

XP Securities, LLC

Statement of Financial Condition

December 31, 2018

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

ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

OMB APPROVAL
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FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/18 AND ENDING 12/31/18
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: XP Securities LLC

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

1065 Avenue of Americas, 29th Floor

(No. and Street)

New York

NY

10018

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Steven Singer

561-784-8922

(Area Code -- Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP

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

100 North Tampa Street Suite 1700 Tampa

FL

33602-5145

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

☒

Certified Public Accountant

☐

Public Accountant

☐

Accountant not resident in United States or any of its possessions.

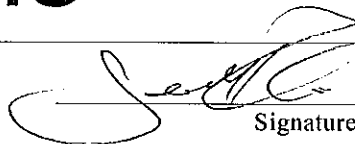
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

OATH OR AFFIRMATION

I, Jared R. Wilson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of XP Securities LLC, as of December 31, 20 18, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

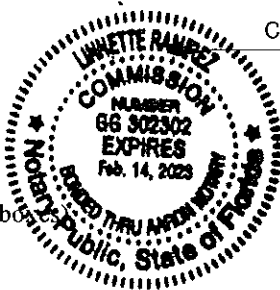
no exceptions


Signature

Chief Compliance Officer

Title


Notary Public



This report ** contains (check all applicable boxes)

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

****For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**

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KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602-5145

Report of Independent Registered Public Accounting Firm

To the Member and the Manager
XP Securities, LLC:

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of XP Securities, LLC (the Company) as of December 31, 2018, 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, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

This **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 provides a reasonable basis for our opinion.

KPMG LLP

We have served as the Company's auditor since 2017.

Tampa, Florida
February 28, 2019

XP Securities, LLC
Statement of Financial Condition
December 31, 2018

Assets

Cash and cash equivalents	\$ 465,988
Due from broker dealers	12,768,592
Accounts receivable, net of allowance	6,365,260
Securities owned, at fair value	37,715,737
Prepays and other assets	4,127,636
Property and equipment, net	3,798,766
Due from affiliate	119,982
Income tax receivable from Parent	288,241
Rent security deposit	680,436

Total assets	<u>\$66,330,638</u>
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Liabilities and Member's Equity

Accrued expenses and other liabilities	\$ 8,986,225
Securities sold not yet purchased, at fair value	18,911,758
Deferred tax liability, net	1,036,535

Total liabilities	<u>28,934,518</u>
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Commitments and Contingencies

Member's Equity	37,396,120
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Total liabilities and member's equity	<u>\$66,330,638</u>
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See accompanying notes.

XP Securities, LLC

Notes to Statement of Financial Condition

December 31, 2018

1. Organization and Summary of Significant Accounting Policies

XP Securities, LLC (“the Company”), is a securities broker-dealer which principally serves institutional investors. The Company was formed on December 29, 2010 in the State of Delaware. The Company is a wholly owned subsidiary of XP Holdings International, LLC (the “Parent”). The Company is registered as a broker-dealer with the Securities and Exchange Commission (the “SEC”) and became a member of the Financial Industry Regulatory Authority (“FINRA”) as of October 27, 2011. On December 22, 2012, the Company became a member of the National Futures Association.

The Company generates revenue principally by providing securities trading and brokerage services to institutional investors in the United States and Latin American countries. Revenue for these services could vary based on the performance of financial markets around the world.

Following is a description of the significant accounting policies and practices followed by the Company in the preparation of the accompanying financial statements. These policies conform to accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Securities Transactions

Securities transactions are reported on a trade date basis, and securities owned, at fair value are valued at quoted market or dealer quotes. Proprietary securities transactions in regular-way trades entered into for the account and risk of the Company are recorded at fair value on a trade-date basis.

