

**MBS SOURCE ETRADING INC.**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**DECEMBER 31, 2016**

## **C O N T E N T S**

<b>FACING PAGE.....</b>	<b>1</b>
<b>OATH OR AFFIRMATION.....</b>	<b>2</b>
<b>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM .....</b>	<b>3 and 4</b>
<b>FINANCIAL STATEMENT</b>	
STATEMENT OF FINANCIAL CONDITION .....	5
STATEMENT OF INCOME .....	6
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY.....	7
STATEMENT OF CASH FLOWS .....	8
NOTES TO FINANCIAL STATEMENTS .....	9 - 14
<b>SUPPLEMENTARY INFORMATION</b>	
SCHEDULE I COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1.....	15
SCHEDULE II - COMPUTATION FOR DETERMINATION OF THE RESERVE REQUIREMENTS AND INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS FOR BROKERS AND DEALERS PURSUANT TO SEC RULE 15c3-3.....	16
<b>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON EXEMPTION REPORT .....</b>	<b>17</b>
<b>EXEMPTION REPORT .....</b>	<b>18</b>

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

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

SEC FILE NUMBER
8-69123

**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 01/01/16 AND ENDING 12/31/16  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: MBS SOURCE ETRADING, INC.

OFFICIAL USE ONLY

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

FIRM I.D. NO.

9725 SE 36TH STREET, SUITE 410

(No. and Street)

MERCER ISLAND

WA

98040

(City)

(State)

(Zip Code)

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

MIHAI SZABO

(206) 542-3837

(Area Code – Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

Breard & Associates, Inc.

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

9221 Corbin Avenue, Suite 170

Northridge

CA

91324

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

☒

Certified Public Accountant

☐

Public Accountant

☐

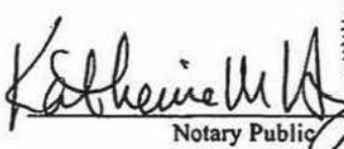
Accountant not resident in United States or any of its possessions.


**FOR OFFICIAL USE ONLY**

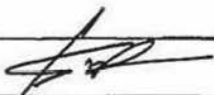
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, MIHAI SZABO, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of MBS SOURCE ETRADING, INC., as of DECEMBER 31, 20 16, 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:

  
Notary Public



  
Signature

\_\_\_\_\_  
CEO

\_\_\_\_\_  
Title

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. (CASH FLOWS)
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors. (NOT APPLICABLE)
- ☒ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3. (NOT APPLICABLE)
- ☒ (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. (NOT APPLICABLE)
- ☒ (l) An Oath or Affirmation.
- ☒ (m) A copy of the SIPC Supplemental Report. (SEE SEPARATE BOUND REPORT)
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (o) Exemption Report Required by SEC Rule 17a-5(d)(1)(i)(B)(2).

\* Reserve requirements are not applicable

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



Report of Independent Registered Public Accounting Firm

Board of Directors  
MBS Source eTrading Inc.

We have audited the accompanying statement of financial condition of MBS Source eTrading Inc. as of December 31, 2016, and the related statements of income, changes in stockholder's equity, and cash flows for the year then ended. These financial statements are the responsibility of MBS Source eTrading Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluation of the overall financial statement presentation. We believe that our audit provides a basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MBS Source eTrading Inc. as of December 31, 2016, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

The information contained in Schedule I and II (supplemental information) has been subjected to audit procedures performed in conjunction with the audit of MBS Source eTrading Inc.'s financial statements. The supplemental information is the responsibility of MBS Source eTrading Inc.'s management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with 17 C.F.R. § 240.17a-5. In our opinion, Schedules I and II are fairly stated, in all material respects, in relation to the financial statements as a whole.



Breard & Associates, Inc.  
Certified Public Accountants

Seattle, Washington  
February 21, 2017



**MBS SOURCE ETRADING INC.**

STATEMENT OF FINANCIAL CONDITION  
December 31, 2016

**Assets**

Cash and cash equivalents	\$	375,645
Deposit at clearing firm		100,001
Accounts receivable		26,534
Prepaid expenses		20,063
Other assets		4,772
<b>Total assets</b>	<b>\$</b>	<b>527,015</b>

**Liabilities and Stockholder's Equity**

**Liabilities**

Accounts payable and accrued expenses	\$	14,561
Deferred revenue		9,944
<b>Total liabilities</b>		<b>24,505</b>

Commitments and contingencies

**Stockholder's equity**

Common stock, \$0.001 per value, 20,000,000 shares authorized, 2,000,000 shares issued and outstanding		2,000
Preferred stock, \$0.001 per value, 5,000,000 shares authorized, none issued and outstanding		
Retained earnings		500,510
<b>Total stockholder's equity</b>		<b>502,510</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$</b>	<b>527,015</b>

