

NATIONAL FINANCIAL SERVICES LLC
(SEC I.D. No. 8-26740)

FINANCIAL STATEMENTS
AND
SUPPLEMENTAL SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2020
AND
REPORT OF INDEPENDENT REGISTERED
PUBLIC ACCOUNTING FIRM

* * * * *

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

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

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

SEC FILE NUMBER
8-26740

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: **National Financial Services LLC**

OFFICIAL USE ONLY

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

FIRM I.D. NO.

245 Summer Street

(No. and Street)

Boston

Massachusetts

02210

(City)

(State)

(Zip Code)

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

Michael Lyons

(201)-915-7437

(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers LLP

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

300 Madison Avenue

New York

NY

10017

(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

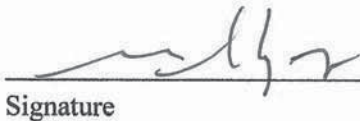
*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

AFFIRMATION

We, Michael Durbin and Michael Lyons, affirm that, to the best of our knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of National Financial Services LLC as of December 31, 2020, are true and correct. We further affirm that neither the Company nor any officer or director has any proprietary interest in any account classified solely as that of a customer.

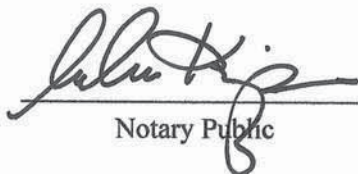
 2/12/21
Signature Date

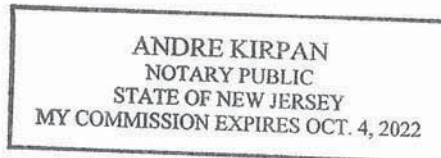
Chief Executive Officer
Title

 2/12/21
Signature Date

Chief Financial Officer
Title

Subscribed and Sworn to before me
on this 12th day of FEB., 2021


Notary Public



NATIONAL FINANCIAL SERVICES LLC

TABLE OF CONTENTS

This report** contains (check all applicable boxes):	Page
(x) Report of Independent Registered Public Accounting Firm	1-2
(x) (a) Facing Page	
(x) (b) Statement of Financial Condition	3
(x) (c) Statement of Income	4
(x) (d) Statement of Changes in Member's Equity	5
(x) (e) Statement of Cash Flows	6
() (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors (Not applicable)	
(x) Notes to Financial Statements	7-24
(x) (g) Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934	25
(x) (h) Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934	26
(x) (i) Information Relating to Possession or Control Requirements for Brokers and Dealers Under Rule 15c3-3 under the Securities Exchange Act of 1934	27
() (j) A Reconciliation, including appropriate explanations of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Rule 15c3-3	
() (k) A Reconciliation between the audited and unaudited Statement of Financial Condition with Respect to Methods of Consolidation	
(x) (l) Computation for Determination of PAB Account Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934	28
(x) (m) An Affirmation	
(x) (n) A copy of the SIPC Supplemental Report (filed separately)	
(x) (o) A Compliance Report (filed separately)	

**** 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

To the Board of Directors and Member of National Financial Services LLC:

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of National Financial Services LLC (the "Company") as of December 31, 2020, and the related statements of income, changes in member's equity and cash flows for the year then ended, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, 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 of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements 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 of these financial statements 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 statements are 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 statements, 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 statements. 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 statements. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The accompanying - Schedule 1: Computation of Net Capital for Brokers and Dealers Pursuant to Rule 15c3-1 under the Securities Exchange Act of 1934, Schedule 2: Computation for Determination of Reserve Requirements for Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934, Schedule 3: Information Relating to Possession or Control Requirements for Brokers and Dealers pursuant to Rule 15c3-3 under Securities Exchange Act of 1934, and Schedule 4: Computation for the Determination of PAB Account Reserve Requirements of Brokers and Dealers Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934 - as of December 31, 2020 (collectively, the "supplemental information") has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company'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

Rule 17a-5 under the Securities Exchange Act of 1934. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the financial statements as a whole.

PricewaterhouseCoopers LLP

February 12, 2021

We have served as the Company's auditor since 2011.

NATIONAL FINANCIAL SERVICES LLC
STATEMENT OF FINANCIAL CONDITION
AS OF DECEMBER 31, 2020
(Dollars in millions)

ASSETS

Cash and segregated cash	\$ 1,340
Securities segregated under federal regulations (includes securities owned with a fair value of \$14,922)	41,947
Securities borrowed	11,353
Resale agreements	416
Receivables:	
Brokers, dealers and other organizations	1,637
Customers, net of allowance for doubtful accounts	30,500
Total receivables	<u>32,137</u>
Securities owned - at fair value (\$397 pledged as collateral)	1,829
Other assets	415
Total Assets	<u><u>\$ 89,437</u></u>

LIABILITIES

Securities loaned	\$ 3,763
Repurchase agreements	325
Payables:	
Brokers, dealers and other organizations	3,967
Customers	74,608
Drafts	471
Affiliates	246
Total payables	<u>79,292</u>
Securities sold, but not yet purchased - at fair value	13
Accrued expenses and other liabilities	258
Total Liabilities	<u>83,651</u>

COMMITMENTS AND CONTINGENCIES

MEMBER'S EQUITY

Member's equity	5,786
Total Liabilities and Member's Equity	<u><u>\$ 89,437</u></u>

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The accompanying notes are an integral part of the financial statements.