Securities sold, not yet purchased represent obligations to purchase securities at a future date at the then-current market price. This obligation is recorded at the fair value of the securities to be purchased. Securities sold not yet purchased, at fair value, were comprised of corporate bonds and sovereign debt totaling \$18,911,758 as of December 31, 2018. Because securities sold, not yet purchased at fair value represent obligations of the Company to purchase securities at a future date at the then-current market price, the fair value of the securities is likely to fluctuate prior to the date they are purchased.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2015-14, *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which deferred the effective date of ASU 2014-09 for all entities by one year. The company had initially planned for ASU 2014-09 to become effective beginning January 2017; however, ASU 2015-14 deferred our effective date until January 2018, which is when the Company adopted this standard. The ASU permits two methods of adoption: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the modified retrospective method). The ASU also requires expanded disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

XP Securities, LLC

Notes to Statement of Financial Condition

December 31, 2018

Additionally, qualitative and quantitative disclosures are required for customer contracts, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. We have completed the process of evaluating the effect of the adoption and determined there were no material changes required to our reported revenues as a result of the adoption. Based on our evaluation process and review of our contracts with customers, the timing and amount of revenue recognized based on ASU 2014-09 is consistent with our revenue recognition policy under previous guidance. We adopted the new standard effective January 1, 2018, using the modified retrospective approach.

Cash and Cash Equivalents

The Company considers all highly liquid debt instruments having maturities of three months or less at the date of acquisition to be cash equivalents. The Company may, during the ordinary course of business, maintain account balances in excess of federally insured limits. The Company does not expect any risk of loss with regard to these deposits.

Property and equipment

Property and equipment are stated at cost. Expenditures that materially increase the useful lives of property and equipment are capitalized, while ordinary maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from three to ten years. Leasehold improvements are amortized on a straight-line basis over the term of the lease.

Income taxes

The Company is a wholly owned subsidiary of the Parent and is considered a disregarded entity for income tax purposes. Accordingly, the Company's results are included in the consolidated federal and state income tax returns of the Parent. The Company reimburses the Parent for taxes incurred and attributable to the Company's income reported on the Parent's tax returns. Therefore any overpayment of taxes is subject to reimbursement by the Parent. The Company records any income tax expense and liability based upon its operations on a stand-alone basis, even though the Company is part of the consolidated income tax returns.

The Company accounts for income taxes in accordance with the Income Taxes Topic of the FASB Accounting Standards Codification ("ASC"). The Income Taxes Topic requires that deferred income tax balances be recognized based on the differences between the financial statement and income tax bases of assets and liabilities using the enacted tax rates. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. It was determined that there were no uncertain tax positions that are not more likely than not to be sustained as of December 31, 2018. See Note 5, Income Taxes.

Fair Value of Cash and Cash Equivalents, Due from Broker-Dealers, Accounts Receivable, Due from Affiliate, Accrued Expense, and Other Liabilities

The carrying value of cash and cash equivalents, due from broker-dealers, accounts receivables, due from affiliate, accrued expenses, and other liabilities approximates fair value due to the short maturity of these instruments. None of the financial instruments are held for trading purposes. The firm periodically assesses the collectability of accounts receivables and records a provision for uncollectable receivables, if deemed necessary.

XP Securities, LLC

Notes to Statement of Financial Condition

December 31, 2018

2. Property and Equipment

Property and equipment consist of the following:

Intellectual property - software	2,709,996
Office equipment	602,305
Furniture and fixtures	352,200
Leasehold improvements	<u>729,700</u>
	4,394,201
Less: accumulated depreciation and amortization	<u>595,435</u>
Net property and equipment	<u><u>\$ 3,798,766</u></u>

3. Commitment and Contingencies

Commitments

The Company is obligated under two non-cancelable leases for office space, expiring in December 2023 and October 2026. Approximate minimum annual lease commitments for years subsequent to 2018 are as follows:

2019	\$ 1,010,000
2020	1,050,000
2021	1,077,000
2022	1,088,000
2023	1,099,000
Thereafter	<u>2,002,000</u>
	<u>\$ 7,326,000</u>

The Company uses Pershing, LLC, Interactive Brokers, LLC, Wedbush Securities Inc. and RJ O'Brien & Associates LLC to process its customers' securities transactions and to provide custodial and other services. The Company pays fees on a per transaction basis for securities transactions and interest on balances due to these firms.

During the ordinary course of business, the Company may maintain cash balances in excess of amounts insured by the Federal Deposit Insurance Corporation. The Company had balances in excess of insured limits of \$215,988 as of December 31, 2018.

Legal Matters

During the normal course of operations, the Company, from time to time, may be involved in lawsuits, arbitrations, claims, and other legal or regulatory proceedings. The Company does not believe that these matters will have a material adverse effect on the Company's financial position.