The accompanying notes are an integral part of these financial statements

**MBS SOURCE ETRADING INC.**

STATEMENT OF INCOME  
For the Year Ended December 31, 2016

**Revenues**

Subscription revenue	\$ 861,381
Trading commissions	269,104
Rental Income	18,000
Interest and other Income	897
<b>Total revenues</b>	<u>1,149,382</u>

**Expenses**

Employee compensation and benefits	509,374
Clearing fees	51,687
Occupancy	46,174
Professional fees	165,695
Licensing fees and permits	180,101
Other operating expenses	130,496
<b>Total expenses</b>	<u>1,083,527</u>

**Net Income (loss) before income tax provision** 65,855

**Income tax provision** 10,516

**Net Income (loss)** \$ 55,339

The accompanying notes are an integral part of these financial statements



**MBS SOURCE ETRADING INC.**

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY  
For the Year Ended December 31, 2016

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Total</u>
<b>Balance, December 31, 2015</b>	\$ 2,000	445,171	\$ 447,171
Net income (loss)		55,339	\$ 55,339
<b>Balance, December 31, 2016</b>	<u>\$ 2,000</u>	<u>\$ 500,510</u>	<u>\$ 502,510</u>

The accompanying notes are an integral part of these financial statements

**MBS SOURCE ETRADING INC.****STATEMENT OF CASH FLOWS**  
**For the Year Ended December 31, 2016****Cash Flows from Operating Activities**

Net income (loss)		\$	55,339
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
(Increase) decrease in assets:			
Accounts receivable	\$	22,517	
Lease deposit		(1,022)	
Prepaid expenses		(4,628)	
Increase (decrease) in liabilities:			
Accounts payable and accrued expenses		4,056	
Deferred revenue		(27,000)	
Total adjustments			(6,077)
<b>Net cash provided by (used in) operating activities</b>			<b>49,262</b>
<b>Net cash provided by (used in) investing activities</b>			<b>-</b>
<b>Net cash provided by (used in) financing activities</b>			<b>-</b>
<b>Net increase (decrease) in cash</b>			<b>49,262</b>
<b>Cash and cash equivalents at the beginning of year</b>			<b>326,383</b>
<b>Cash and cash equivalents at end of year</b>			<b>\$ 375,645</b>

**Supplementary cash flow information**

Cash paid during the year for:		
Interest	\$	-
Income Taxes	\$	17,234

The accompanying notes are an integral part of these financial statements

**MBS Source eTrading, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016**

**NOTE 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Organization***

MBS Source eTrading Inc. ("the Company") is a securities broker-dealer registered with the Securities Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA"), and Securities Protection Corporation ("SIPC"). The Company was incorporated under the laws of the state of Washington on May, 11 2012.

The Company is engaged in trading of Mortgage Backed and Asset Backed securities ("MBS/ABS") with other broker-dealers and institutional customers. The Company does not hold security position at the end of the day, all securities purchased are sold, and the buyer is charged a commission. The Company is an introducing broker-dealer and clears all its transactions on a fully disclosed basis.

Under its membership agreement with FINRA and pursuant to Rule 15c3-3(k)(2)(ii), the Company is exempt from the requirement of Rule 15c3-3 under the Securities Exchange Act of 1934 pertaining to the possession or control of customer assets and reserve requirements.

The Company's business also includes on-line access to a web based aggregation tool, containing mortgage and asset backed securities information. The Company's customers, who subscribe to the online data service, pay a monthly fee to access the website.

The Company is wholly-owned by MBS Source Holdings, Inc. (the "Parent"). The Parent also wholly-owns MBS Source, LLC (the "Related Party")

***Summary of Significant Accounting Policies***

The presentation 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 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.

***Subsequent Events***

The Company has adopted authoritative standards of accounting for and the disclosure of events that occur after the balance sheet date but before the financial statements are issued or are available to be issued. These standards require the Company to recognize in the financial statements the effects of all recognized subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet.



**MBS Source eTrading, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016**

**NOTE 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

For non-recognized subsequent events that must be disclosed to keep the financial statements from being misleading, the Company is required to disclose the nature of the event as well as an estimate of its financial effect, or a statement that such estimate cannot be made. In addition, the Company is required to disclose the date through which subsequent events have been evaluated. The Company has evaluated subsequent events through the issuance of their financial statements. Based upon this review, the Company has determined that there were no events which took place that would have a material impact on its financial statements.

***Accounts Receivable***

Accounts receivable are stated at face amount with no allowance for doubtful accounts. An allowance for doubtful accounts is not considered necessary because probable uncollectible accounts are immaterial.

***Commission Income***

Commissions associated with the securities transactions and related clearing expenses are recorded on a trade-date basis as securities transactions occur.

