



STATEMENT OF FINANCIAL CONDITION

Instinet, LLC

(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

March 31, 2020

With Report of Independent Registered Public Accounting Firm

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

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

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response.....	12.00

SEC FILE NUMBER
8-23669

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 04/01/2019 AND ENDING 03/31/2020  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Instinet, LLC

OFFICIAL USE ONLY

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

FIRM I.D. NO.

Worldwide Plaza, 309 West 49th Street

(No. and Street)

New York

NY

10019-7316

(City)

(State)

(Zip Code)

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

Laure Richmond, 212-310-4307

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

Ernst & Young, LLP

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

5 Times Square

New York

NY

10036

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:



Certified Public Accountant



Public Accountant



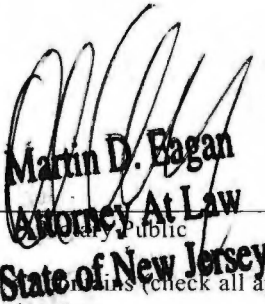
Accountant not resident in United States or any of its possessions.

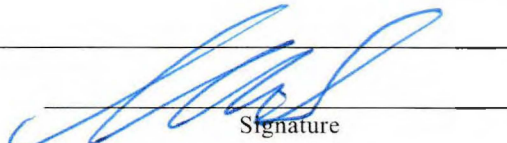
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, Laure Richmond, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Instinet, LLC, as of March 31st, 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:

  
Martin D. Bagan  
Attorney At Law  
State of New Jersey

  
Signature  
Chief Financial Officer, Instinet, LLC  
Title

This report includes (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).**

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Statement of Financial Condition

March 31, 2020

**Contents**

Report of Independent Registered Public Accounting Firm.....	1
Statement of Financial Condition .....	2
Notes to Statement of Financial Condition.....	3



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## **Report of Independent Registered Public Accounting Firm**

To the Member of Instinet, LLC and the Board of Directors of Instinet Incorporated

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

We have audited the accompanying statement of financial condition of Instinet, LLC (the “Company”) as of March 31, 2020 and the related notes (the “financial statement”). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company at March 31, 2020, 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 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 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

*Ernst & Young LLP*

We have served as the Company’s auditor since 2006.

New York, New York

May 29, 2020

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Statement of Financial Condition

March 31, 2020  
(in thousands)

**Assets**

Cash and cash equivalents	\$ 14,585
Restricted cash	6,700
Cash segregated in compliance with federal regulations	5,000
Securities borrowed	108,803
Receivable from broker-dealers and clearing organizations	404,554
Receivable from customers	237,488
Transaction fees and other receivables, net of a \$533 allowance	82,924
Deferred tax assets	7,605
Receivable from affiliates	3,610
Other assets	24,312
Total assets	<u>\$ 895,581</u>

**Liabilities and member's equity**

Securities loaned	\$ 62,717
Payable to broker-dealers and clearing organizations	273,607
Payable to customers	128,868
Accounts payable	76,696
Accrued compensation	27,370
Payable to affiliates	33,612
Accrued expenses and other liabilities	55,795
Total liabilities	<u>658,665</u>

Commitments and contingent liabilities (See note 8)

Total member's equity	236,916
Total liabilities and member's equity	<u>\$ 895,581</u>

*See accompanying notes to the statement of financial condition.*

**Instinet, LLC**  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

**Notes to the Statement of Financial Condition**

March 31, 2020

**1. Nature of Business**

Instinet, LLC (“Instinet” or the “Company”) is an electronic agency focused securities broker which offers sales trading support, sophisticated trading tools and advanced technology to institutional clients and broker-dealers for the execution of securities orders in global market centers or with other clients. The Company offers commission management services. The Company also offers market research services to its clients and non-Instinet affiliates. Instinet settles and clears transactions with clients at prime brokers and custodian banks, but does not offer prime brokerage or custody services. The Company operates as a single operating segment.

Instinet is a limited liability company and wholly owned subsidiary of Instinet Holdings Incorporated (“IHI” or “Member”), which is ultimately owned by Nomura Holdings, Inc. (“NHI”).

