

**ICAPITAL SECURITIES, LLC**  
(SEC I.D. No. 8-69443)  
**STATEMENT OF FINANCIAL CONDITION**

As of December 31, 2020

And Report of Independent Registered Public Accounting Firm

This report is deemed PUBLIC in accordance  
with Rule 17a-5(e)(3) under the Securities Exchange  
Act of 1934.

ICAPITAL SECURITIES, LLC  
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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Member and Those Charged with Governance of iCapital Securities, LLC

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

We have audited the accompanying statement of financial condition of iCapital Securities, LLC (the "Company") as of December 31, 2020, 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, 2020, 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.

New York, NY  
February 26, 2021

We have served as the Company's auditor since 2018.

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

OMB APPROVAL
OMB Number: 3235-0123
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**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

SEC FILE NUMBER
8-69443

**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 01/01/20 AND ENDING 12/31/20  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **ICAPITAL SECURITIES LLC**

OFFICIAL USE ONLY

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

FIRM I.D. NO.

**60 EAST 42ND STREET, FLOOR 26**

(No. and Street)

**New York**

**NY**

**10036**

(City)

(State)

(Zip Code)

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

(Area Code – Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**Deloitte & Touche LLP**

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

**30 Rockefeller Plaza**

**New York**

**NY**

**10112**

(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, Christopher Thome, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of ICAPITAL SECURITIES LLC, as of December 31,, 2020, 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:

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_



Signature

Chief Compliance Officer

Title

Anushree J. Dehadrai

Notary Public/ / License : 02DE6404410/ Expires : Feb 18, 2024

This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) 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 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).*



**ICAPITAL SECURITIES, LLC**  
**STATEMENT OF FINANCIAL CONDITION**

	<b>December 31, 2020</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,354,688
Fees receivable	4,708,573
Other assets	45,495
Total assets	<u>\$ 10,108,756</u>
<b>LIABILITIES AND MEMBER'S EQUITY</b>	
Liabilities	
Due to parent	\$ 2,781,837
Brokerage commissions payable	2,441,715
Professional services payable	400,470
Accounts payable and accrued liabilities	387,573
Total liabilities	<u>6,011,595</u>
Member's equity	
Member's equity	4,097,161
Total member's equity	<u>4,097,161</u>
Total liabilities and member's equity	<u>\$ 10,108,756</u>

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

ICAPITAL SECURITIES, LLC  
NOTES TO THE STATEMENT OF FINANCIAL CONDITION  
FOR THE YEAR ENDED DECEMBER 31, 2020

**Note 1. Organization and Business Activity**

iCapital Securities, LLC (the "Company"), a wholly owned subsidiary of iCapital Network, Inc. (the "Parent"), was formed in Delaware as a limited liability company on January 23, 2014. The Company commenced operations on June 1, 2014. The Company is a registered broker-dealer with the Securities and Exchange Commission (the "SEC") and a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). The Company received its FINRA approval for membership on December 16, 2014.

**Note 2 Summary of Significant Accounting Policies**

*Basis of presentation:* The accompanying statement of financial condition has been prepared in conformity with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). All amounts are expressed in U.S. dollars.

*Use of estimates:* The preparation of the statement of financial condition in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities. Management's judgment is based on its knowledge and experience about past and current events and its assumptions about conditions it expects to exist and courses of action it expects to take in the future.

*Cash and cash equivalents:* The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash held by financial institutions which exceed the Federal Deposit Insurance Corporation ("FDIC") limits expose the Company to concentrations of credit risk. Balances throughout the year usually exceeded the maximum coverage provided by the FDIC on insured depositor accounts. The Company has not experienced any losses in such accounts and believes that it is not subject to any significant credit risk on cash.

*Fees receivable:* The Company records its fees receivable at cost, less an allowance for doubtful accounts. On a periodic basis, the Company evaluates its receivables and establishes an allowance for doubtful accounts, if necessary, based on a history of past bad debts, collections, and assessment of future collections. This involves the process of determining whether the Company will be able to collect substantially all of the consideration to which it will be entitled. At December 31, 2020, the fees receivable balance is deemed fully collectible within one year from the financial statement reporting date.

In June 2016, the FASB issued ASU 2016-13, *Accounting for Financial Instruments - Credit Losses (Topic 326)* ("ASU 2016-13"), which requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Currently, U.S. GAAP requires an "incurred loss" methodology that delays recognition until it is probable a loss has been incurred. Under ASU 2016-13, the allowance for credit losses must be deducted from the amortized cost of the financial asset to present the net amount expected to be collected. This guidance was effective for the Company on January 1, 2020 using a modified retrospective transition method and did not have a material impact on the statement of financial condition.

*Other assets:* Other assets include prepaid expenses primarily consisting of advance payments for insurance, regulatory memberships, and software licenses, for which the Company expects to receive a future benefit.

