assets							
Derivatives							
Futures Contracts ¹	\$	81,260	\$ (33,662)	\$ 47,598	\$ -	\$ -	\$ 47,598
Liabilities							
Derivatives							
Futures Contracts ¹	\$	33,662	\$ (33,662)	\$ -	\$ -	\$ -	\$ -

¹ These amounts are reflected in the statement of financial condition as components of due from brokers.

Notes to Statement of Financial Condition
Year Ended December 31, 2021

(4) DERIVATIVE INSTRUMENTS AND OFF-BALANCE SHEET RISK (continued)

In its normal course of business, the Company trades financial instruments involving off-balance-sheet market risk with securities broker/dealers and futures commission merchants. The gross notional (or contractual) amounts of derivative financial instruments represent the volume of these transactions and not the amounts potentially subject to market risk. In addition, measurement of market risk is meaningful only when all related and offsetting transactions are taken into consideration. Market risk is the risk that a change in the level of one or more market prices, rates, indices, volatilities, correlations or other factors, such as liquidity, will result in losses for a specified position or portfolio. Financial instruments sold, but not yet purchased, entail an obligation to purchase the securities at a future date. The Company may incur a loss if the fair value of the securities subsequently increases prior to the purchase of the security. Futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. The settlement of the aforementioned transactions is not expected to have a material adverse effect on the financial position of the Company. As a trading firm, the Company is in the business of managing market risk. In management's opinion, market risk is substantially diminished when all financial instruments, including equities owned, are aggregated.

The Company's equity swap business involves credit risk, which represents the loss that the Company would incur if a counterparty fails to perform its contractual obligation to the Company. For exchange traded contracts, the Company's clearing broker, through industry clearing organizations, acts as the counterparty of specific transactions and therefore, bears the risk of delivery from and to counterparties.

(5) DUE FROM/TO BROKER

The Company executes and clears its proprietary transactions through several broker-dealers and futures commission merchants ("FCM"), collectively brokers. In general, all amounts and positions on deposits with the brokers serve as collateral for the Company's trading activity. Amounts due from and to the same broker have been offset where the right of offset exists.

Amounts due from/to brokers in the statement of financial condition as of December 31, 2021, consists of the following:

	Due From	Due To
Clearing broker-dealers – cash	\$ 20,955,007	\$ -
FCM – cash	4,121,701	-
FCM – open trade equity	47,598	-
Fees and commissions receivable/payable	176,230	(68,559)
Total	\$ 25,300,536	\$ (68,559)

Notes to Statement of Financial Condition
Year Ended December 31, 2021

(6) FAIR VALUE MEASUREMENTS

The Company adheres to the provisions of ASC 820, "Fair Value Measurements", which defines fair value as the price that would be received to sell an asset or paid to transfer a liability (i.e. "exit price") in an orderly transaction between market participants at the measurement date.

ASC 820 establishes a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In determining fair value, the Company uses valuation approaches based on this hierarchy, categorizing them into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted price in active markets for identical assets and liabilities that the Company has the ability to access. Valuation adjustments and block discounts are not applied to Level 1 investments. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The Company recognizes no transfers were made between levels during the year. The Company's financial instruments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with ASC 820.

At December 31, 2021, equity of \$141,568,992, equities sold, not yet purchased of \$118,206,948, and net futures open trade equity of \$47,598 are listed and actively traded and, accordingly, are classified as Level 1. Equities are stated at the last reported sales price on the day of valuation. The fair value of the futures contracts is based upon exchange settlement prices. Equity swaps are valued based on the difference between the contractual reset price and the last reported sales price of the underlying security and are classified as Level 2. As of December 31, 2021, there is no fair value recorded for equity swaps.

Substantially, all of the Company's other assets and liabilities are considered financial instruments and are either already at fair value, or at carrying amounts that approximate fair value because of the short maturity of the instruments.

(7) RELATED PARTY TRANSACTIONS

At December 31, 2021, the Company accrued \$850,000 for a state tax liability on behalf of its partners, which is included in accounts payable and accrued expenses in the statement of financial condition and reflected in income.

(8) CONCENTRATIONS OF CREDIT RISK

At December 31, 2021, a credit concentration with one of its clearing brokers consisted of approximately \$40 million representing the net liquidating value of the Company's trading account with such broker. The Company monitors the credit worthiness of its clearing brokers to mitigate the Company's exposure to credit risk.

The Company maintains its cash at a financial institution located in Chicago. The Company regularly maintains cash balances that exceed Federal Deposit Insurance Corporation limits. The Company has not incurred any losses on these accounts in the past and does not expect any such loss in the future.

(9) INDEMNIFICATIONS

In the normal course of business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents against potential losses in connection with them providing services to the Company. 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 believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

(10) REGULATORY MATTERS AND OTHER CONTINGENCIES

In the normal course of business, the Company is subject to regulatory examinations and other regulatory and legal proceedings. Management cannot predict with certainty the outcome of pending proceedings. A significant adverse judgement or other resolution regarding the proceedings could have a material adverse effect on the Company's financial statements. After consultation with legal counsel, management believes the outcome of any pending proceeding is unlikely to have a material adverse effect on financial statements of the Company.

As a registered broker/dealer with the Securities and Exchange Commission "SEC", the Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1) which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1.

At December 31, 2021, the Company had net capital of approximately \$5,400,000 which exceeded requirements by approximately \$4,900,000 and the ratio of aggregate indebtedness to net capital was less than 1.55:1. The Rule may effectively restrict advances to affiliates or capital withdrawals.

(11) SUBSEQUENT EVENTS

The Company evaluates subsequent events that have occurred after the balance sheet date, but before the financial statements were issued.

Subsequent to year end, members made capital additions and withdrawals of approximately \$700,000 and \$4,600,000, respectively.