The Company is a broker-dealer and investment advisor registered with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”). FINRA is the Company’s designated examining authority.

Further, Instinet is an introducing broker registered with the Commodity Futures Trading Commission (“CFTC”) and a member of the National Futures Association (“NFA”).

Additionally the Company is a member of BOX Exchange LLC, Cboe BYX Exchange, Inc., Cboe BZX Exchange, Inc., Cboe C2 Exchange, Inc, Cboe EDGA Exchange, Inc., Cboe EDGX Exchange, Inc., Cboe Exchange, Inc., Investors’ Exchange LLC, MIAX Emerald, LLC, MIAX PEARL, LLC, Miami International Securities Exchange, LLC, NYSE American, LLC, NYSE Arca, Inc., NYSE Chicago, Inc., NYSE National, Inc, Nasdaq BX, Inc., Nasdaq GEMX, LLC, Nasdaq ISE, LLC, Nasdaq MRX, LLC, Nasdaq PHLX LLC, Nasdaq Stock Market, and New York Stock Exchange.

Instinet, LLC  
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Notes to the Statement of Financial Condition (Continued)

**2. Significant Accounting Policies**

**Accounting Developments**

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326)—Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”), which requires financial assets that are measured at amortized cost to be presented, net of an allowance for credit losses, at the amount expected to be collected over their estimated life rather than incurred. Expected credit losses for newly recognized financial assets, as well as changes to credit losses during the period, are recognized in earnings. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company will adopt ASU 2016-13 from April 1, 2020 using the modified retrospective method and has determined that it has no material impact on the statement of financial condition.

Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, *Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”). The amendment removes, modifies and adds certain disclosure requirements in ASC Topic 820, *Fair Value Measurement*. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years, with early adoption permitted. The Company will adopt ASU 2018-13 from April 1, 2020 using the modified retrospective method and has determined that it has no material impact on the statement of financial condition.

Income Taxes

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* (“ASU 2019-12”). The objective is to simplify the accounting for income taxes by removing certain exceptions to general principles in ASC 740, *Income Taxes* (“ASC 740”) and by clarifying and amending guidance that already exists within US generally accepted accounting principles. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company will adopt ASU 2019-12 from April 1, 2020 using the modified retrospective method and has determined that it has no material impact on the statement of financial condition.



Instinet, LLC  
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Notes to the Statement of Financial Condition (Continued)

**2. Significant Accounting Policies (Continued)**

**Accounting Estimates**

The preparation of the Company's statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the statement of financial condition and accompanying notes.

Management believes that the estimates used in the preparation of the statement of financial condition are prudent and reasonable. Actual results could differ from those estimates.

**Cash and Cash Equivalents (including Restricted Cash)**

The Company considers all highly-liquid investments with original maturities of three months or less to be cash equivalents. At March 31, 2020, restricted cash is comprised of \$6.7 million invested in a money market mutual fund defined under Rule 2a-7 of the Investment Company Act of 1940 and this money market deposit is held at one major U.S. financial institution which, at times, may exceed federally insured limits. As this money market fund is valued based on quoted net asset values, the carrying value of this instrument at March 31, 2020 approximated fair value.

*Restricted Cash*

The \$6.7 million of restricted cash is fully securing four letters of credit. These letters of credit were issued by one major U.S. financial institution on behalf of the Company to secure certain of the Company's customers' soft dollar credit balances, only in the event of the Company's bankruptcy or default. These letters of credit have final expiration dates of December 31, 2020 for \$3.75 million, \$1.0 million and \$0.6 million and June 30, 2020 for \$1.35 million. At March 31, 2020, no amounts had been drawn under any of the letters of credit. The Company expects the letters of credit to be renewed.

**Cash Segregated in Compliance with Federal Regulations**

The Company had \$5.0 million in cash at March 31, 2020 segregated in special reserve bank accounts for the benefit of customers under Rule 15c3-3 of the SEC.