*Due to parent:* Due to parent primarily includes allocated operational expenses in accordance with an expense sharing agreement (see Note 4).

*Professional services payable:* Professional services payable includes accrued expenses related to various vendors who provide expertise primarily in the fields of legal, audit, and accounting.

*Accounts payable and accrued liabilities:* Accounts payable and accrued liabilities primarily includes accrued insurance, expenses in excess of expense caps ("Expense Cap Overages"), and other fees, which the company owes in the normal course of business.

*Brokerage commissions:* Instances arise where the Company incurs and accrues brokerage commissions in connection with the sale of investments in funds. In this scenario, since a written contract exists between the Company and sales representatives or unaffiliated selling group members, fees receivable are not deducted from net worth to the extent they are offset by the brokerage commission payable.

*Income taxes:* The Company is a limited liability company treated as a disregarded entity for federal, state, and city income tax purposes and, accordingly, no liability for income taxes has been recorded in the accompanying statement of financial condition for any federal, state, or local tax.



ICAPITAL SECURITIES, LLC  
NOTES TO THE STATEMENT OF FINANCIAL CONDITION  
FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

**Note 3. Revenue From Contracts with Funds**

The Company accounts for its revenue in accordance with ASC 606 – *Revenue from Contracts with Customers*. The Company recognizes revenue when it satisfies performance obligations within its contracts and the customer receives control or benefit over the promised goods or services. A performance obligation is a promise to transfer a distinct good or service to the customer, and each performance obligation may be satisfied over time or at a point in time. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for the promised goods or services. The Company enters into contracts that include multiple services, which are considered separate performance obligations if they are determined to be distinct in the context of the contract. Management's judgment is required to identify distinct performance obligations and includes an assessment of factors, such as whether the promised services are highly interdependent or interrelated in the context of the contracts with customers.

Customers of the Company include banks, general partners of alternative funds, registered investment advisors, and broker dealers. The Company's significant sources of revenue are earned from (1) contracts for administrative services performed to allow alternative fund investors to interact and transact with sponsors of underlying alternative funds, and (2) contracts for placement of certain investors in certain private investment funds. The Company has identified two primary performance obligations within the contracts including (i) administrative services and (ii) placement services. Both administrative services and placement services leverage the Parent's financial technology platform to provide benefit to customers.

The following provides detailed information on the recognition of the Company's revenue from contracts with funds:

*Administrative fees:* The administrative services performance obligation is satisfied ratably over time and related services include, but are not limited to, (i) supporting online fund subscriptions, including access to electronic signature technology, (ii) assisting in executing capital calls and distributions from underlying alternative funds, and (iii) providing a unified online interface for alternative fund reporting and tax information. For certain customers, administrative services include underlying alternative fund sourcing and diligence services. Administrative services, including sourcing and diligence services when applicable, are highly interrelated in the context of the administrative fee contracts with customers. Therefore, the combined services are a single performance obligation. Administrative fees may be billed to customers either in advance or in arrears, and the timing of such billings is dependent on the specific contractual terms with the customer.

Administrative fees are calculated based on the fair value of platform assets for each platform fund, multiplied by a rate specified in the contract between the Company and the platform fund's respective underlying alternative fund. The Company recognizes Administrative fees monthly and the amount recognized is calculated based on available underlying alternative fund information on the calculation date. Adjustments to revenue recognized are recorded when underlying alternative fund information is finalized and the amount of consideration is known. The variable consideration is highly susceptible to fluctuations in platform assets that are outside of the Company's influence. In accordance with ASC 606, the transaction price for administrative revenue is reflective of fund expense cap reimbursements which are required to be presented net against revenue rather than as a component of operating expenses.

As of December 31, 2020, Administrative fees were approximately 0.8% of the Company's platform assets on a weighted average basis. The Company has agreed to pay Expense Cap Overages for certain specified funds, which include a portion of certain fund expenses that exceed a defined threshold. As of December 31, 2020, within Fees receivable, \$3,639,076 related to Administrative fees were outstanding. As of December 31, 2020, approximately 98% of the Company's Administrative fees were earned from two funds. The administrative fees receivable from these two funds were \$3,579,086 as of December 31, 2020. The administrative fees receivable amount is recorded within Fees receivable on the statement of financial condition.

*Placement fees:* The performance obligation related to placement services is satisfied at a point in time. The consideration related to these services is either variable and based on net asset value per share of the shares sold over a period of time or fixed based on the initial subscription amount. The placement fees receivable was \$807,900 as of December 31, 2020. The placement fees receivable amount is recorded within Fees receivable on the statement of financial condition.