NATIONAL FINANCIAL SERVICES LLC
STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020
(Dollars in millions)

REVENUES

Asset and account based fees	\$ 956
Commissions and clearing fees	716
Interest:	
Interest revenue	922
Interest expense	(415)
Net interest revenue	<u>507</u>
Principal transactions, net	<u>60</u>
Total Net Revenues	<u>2,239</u>

NON-INTEREST EXPENSES

Employee compensation and benefits	892
Brokerage and clearance	125
Occupancy and equipment	106
Administrative and other service charges from affiliates	103
Communications	69
Printing and postage	58
Technology	34
Professional services	22
Other	78
Total Non-Interest Expenses	<u>1,487</u>

Net income	<u><u>\$ 752</u></u>
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The accompanying notes are an integral part of the financial statements.

NATIONAL FINANCIAL SERVICES LLC
STATEMENT OF CHANGES IN MEMBER'S EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020
(Dollars in millions)

MEMBER'S EQUITY - December 31, 2019	\$ 5,075
Cumulative effect of adoption of new accounting pronouncement (Note 2)	(16)
MEMBER'S EQUITY - January 1, 2020	<u>5,059</u>
Dividend to Parent	(25)
Net income	<u>752</u>
MEMBER'S EQUITY - December 31, 2020	<u><u>\$ 5,786</u></u>

CONFIDENTIAL

The accompanying notes are an integral part of the financial statements.

NATIONAL FINANCIAL SERVICES LLC
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
(Dollars in millions)

Cash flows provided by (used in) operating activities:

Net income	\$ 752
Adjustments to reconcile net income to cash provided by operating activities:	
Depreciation and amortization	64
(Increases) decreases in operating assets:	
Securities segregated under federal regulations	(11,871)
Securities borrowed	(1,415)
Resale agreements	2
Receivable from brokers, dealers and clearing organizations	(474)
Receivable from customers	(9,839)
Securities owned - at fair value	240
Other assets	30
Increases (decreases) in operating liabilities:	
Securities loaned	1,420
Repurchase agreements	(50)
Payable to brokers, dealers and clearing organizations	1,270
Payable to customers	19,884
Drafts payable	227
Payable to affiliates	46
Securities sold, but not yet purchased - at fair value	(9)
Accrued expenses and other liabilities	13
Cash provided by operating activities	<u>290</u>

Cash flows used in investing activities:

Additions to furniture, office equipment and leasehold improvements	<u>(108)</u>
Cash used in investing activities	<u>(108)</u>

Cash flows used in financing activities:

Dividend to Parent	<u>(25)</u>
Cash used in financing activities	<u>(25)</u>

Net change in cash and segregated cash 157

Cash and segregated cash, beginning of year 1,183
Cash and segregated cash, end of year \$ 1,340

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid for interest \$ 429

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The accompanying notes are an integral part of the financial statements.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

1. Organization:

National Financial Services LLC (the “Company”), a single member limited liability company, is wholly-owned by Fidelity Global Brokerage Group, Inc. (the “Parent”), a wholly-owned subsidiary of FMR LLC (“FMR”).

The Company is a registered broker-dealer with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”). The Company is licensed to transact on the NYSE Euronext, and various national and regional stock and option exchanges. The Company provides a wide range of securities related services to a diverse customer base primarily in the United States. The Company’s client base includes institutional and individual investors, introducing broker-dealers, investment advisors and corporations. The Company engages in brokerage, clearance, custody and financing activities for which it receives fees from customers. The Company also engages in securities transactions either on a principal or agent basis and facilitates securities transactions for its clients. The Company earns a significant amount of its revenues providing clearing and other services for an affiliated broker-dealer, Fidelity Brokerage Services LLC (“FBS”) (see Note 13). FBS provides securities brokerage services to a retail customer base that affect transactions across a wide array of financial instruments. The Company also provides clearing and other services for an affiliate, Digital Brokerage Services LLC (“DBS”). DBS began operations as a registered broker-dealer on November 24, 2020.

The Company generates its revenues by providing securities trading, brokerage and clearing activities to primarily domestic customers. Revenues for these services are largely asset and transaction based. As a result, the Company’s revenues vary based on the performance of financial markets, primarily the equity markets in the United States, as well as the volume of trading on these markets. The Company’s financial results are also sensitive to interest rate fluctuations, which may have an impact on the Company’s profitability.

2. Summary of Significant Accounting Policies:

Basis of Presentation and Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including fair value measurements, and the disclosure of contingent assets and liabilities as well as the reported amounts of revenues and expenses. Actual results could differ from the estimates included in the financial statements.