**Securities Borrowed and Loaned**

Securities borrowed and securities loaned are financing arrangements collateralized by US equities that are recorded at the amount of cash collateral advanced or received in accordance with ASC 860, *Transfers and Servicing*. Securities borrowed and securities loaned transactions are used by the Company to facilitate the settlement process and require the Company to deposit cash with the

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Notes to the Statement of Financial Condition (Continued)

**2. Significant Accounting Policies (Continued)**

lender or to receive cash from the borrower. The Company also has a securities borrowing and lending matched book business, in which it borrows securities from one party and lends them to another party.

The amount of collateral required to be deposited for securities borrowed is an amount generally in excess of the fair value of the securities borrowed. For securities loaned, the Company receives collateral in the form of cash that typically exceeds the fair value of securities loaned. The Company monitors the fair value of securities borrowed and loaned daily, with additional collateral obtained, or refunded, when deemed appropriate.

When the Company borrows securities, it provides cash to the lenders as collateral and earns interest income. Similarly, when the Company lends securities to another party, that party provides cash to the Company as collateral and the Company pays interest.

**Receivable from and Payable to Customers**

Amounts receivable from and payable to customers include amounts due on delivery versus payment/receipt versus payment customer fails transactions and are reported on a settlement-date basis, in accordance with ASC 940, *Financial Services – Broker and Dealers* (“ASC 940”). Securities owned by customers, other than those fully paid for, are held as collateral for receivables. Such collateral is not reflected on the statement of financial condition.

**Transaction Fees and Other Receivables, Net**

Transaction fees and other receivables, net as of March 31, 2020, consisted of the following:

In \$000

Transaction fees receivables	\$ 42,767
T*Share receivables	33,193
Broker neutral receivables	3,277
Prepaid soft dollars	2,350
Other receivables	1,337
	<u>\$ 82,924</u>

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Notes to the Statement of Financial Condition (Continued)

**2. Significant Accounting Policies (Continued)**

Transaction fees and other receivables are reported net of an allowance for doubtful accounts of \$0.5 million. The allowance for doubtful accounts is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, and age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay. \$42 thousand of allowance is related to prepaid soft dollar balances and \$0.5 million is related to transaction fees receivables.

Under its T\*Share program, the Company arranges for customers to trade with multiple brokers while centralizing the payment of soft dollar expenses at the Company. Participating brokers reach an agreement with Instinet to transfer soft dollar credits generated from the client trading activity with the brokers. The Company recorded a receivable of \$33.2 million from executing brokers in transaction fees and other receivables, net and a corresponding payable in accounts payable on the statement of financial condition related to the T\*Share program.

**Accrued expenses and other liabilities**

Accrued expenses and other liabilities as of March 31, 2020, consisted of the following:

In \$000

Clearing, brokerage and exchange fees liabilities	\$ 44,461
Market data, connectivity and telecommunication	5,389
Rebates due to customers	2,224
Other general accruals	3,721
	<u>\$ 55,795</u>

Clearing, brokerage and exchange fees liabilities and rebates due to customers are recognized on a trade date basis, once the performance obligation has been satisfied.

**Account payables**

Account payables primarily include accumulated soft dollar credits related to soft dollars arrangements and the T\*Share program on the statement of financial condition. The liability is recognized on a trade date basis.

Instinet, LLC  
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Notes to the Statement of Financial Condition (Continued)

**2. Significant Accounting Policies (Continued)**

**Membership in Depository Trust & Clearing Corporation (“DTCC”), at Cost**

The Company’s membership in DTCC represents ownership interests and provides the Company the right to conduct business as a clearing broker. At March 31, 2020, Instinet recorded \$9.0 million in other assets on the statement of financial condition related to this ownership interest. The ownership interests are recorded initially at cost and, over time, may be recorded at a lesser amount if there is an other-than-temporary impairment in value in accordance with ASC 940. At March 31, 2020, management has concluded that an other-than-temporary impairment has not occurred on any such ownership interests.

**Foreign Currency Transactions**

The Company’s functional currency is the U.S. dollar. Assets and liabilities denominated in foreign currencies are re-measured into the U.S. dollar equivalents using period-end spot foreign exchange rates.