*Retrocession fees:* Retrocession fees are paid by certain underlying funds' fund managers for placement of investors into the respective underlying fund. The performance obligation related to placement services is satisfied at a point in time. The consideration related to these services is either variable and based on net asset value per share of the shares sold over a period of time or fixed based on the initial subscription amount. The retrocession fees receivable was \$261,597 as of December 31, 2020. The retrocession fees receivable amount is recorded within Fees receivable on the statement of financial condition.



ICAPITAL SECURITIES, LLC  
NOTES TO THE STATEMENT OF FINANCIAL CONDITION  
FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

**Note 4. Related Party Transactions**

The Company entered into an expense sharing agreement (“Agreement”) with the Parent, initially dated December 2014. Expenses such as payroll, rent, utilities, communications, market data, insurance, and office supplies are allocated to the Company based on monthly average payroll by department. Additionally, certain expenses, such as fund expenses, are allocated by specific identification as they are related to the Company’s operations. As of December 31, 2020, \$2,781,837 is payable to the Parent.

The Company engages in various related-party transactions with its parent and other affiliates under common control. The accompanying statement of financial condition is not necessarily indicative of the conditions that would exist that would prevail if the Company were operated as an unaffiliated entity.

The Company has agreements with certain shareholders of the Parent that represent financial service firms. Per these agreements, the administrative agent shall pay the service provider fees as stipulated in said agreements.

**Note 5. Net Capital Requirement**

The Company is subject to the SEC 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. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the ratio exceeds 10 to 1. The minimum net capital is calculated as 6 2/3% of aggregate indebtedness. At December 31, 2020, the Company had net capital of \$1,218,344, which exceeded its required net capital of \$400,773 by \$817,571. The Company's ratio of aggregate indebtedness to net capital was 4.93 to 1.

**Note 6. Segment Reporting**

The Company only has one operating segment per its analysis under ASC 280. Management has evaluated factors such as basis of organization, products and services, geographic areas, and regulatory environments to determine that only one reporting operating segment exists. For information regarding revenue generating products and services, reference Note 3.

**Note 7. Commitments, Contingencies, and Guarantees**

The Parent has entered into a loan agreement, under which its subsidiaries, including the Company, are jointly and severally liable for payment of principal, interest, fees, costs, and other sums owed to the lender under the loan agreement (the “Guarantee”). The Guarantee shall remain in full force until all amounts under the Guarantee have been paid in full and all of the obligations under the Guarantee have been terminated in writing by the bank.

The Company’s Guarantee is limited to the lesser of \$5 million or the maximum amount such that the expense of the Guarantee would not result in the Company reporting a net capital deficiency. As of December 31, 2020, no liabilities related to this Guarantee are recorded on the statement of financial condition. Further, there are no recourse provisions that would enable the Company to recover any of the amounts paid under the Guarantee.

The Company had no lease or equipment rental commitments and no contingent liabilities as of or for the year ended December 31, 2020 that are material in nature.

**Note 8. Legal Contingencies**

The Company records liabilities for contingencies, including legal costs, when it is probable that a liability has been incurred before the balance sheet date and the amount can be reasonably estimated. Contingencies are estimated and remeasured as needed. Contingencies which qualify as covered claims are not offset until insurance proceeds are received. To the extent necessary, adjustments for accruals of possible loss contingencies are included in other operating expenses on the Company’s statement of operations. As of December 31, 2020, the Company does not have accruals for legal contingencies.

ICAPITAL SECURITIES, LLC  
NOTES TO THE STATEMENT OF FINANCIAL CONDITION  
FOR THE YEAR ENDED DECEMBER 31, 2020 (CONTINUED)

**Note 9. Risks and Uncertainties**

During the 2020 calendar year, the World Health Organization has declared the outbreak of the coronavirus (“COVID-19”) to constitute a “Public Health Emergency of International Concern”. This pandemic has disrupted economic markets and the economic impact, duration and spread of the COVID-19 virus is uncertain at this time. The financial performance of the Company is subject to future developments related to the COVID-19 outbreak and possible government advisories and restrictions placed on the financial markets and business activities. The impact of financial markets and the overall economy, all of which are highly uncertain, cannot be predicted. If the financial markets and/or the overall economy are impacted for an extended period, the Company’s results may be materially affected. The statement of financial condition does not include any adjustments that might result from the outcome of this uncertainty.

**Note 10. Subsequent Events**

Subsequent events have been evaluated through February 26, 2021, the date of the issuance of the December 31, 2020 statement of financial condition.

On February 12, 2021, the Parent completed the acquisition of iCapital KKR Private Markets Fund (the “iKF Fund”), which was purchased from Artivist Holdings, Inc. Concurrently with the acquisition by the Parent, the Company was named the distributor for the iKF Fund. There is a 0.60% per annum distribution fee earned by the Company as compensation for providing distribution services on behalf of the iKF Fund. The Company is used as a conduit for collecting the distribution fee and subsequently remitting it to sub-distributors and service agents.