***Subscription Income***

Subscriptions to access the data on the web based platform through secure logins. Subscription revenue is recognized as earned on a monthly basis. The billing frequency is negotiated and stated in each contract.

***Clearing Agreements***

The Company entered into a clearing agreement with COR Clearing, LLC ("COR") registered in Delaware on a fully disclosed basis. The clearing firm clears all security transactions and remit the commissions, net of the clearing charges to the Company on a monthly basis.

***Deferred Revenue***

Deferred revenue includes amounts received in advance for subscriptions to access the on-line data.

**MBS Source eTrading, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016**

**NOTE 1: GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

***Income Taxes***

The Company is organized as a Corporation and subject to federal, state and local income taxes. In accordance with the authoritative guidance for uncertainty in income taxes included within the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 740, Income Taxes, and the Company reviews and evaluates the tax positions in its major jurisdictions and determines whether or not there are uncertain tax positions that require financial statement recognition. Based on this review, the Company has determined that no reserves for uncertain tax positions were required. The Company is additionally not aware of any tax positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will change materially in the next twelve months.

**NOTE 2: DEPOSIT AT CLEARING ORGANIZATION**

The Company has a brokerage agreement with its clearing firm to service its account and transfer funds and securities on behalf of the company. The Company had a \$101,001 clearing fund deposit with COR which serves as collateral for any amounts due to the clearing firm as well as collateral for securities trading activity.

**NOTE 3: INCOME TAXES**

As discussed in the Summary of Significant Accounting Policies (Note 1) the company is subject to federal, state and local taxes. The Company performs monthly reviews to ascertain its tax liability. Income tax is determined using an asset and liability approach which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement basis and tax basis of assets and liabilities at the applicable enacted tax rates. As of December 31, 2016, the Company’s deferred assets were insignificant and they did not have any deferred liabilities.

The Company records a liability, if any, for unrecognized tax benefits resulting from uncertain income tax positions taken or expected to be taken in an income tax return. No liability has been recorded for uncertain tax positions or related interest or penalties as of December 31, 2016.



**MBS Source eTrading, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016**

**NOTE 4: RELATED-PARTY TRANSACTIONS**

The Company and the Related Party entered into a Technology License Agreement to use and resell access to the Related Party's platform. The platform is a web based MBS/ABS data aggregation tool with sorting matching and bidding capabilities. The Company incurred \$180,000 in expenses for the year ended December 31, 2016 under this agreement.

The Company has a lease agreement as described in Note 6. The Company subleases a portion of the property to the Related Party for a monthly fee. The Company received \$18,000 in rental income for the year ended December 31, 2016 under this sublease agreement.

**NOTE 5: COMMITMENTS AND CONTINGENCIES**

*Contingencies*

The Company maintains bank accounts at financial institutions. These accounts are insured either by the Federal Deposit Insurance Commission ("FDIC"), up to \$250,000, or the Securities Investor Protection Corporation ("SIPC"), up to \$500,000. At times during the year, cash balances held in financial institutions were in excess of the FDIC and SIPC's insured limits. The Company has not experienced any losses in such accounts and management believes that it has placed its cash on deposit with financial institutions which are financially stable.

*Commitments*

In the normal course of business, the Company could be threatened with, or named as a defendant in, lawsuits, arbitrations, and administrative claims. Such matters that are reported to regulators such as the SEC or FINRA and investigated by such regulators, may, if pursued, result in formal arbitration claims being filed against the Company and/or disciplinary action being taken against the Company by regulators. Any such claims or disciplinary actions that are decided against the Company could harm the Company's business. The Company is also subject to periodic regulatory audits and inspections which could result in fines or other disciplinary actions. Unfavorable outcomes, in such matters, may result in a material impact to the Company's financial position, statement of income or cash flows. As of December 31, 2016, management is not aware of any commitments or contingencies that could have a material impact on the financial statements.

**NOTE 6: LEASES**

The Company has an office lease agreement with a third party. The office space is leased under an operating lease expiring on December 31, 2016 and renewed under a new contract for 2 years expiring on December 31, 2018..

**MBS Source eTrading, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016**

**NOTE 6: LEASES (Continued)**

Future lease payments under this operating lease for the remainder of the lease for years ending December 31 are as follows:

2017	\$	55,624
2018		<u>57,260</u>
	\$	<u><u>112,884</u></u>

As noted in Note 4, a related party agreed to sublease part of the office space. Future minimum lease revenue from subletting the space for years ending December 31 are as follows:

2017	\$	18,000
2018		<u>18,000</u>
	\$	<u><u>36,000</u></u>

**NOTE 7: GUARANTEES**

FASB ASC 460, Guarantees, requires the Company to disclose information about its obligations under certain guarantee arrangements. FASB ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying factor (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of indebtedness of others.