**Derivatives**

From time to time, the Company may enter into forward foreign currency contracts to facilitate customers’ settling transactions in various currencies. The Company enters into forward foreign currency contracts with third parties, with terms generally identical to its customers’ transactions, thereby mitigating its exposure to currency risk. These typically do not extend beyond 14 days. All derivative instruments are presented at their fair value. At March 31, 2020, the Company recorded \$0.1 million in receivable from broker-dealers and clearing organizations and \$0.1 million in payable to broker-dealers and clearing organizations in the statement of financial condition to reflect the fair value of its derivatives. The notional of the open contracts amount to \$71.2 million.

**Income Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized in income in the period that includes the enactment.

Instinet, LLC  
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Notes to the Statement of Financial Condition (Continued)

**2. Significant Accounting Policies (Continued)**

In accordance with ASC 740, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. These income tax positions are measured at the largest amount that is greater than 50% likely of being realized based on a cumulative probability approach. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. As of March 31, 2020, the Company did not identify any unrecognized tax benefits and/or related interest and penalties that should be recorded with respect to its tax positions in accordance with ASC 740-10.

**3. Receivable from and Payable to Broker-Dealers and Clearing Organizations**

Amounts receivable from and payable to broker-dealers and clearing organizations as of March 31, 2020, consist of the following:

In \$000	<u>Receivable</u>	<u>Payable</u>
Securities failed-to-deliver/receive	\$ 106,680	\$ 211,524
Clearing deposits	232,366	-
Trade-date receivable/payable, net	65,345	60,577
Fees and other receivable/payable	163	1,506
	<u>\$ 404,554</u>	<u>\$ 273,607</u>

Securities failed-to-deliver/receive represents the contract value of securities which have not been delivered or received by the Company on settlement date. The Company records the selling price of the security as a receivable due from the purchasing broker-dealer. The receivable is collected upon delivery of the securities. The Company records the amount of the purchase price of the security as a payable due to the selling broker. The liability is paid upon receipt of the securities. The failed-to-deliver/receive have settled in the normal course.

Clearing deposits are required by clearing organizations to clear and settle transactions. The clearing organizations determine the amount of such deposits typically based on the transaction volume and other measures. The Company provides additional deposits as requested by clearing organizations.

Trade-date receivable/payable, net relates to trades done by certain clients that settle their trades with Instinet prior to the regular-way settlement date. Instinet records the net by security of all such transactions with clearing organizations as a receivable or a payable.

Instinet, LLC  
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Notes to the Statement of Financial Condition (Continued)

**4. Collateralized Financing Agreements**

Fees and other receivable/payable relates to open derivatives positions and suspense accounts.

In the normal course of business, the Company obtains securities borrowed on terms that permit it to repledge or resell the securities to others. In connection with its securities borrowing activities at March 31, 2020, the Company obtained securities with a fair value of \$103.2 million of which \$82.2 million have been either repledged or otherwise transferred to others in connection with the Company's financing activities or to meet customers' needs. At March 31, 2020, the Company pledged securities to securities loaned transactions that can be sold or repledged by the third party with a fair value of \$62.0 million.

These transactions are documented under industry standard master netting agreements which reduce the Company's credit exposure to counterparties as they permit the close-out and offset of transactions and collateral amounts in the event of default of the counterparty. These transactions are short term in nature and have a maturity of less than 30 days. The following table presents information about offsetting of these transactions in the statement of financial condition, together with the extent to which master netting agreements entered into with counterparties and central clearing parties permit additional offsetting in the event of counterparty default:

In \$000	<b>Securities Borrowed</b>	<b>Securities Loaned</b>
Gross Balance	\$ 108,803	\$ 62,717
Amounts offset in the statement of financial condition	-	-
Net amounts presented in the statement of financial condition	108,803	62,717
Amounts not offset in the statement of financial condition (1)		
Financial instruments	(103,203)	(62,017)
Cash Collateral	-	-
Net amount	<u>\$ 5,600</u>	<u>\$ 700</u>

(1) Represents amounts which are not permitted to be offset on the face of the statement of financial condition in accordance with ASC 210-20 but which provide the Company with the right of offset in the event of counterparty default. Amounts relating to agreements where the Company has not yet determined with sufficient certainty whether the right of offset is legally enforceable are excluded.