XP Securities, LLC

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4. Fair Value Measurements

FASB ASC 820-10 *Fair Value Measurements and Disclosures*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that 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 FASB ASC 820-10 are described as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. Following is a description of the valuation methodologies used for assets measured at fair value.

The financial instruments of the Company are reported in the statement of financial condition at their fair values or at carrying amounts that approximate fair values because of the short maturity of the instruments. When quoted market prices are unobservable, management uses quotes from independent pricing vendors based on independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating and other factors such as credit loss assumptions. The pricing vendors may provide the Company with valuations that are based on significant unobservable inputs and in those circumstances the Company classifies the fair value measurements of the investment securities as Level 3.

Management conducted a review of its pricing vendor to validate that the inputs used in that vendor's pricing process are deemed to be market observable or unobservable as defined in the standard. Based on the review performed, management believes that the valuations used in its financial statements are reasonable and are appropriately classified in the fair value hierarchy. There were no instances in which unobservable inputs were used as of December 31, 2018.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of

XP Securities, LLC

Notes to Statement of Financial Condition

December 31, 2018

different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Company's assets at fair value as of December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Assets</u>				
Securities owned	\$ -	\$37,715,737	\$ -	\$37,715,737
Securities sold, not yet purchased	-	(18,911,758)	-	(18,911,758)

During the year ended December 31, 2018, there were no transfers in or out of Levels 1, 2, or 3 of the fair value hierarchy.

5. Income Taxes

At December 31, 2018, the Company has a receivable due from the Parent of \$288,241 for overpayment of taxes, reflected as income tax receivable on the statement of financial condition.

U.S. Federal, State of Florida, New York State and New York City are the major tax jurisdictions where the Company would file income tax returns if it were the tax payer. The Company would be subject to U.S. Federal, State of Florida, New York State or New York City examinations by tax authorities for all years since inception.

For the year ended December 31, 2018, the Company did not have any unrecognized tax benefits as a result of tax positions taken during a prior period or during the current period. No interest or penalties have been recorded as a result of tax uncertainties. Income tax returns filed by the Parent for the tax years ended December 2015 through December 2017 remain subject to examination in the U.S. Federal and various state tax jurisdictions. Income tax expense included in the statement of operations was determined in accordance with ASC 740 *Accounting for Income Taxes*.

The Company has a net deferred tax liability relating to temporary differences in the amount of \$1,036,535 reflected on the statement of financial condition.

The temporary differences that created deferred income tax assets and liabilities are as follows as of December 31, 2018:

Deferred Income Tax Assets

Bad debt expense	23,576
Other	26,901
	<u>\$ 50,477</u>

Deferred Income Tax Liabilities

Property and equipment, net	1,087,012
	<u>\$ 1,036,535</u>

XP Securities, LLC

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6. Net Capital Requirements

The Company is subject to the Securities and Exchange Commission'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, 2018, the Company had net capital of \$13,120,897 which was \$12,521,821 in excess of its required capital of \$599,076. The Company's net capital ratio was 0.68 to 1.

7. Related Party Transactions

At December 31, 2018, the Company was due \$119,982 in commissions from XP Investimentos CCTVM S/A ("XPI"), an affiliate of the Company.

On August 31, 2018, Itau Unibanco S/A became owner of 49.9% of the total capital of XP Investimentos S/A, Holding which consolidates the investments of the XP Group, with approximately 30% of the voting capital but no change in the control of the XP Group. On December 31, 2018, the Company was due \$233,038 in commission from Itau Unibanco S/A which is recognized as accounts receivable in the statement of financial condition.

8. Risk Concentrations

Clearing and Depository Concentrations

The clearing and depository operations for the Company's securities transactions are primarily provided by a brokerage firm whose principal office is in Jersey City, New Jersey. At December 31, 2018, \$11,298,194 of the due from broker dealers total amount reflected in the accompany statement of financial condition, is held by and due from this clearing broker. The Company has agreements with two other U.S. based broker dealers for the clearing of futures and certain other trades, and an agreement with a Brazilian-based financial institution for the clearing and custody of foreign securities and currencies.

Other Risk Concentrations

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company, through its clearing firm, extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event a customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary.

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9. Subsequent Events

The Company has evaluated its subsequent events through the date that this statement of financial condition was available to be issued. There were no subsequent events requiring disclosure.