**NOTE 8: CONCENTRATION OF CREDIT RISK**

The Company is engaged in various trading and brokerage activities in which counter-parties primarily include broker-dealers, banks, and other financial institutions. In the event counter-parties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counter-party or issuer of the instrument. It is the Company's policy to review, as necessary, the credit standing of each counter-party.



**MBS Source eTrading, Inc.**  
**Notes to Financial Statements**  
**December 31, 2016**

**NOTE 9: RECENTLY ISSUED ACCOUNTING STANDARDS**

For the year ending December 31, 2016, various ASUs issued by the FASB were either newly issued or had effective implementation dates that would require their provisions to be reflected in the financial statements for the year then ended. The Company has either evaluated or is currently evaluating the implications, if any, of each of these pronouncements and the possible impact they may have on the Company's financial statements. In most cases, management has determined that the pronouncement has either limited or no application to the Company and, in all cases, implementation would not have a material impact on the financial statements taken as a whole.

**NOTE 10: NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC 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. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. Net capital and aggregate indebtedness change day to day, but on December 31, 2016, the Company had net capital of \$469,925 which was \$464,925 in excess of its required net capital of \$5,000; and the Company's ratio of aggregate indebtedness (\$24,505) to net capital was 0.0527 to 1.

S U P P L E M E N T A R Y   I N F O R M A T I O N

**MBS SOURCE ETRADING INC.**

SCHEDULE I  
COMPUTATION OF NET CAPITAL PURSUANT TO RULE 15c3-1  
December 31, 2016

**COMPUTATION OF NET CAPITAL**

Common stock	\$	2,000	
Retained earnings		<u>500,510</u>	
<b>Total Stockholder's equity</b>			\$ 502,510
Less: Non-allowable assets			
Accounts Receivable		(7,750)	
Prepaid expenses		(20,063)	
Other assets		<u>(4,772)</u>	
<b>Total non-allowable assets</b>			<u>(32,585)</u>
<b>Net capital</b>			469,925

**Computation of net capital requirements**

Minimum net capital requirements			
6 2/3 percent of net capital requirements	\$	1,634	
Minimum dollar net capital required	\$	<u>5,000</u>	
Net capital required (greater of above)			<u>5,000</u>
<b>Excess net capital</b>			<u>\$ 464,925</u>
Aggregate indebtedness			<u>\$ 24,505</u>
Ratio of aggregate indebtedness to net capital		0.0521 to 1	



**MBS SOURCE ETRADING INC.**

SCHEDULE I - Computation for Determination of the Reserve Requirements and  
Information Relating to Possession or Control Requirements For Brokers and  
Dealers Pursuant to SEC Rule 15c3-3

As of December 31, 2016

**The Company is exempt from the provision of Rule 15c3-3 under paragraph (k)(2)(ii) in that the Company carries no accounts, does not hold funds or securities for, or owe money or securities to customers. Accordingly, there are no items to report under the requirements of this Rule.**

**MBS Source eTrading Inc**  
**Report on Exemption Provisions**  
**Report Pursuant to Provisions of 17 C.F.R. § 15c3-3(k)**  
**For The Year End December 31, 2016**

**Report of Independent Registered Public Accounting Firm**

We have reviewed management's statements, included in the accompanying Assertions Regarding Exemption Provisions, in which (1) MBS Source eTrading Inc. identified the following provisions of 17 C.F.R. § 15c3-3(k) under which MBS Source eTrading Inc. claimed an exemption from 17 C.F.R. § 240.15c3-3(k)(2)(ii) (the "exemption provisions") and (2) MBS Source eTrading Inc. stated that MBS Source eTrading Inc. met the identified exemption provisions throughout the most recent fiscal year without exception. MBS Source eTrading Inc.'s management is responsible for compliance with the exemption provisions and its statements.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about MBS Source eTrading Inc.'s compliance with the exemption provisions. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's statements. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.



Breard & Associates, Inc.  
Certified Public Accountants

Seattle, Washington  
February 21, 2017



9725 SE 36<sup>th</sup> Street, Suite 410  
Mercer Island, WA 98040

## **MBS Source eTrading, Inc.'s Exemption Report**

MBS Source eTrading, Inc. (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). This Exemption Report was prepared as required by 17 C.F.R. § 240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

(1) The Company claims an exemption from 17 C.F.R. § 240.15c3-3(k) (2)(ii) (the "exemption provision") and (2) the Company met the exemption provision throughout the most recent fiscal year December 31, 2016 from January 1, 2016 to December 31, 2016 without exception.

MBS Source eTrading, Inc.

By: Mihai Szabo

Signature

A handwritten signature in black ink, appearing to be 'MS', written over a horizontal line.

Title: CEO

Date of report

2/2/17