**5. Deferred Compensation**

Certain of the Company's employees participate in cash settled deferred compensation awards based on NHI stock or a broad equity index. Types of awards granted include Notional Stock Units ("NSU"), Collared Notional Stock Units ("CSU"), and Notional Indexed Units ("NIU"). NSUs

Instinet, LLC  
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Notes to the Statement of Financial Condition (Continued)

**5. Deferred Compensation (Continued)**

vest annually in equal increments over a three year period. CSUs and NIUs vest quarterly in equal increments over a three year period.

The Company's ultimate payment is contingent on the relevant fair value calculation at the vesting date. The Company accrues compensation over time as employees progress toward vesting of each award. The Company also hedges a portion of the economic exposure of these awards and records the impact of the NSU and CSU hedges as income or expense as applicable.

The total amount of unvested cash settled deferred compensation awards not yet recognized in the statement of financial condition is \$0.2 million. The Company recorded \$4.3 million as a reduction in accrued compensation on the statement of financial condition for the amounts paid to employees during the year ended March 31, 2020.

In addition to cash settled deferred compensation awards, certain of the Company's employees are granted the right to receive NHI stock under Restricted Stock Units ("RSU awards"). RSUs vest annually in equal increments over a three year period. RSU awards do not receive dividends or dividend equivalent amounts that would have been paid had actual NHI shares been granted during the vesting period. RSU's are measured at fair value based on the number of units granted multiplied by the stock price at the grant date, adjusted for a discount related to the present value of the expected dividends to be paid on NHI shares during the vesting period (and which will not be paid on the unvested RSU). Compensation cost is recognized on a straight-line basis over the service period from the grant date to the vesting date. The total amount related to RSUs not yet recognized in the statement of financial condition is \$0.8 million.

Cash settled deferred compensation awards and RSUs include Full Career Retirement ("FCR") provisions which permit recipients of the awards to continue to vest in the awards upon voluntary termination if certain criteria based on corporate title and length of service within Nomura are met, provided the retiring employee does not work for a competitor.

During the year ended March 31, 2020, two-year deferred cash awards totaling \$0.4 million were issued to some employees which will fully vest as of April 1, 2021.

During the year ended March 31, 2020, NHI enacted a deferred compensation plan for select senior managers of its Wholesale business. This plan includes both a deferred cash and deferred NSU components, both to vest in equal increments over a three year period. The eventual payment of each component is contingent upon NHI's Wholesale business attaining specific performance targets.

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Notes to the Statement of Financial Condition (Continued)

**6. Retirement Saving Plan**

Substantially all employees of the Company participate in a defined contribution pension plan sponsored by IHI. The IHI Savings Plan ("401(k) Plan") was established under Section 401(k) of the Internal Revenue Code. Eligible employees can contribute up to 50% of their annual base salary to the 401(k) Plan. IHI matches a discretionary amount of the employees' pre-tax contributions. To be eligible for the contribution, an employee needs to be an active employee as of December 31, 2019 with at least three months' service. The plan is managed by Instinet Group, LLC ("IGLLC"), a wholly owned subsidiary of IHI, and the related cost is allocated to the Company based on headcount (refer to Note 7 - *related-party transactions*).

**7. Related-Party Transactions**

At March 31, 2020, balances with related parties are included in the following statement of financial condition captions:

In \$000

**Assets**

Receivable from affiliates	\$ 3,610
Transaction fees and other receivables, net	2,560
Receivable from broker-dealers and clearing organizations	112

**Liabilities**

Payable to affiliates	\$ 33,612
Payable to customers	14

*Cross Border and Profit Sharing*

Instinet is a party to a cross border agreement and a profit sharing agreement with IHI and its affiliates. The cross border agreement requires each affiliate to record revenue and associated expenses for all securities cleared and settled by each affiliate. The global profit sharing agreement provides for a routine return on non-revenue driving expenses along with a sharing of the global residual profit allocated based on the revenue drivers (customer relationships and technology). The methods are believed to be compliant with the relevant tax rules in all jurisdictions in which the IHI and its affiliates does business.

At March 31, 2020, the Company recorded \$2.5 million in receivable from affiliates and \$16.9 million in payable to affiliates on the statement of financial condition. The Company settles these monthly.



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Notes to the Statement of Financial Condition (Continued)

**7. Related-Party Transactions (Continued)**

*Operational and Administrative Agreements*

IGLLC provides various services to the Company. Pursuant to an operating agreement, IGLLC provides the Company with operational, management and administrative personnel, facilities and other services necessary to conduct its business in exchange for a fee. The service fee is equal to IGLLC's eligible expenses, net of interest income, plus 5%.

IGLLC also manages employees' benefit, facilities and IT support for IHI and its US affiliates and allocates related expenses to the Company based on headcount.

At March 31, 2020, payable related to the services totaled \$6.7 million. The Company settles these monthly.

Pursuant to various service fee arrangements, the Company provides and receives services to and from NHI's non-Instinet affiliates. Services include legal and compliance, human resources, clearing services and technology. Payable to affiliates at March 31, 2020 includes \$3.8 million payable to NHI's non-Instinet affiliates for the above services. The Company settles these periodically.

Additionally, the Company reimburses or is reimbursed by IHI for direct expenses paid by or credited to IHI on behalf of the Company. Payable to affiliates as of March 31, 2020 includes \$2.7 million due to IHI. The Company settles these as needed.

*Financing activities*

On April 1, 2014, Instinet, LLC entered into a \$350 million revolving credit facility agreement with IGLLC. The agreement automatically renews for an additional year subject to a written notice of termination from either party. No notice by either party has been made. As of March 31, 2020, the Company had an outstanding borrowing of \$2.1 million under this agreement recorded in payable to affiliates with an effective interest rate of 7.3255%.

*Execution Services*

The Company earns revenue for certain execution services provided to NHI's non-Instinet subsidiaries for trading in U.S. securities. Simultaneously, when NHI's non-Instinet subsidiaries provide liquidity to market centers through Instinet execution, they may also receive credits from the Company. Transaction fees and other receivables, net on the statement of financial condition as of March 31, 2020 includes \$2.6 million due from NHI's non-Instinet subsidiaries.

Instinet, LLC  
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Notes to the Statement of Financial Condition (Continued)

**7. Related-Party Transactions (Continued)**

In the event that trades, executed on behalf of affiliates, fail to settle on contractual settlement date, outstanding receivables or payables are reported in receivable from and payable to customers on the statement of financial condition. At March 31, 2020, payables related to fails from affiliates totaled \$14 thousand.

*Commission Sharing*

The Company pays commission credits essentially representing an internal commission allocation to NHI's non-Instinet subsidiaries for their involvement in sales efforts related to some of Instinet Pacific Limited ("IPL", a subsidiary of IHI)'s clients trading in US equities. A liability of \$1.3 million is recorded as part of the cross border agreement with IHI and affiliates – Refer to "*Cross Border and Profit Sharing*".

*Research Services*

The Company earns revenues for certain research services provided to NHI's non-Instinet subsidiaries. Receivable from affiliates and payable to affiliates at March 31, 2020 include amounts of \$1.2 million and \$1.1 million, respectively, owed from NHI's non-Instinet affiliates for the above services. The Company settles these periodically.

Additionally, the Company reimburses NHI's non-Instinet affiliates for research payments from mutual clients received on behalf of the affiliates. Payable to affiliates as of March 31, 2020 includes \$0.9 million due to NHI's non-Instinet affiliates. The Company settles these monthly.

**8. Commitments and Contingent Liabilities**

The Company's business activities are highly regulated in many jurisdictions and subject to frequent regulatory examinations, inquiries and investigations. From time to time, the Company may become involved in legal and regulatory proceedings arising in the ordinary course of business or other circumstances. While any litigation contains an element of uncertainty, management believes, after consultation with counsel, that the outcomes of currently known legal or regulatory proceedings or related claims are unlikely to have a material adverse effect on the Company's statement of financial condition.

In the normal course of business, the Company may enter into legal contracts that contain a variety of representations and warranties that provide general indemnification to others. The Company's

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (Continued)

**8. Commitments and Contingent Liabilities (Continued)**

maximum exposure under these arrangements is unknown, as this would involve future claims that may be asserted against the Company that have not yet occurred. However, based on the Company's experience, the Company does not expect that any such indemnifications will have a material adverse effect on the Company's statement of financial condition.

**9. Credit, Market and Other Risks**

The Company is exposed to market risk from its customers' securities transactions during the period between the transaction date and the settlement date. The settlement cycle is generally two business days in the U.S. equities markets and can be as much as five days in some international markets. In addition, the Company may have exposure that extends beyond the settlement date in the case of a party that does not settle in a timely manner by failing either to make payment or to deliver securities. The Company holds the securities that are the subject of the transaction as collateral for its customer receivables. Adverse movements in the prices of these securities can increase the Company's market risk.

The majority of the Company's transactions, including derivatives and, consequently, the concentration of its credit exposure are with broker-dealers and other financial institutions, primarily located in the United States.

The Company seeks to manage its risks through a variety of reporting and control procedures, including establishing credit limits and credit standards based upon a review of the counterparty's financial condition and credit ratings. The Company monitors trading activity and collateral levels on a daily basis for compliance with regulatory and internal guidelines and obtains additional collateral, if appropriate.

The Company uses securities borrowed and loaned transactions to facilitate the settlement process to meet its customers' needs and to enter into equity finance transactions. Under these transactions, the Company either receives or provides collateral, generally cash or securities.

In the event the counterparty is unable to meet its contractual obligations to return the pledged collateral, the Company may be exposed to the market risk of acquiring the collateral at prevailing market prices.

The Company is subject to operational, technological and settlement risks. These include the risk of potential financial loss attributable to operational factors such as untimely or inaccurate trade execution, clearance or settlement or the inability to process large volumes or transactions.

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (Continued)

**9. Credit, Market and Other Risks (Continued)**

The Company is also subject to risk of loss attributable to technological limitations or computer failures that may constrain the Company's ability to gather, process and communicate information efficiently, securely and without interruption.

**10. Income Taxes**

For tax purposes, the Company is disregarded as an entity separate from its single member, IHI, pursuant to U.S. Income Tax Regulations Sec. 301.7701-3(b)(1)(ii). The Company pays to or recovers from IHI the taxes it has recorded, which are calculated on a separate company basis under a tax sharing agreement with IHI. The Company, together with IHI and certain other subsidiaries in the United States, is included in a consolidated federal income tax return, and consolidated or combined state and local income tax returns.

The accrued tax payable of \$1.6 million is included in payable to affiliates on the statement of financial condition at March 31, 2020.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company has net deferred tax assets of \$7.6 million which relate to temporary differences at March 31, 2020 primarily consisting of soft dollar liabilities and compensation-based accruals. Management believes that it is more likely than not that the deferred tax assets will be realized.

The Company is currently undergoing a routine federal audit by the Internal Revenue Service ("IRS") for the fiscal years ended March 31, 2014 and March 31, 2015. The IRS has not proposed any adjustments as of the date of this report. The tax years ended March 31, 2016 through March 31, 2019 are open under the normal statute of limitations.

Additionally, the Company is currently under routine audits by various state and local tax jurisdictions for the tax years ended March 31, 2011 through March 31, 2017. The various state and local tax jurisdictions have not proposed any adjustments as of the date of this report. Waivers to extend the statute of limitation have been executed with a certain tax jurisdiction for the tax years ended March 31, 2011 through March 31, 2015. The years ended March 31, 2015 through March 31, 2019 are open under the normal statute of limitations.

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (Continued)

**10. Income Taxes (Continued)**

The Company did not identify any material unrecognized tax positions and/or related interest and penalties that should be recorded. Additionally, as of the date of this report, the Company does not believe that the tax audits will result in a significant decrease in unrecognized benefits. The Company does not believe that it is reasonably possible that any significant unrecognized tax benefits will be recorded within the next twelve months.

**11. Fair Value of Financial Instruments**

ASC 820, *Fair Value Measurements*, requires the disclosure of the fair value of financial instruments, including assets and liabilities recognized on the statement of financial condition. Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. ASC 820 establishes the following three hierarchies for fair value:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs other than quoted prices included in Level I that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Level III – Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Assumptions include those of risk, both the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

An instrument's categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. As of March 31, 2020, the Company had no financial instruments carried at fair value on a recurring basis, except for the derivatives described in Note 2, which are classified as Level II in the fair value hierarchy.

**Estimated Fair Value of Financial Instruments not Carried at Fair Value**

Certain financial instruments are not carried at fair value on a recurring basis in the statement of financial condition since they are neither held for trading purposes nor are elected for the fair value option. These are typically carried at contractual amounts due.

Instinet, LLC  
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Notes to the Statement of Financial Condition (Continued)

**11. Fair Value of Financial Instruments (Continued)**

The carrying value of the majority of the following financial instruments will approximate fair value since they are liquid, short-term in nature and / or contain minimal credit risk. These include cash and cash equivalents, securities borrowed, other assets and securities loaned. Other assets included in the table below primarily relate to a membership in DTCC. The fair value of DTCC is estimated using the stock price valuation provided by the issuer.

The following table presents carrying values, estimated fair values and classification within the fair value hierarchy of those fair values for financial instruments which were carried on a basis other than fair value within the statement of financial condition as of March 31, 2020.

In \$000	Carrying Value	Fair Value	Fair Value of Level I	Fair Value of Level II	Fair Value of Level III
<b>Assets</b>					
Cash and cash equivalents	\$ 14,585	\$ 14,585	\$ 14,585	\$ -	\$ -
Securities borrowed	108,803	108,803	-	108,803	-
Other assets	9,424	15,072	-	-	15,072
<b>Liabilities</b>					
Securities loaned	\$ 62,717	\$ 62,717	\$ -	\$ 62,717	\$ -

**12. Regulatory Requirements**

The Company is a registered broker-dealer and, accordingly, is subject to the SEC's Uniform Net Capital Rule ("Rule 15c3-1") under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital. The Company has elected to use the alternative net capital method, permitted by Rule 15c3-1, which requires that the Company maintain minimum net capital equal to the greater of \$1 million, 2% of aggregate debit items arising from customer transactions, or the CFTC minimum required further discussed below.

At March 31, 2020, the Company had regulatory net capital of \$106.7 million which was \$99.2 million in excess of its required net capital of \$7.5 million. The Company's ratio of net capital to aggregate debit items was 28.51%.

Additionally, under Rule 15c3-3, the Company had cash on deposit of \$5.0 million in the special reserve bank account for the exclusive benefit of customers, with no additional required deposit at March 31, 2020. The Company was not required to deposit in or withdraw from the special reserve bank account for the calculation performed as of March 31, 2020. The cash on deposit remains at

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)

Notes to the Statement of Financial Condition (Continued)

**12. Regulatory Requirements (Continued)**

\$5.0 million. Advances to affiliates, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule and other regulatory bodies. The Company did not require any such notification during the year ended March 31, 2020.

Instinet is also registered as an introducing broker with the CFTC and introduces all its commodity futures activity to an affiliate who executes and facilitates clearing of the transactions. The Company is subject to the greater of the following when determining its minimum net capital requirement under CFTC rules:

- \$45 thousand minimum net capital required as a CFTC introducing broker;
- the amount of adjusted net capital required by a futures association of which it is a member;
- the amount of net capital required by Rule 15c3-1(a) of the Securities and Exchange Commission (17 CFR 240.15c3-1(a)).

At March 31, 2020, the Company had a \$7.5 million minimum capital requirement with the CFTC driven by its minimum requirement under the Securities Exchange Act (“SEA”) rule 15c3-1.

**13. Subsequent Events**

The Company has evaluated subsequent events through May 29, 2020 the date as of which this statement of financial condition is available to be issued and has concluded that no additional disclosure is required. The recent global outbreak of COVID-19 has caused significant volatility within the economic markets, for which the duration and spread of the outbreak is uncertain and cannot be predicted. In the short-term the Company benefitted from higher transaction volumes and increased volatility however continuation of these trends is uncertain.