Cash and Segregated Cash

For the purposes of reporting cash flows and amounts in the statement of financial condition, the Company defines cash as cash on hand, demand deposits, and time deposits with original maturities less than 60 days. The Company generally invests excess cash into money market funds, which are classified as securities owned in the statement of financial condition. Included in cash and segregated cash is \$32 in interest bearing deposits segregated to satisfy SEC rules regarding the protection of customer assets.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

2. Summary of Significant Accounting Policies, continued:

Securities Segregated Under Federal Regulations

The Company is required by SEC regulations to segregate cash and securities to satisfy rules regarding the protection of customer assets. As of December 31, 2020, the Company had \$41,947 of securities segregated to be in compliance with regulations. This balance includes resale agreements, which are collateralized by U.S. Government and agency securities. Resale agreements are accounted for as collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. Securities segregated under federal regulations also include U.S. Government and agency securities, which are recorded at fair value. These balances are disclosed in the statement of financial condition under securities segregated under federal regulations.

Receivables from and Payables to Brokers, Dealers and Other Organizations and Customers

Receivables from brokers, dealers and other organizations include amounts receivable for securities failed to deliver, clearing deposits, commissions receivable and margin loans made to the Company's introducing brokers. The Company also has receivables from mutual fund companies related to its customers' sales of mutual funds, of which \$55 is from mutual funds managed by an affiliate. A portion of the Company's trades and contracts are cleared through a clearing organization and settled daily between the clearing organization and the Company. The amount of credit exposure is limited as a result of the daily settlement of these receivables. Based on both the aging of these balances and the review of historical losses, no reserve for credit losses has been recorded related to these receivables at December 31, 2020.

Receivables from brokers, dealers and other organizations consist of the following at December 31, 2020:

Clearing organizations	\$ 910
Mutual fund companies	417
Broker dealers	310
Total	<u>\$ 1,637</u>

Payables to brokers, dealers and other organizations include amounts payable for securities failed to receive and amounts payable to clearing organizations and broker dealers arising from unsettled trades. The Company also has payables to mutual fund companies related to its customers' purchases of mutual funds, of which \$909 is to mutual funds managed by an affiliate. Payables to brokers, dealers and other organizations consist of the following at December 31, 2020:

Mutual fund companies	\$ 2,392
Broker dealers	1,309
Clearing organizations	266
Total	<u>\$ 3,967</u>

Receivables from and payables to customers include amounts related to both cash and margin transactions. Receivables also include non-purpose loans, which are collateralized. The Company records customer transactions on a settlement date basis, which is generally two business days after trade date, with the related commission and clearing fees revenue and related expenses recorded on a trade date basis. Margin transactions are collateralized by the customers' underlying securities.

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NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

2. Summary of Significant Accounting Policies, continued:

Receivables from and Payables to Brokers, Dealers and Other Organizations and Customers, continued

The Company requires collateral on a basis consistent with industry practice or regulatory requirements. The amount of collateral is continually monitored and customers are required to provide additional collateral as necessary. The Company applies the practical expedient based on collateral maintenance provisions in reviewing allowance for credit losses for customer receivables. In addition, the Company's customer base is monitored through a review of account balance aging, collateral value in the account and an assessment of the customer's financial condition. Customer receivables are carried net of an allowance for credit losses. An allowance against doubtful receivables is established through a combination of historical losses and an aging review of all unsecured accounts. At December 31, 2020, unsecured receivables from customers were \$15, for which the Company recorded an allowance for credit losses of \$8. Securities owned by customers, including those that collateralize margin transactions, are not reflected on the accompanying statement of financial condition.

Other Assets and Accrued Expenses and Other Liabilities

Other assets primarily consists of furniture, right-of-use lease assets ("ROU"), office equipment, leasehold improvements and software, net of accumulated depreciation and amortization, interest and dividends receivable, and concession payments. Accrued expenses and other liabilities primarily consist of accrued compensation, lease liabilities, and interest payable.

Furniture, office equipment, leasehold improvements and software are stated at cost less accumulated depreciation and amortization. Software includes certain costs incurred for purchasing or developing software for internal use. Depreciation is computed using the straight-line method based on estimated useful lives as follows: furniture and office equipment, three to five years; leasehold improvements, the shorter of their useful lives or the remainder of the lease term; and software, generally three years.

Maintenance and repairs are charged to expense when incurred. Renewals and betterments of a nature considered to materially extend the useful lives of the assets are capitalized. Any gain (loss) on the sale or retirement of property and equipment is included in the statement of income.

Included in other assets are furniture, office equipment, leasehold improvements and software of \$157 with a cost of \$524 and accumulated depreciation and amortization of \$367. Depreciation and amortization expense for the year ended December 31, 2020 was \$64 and is included in occupancy and equipment in the statement of income.

Concession payments are the costs of acquiring or retaining customers. These concessions are amortized using the straight-line method over the contractual period. Amortization of these concessions is reflected as a reduction of asset and account-based fees in the statement of income (See Note 3).

These long-lived assets in the statement of financial condition are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. The carrying amount of a long-lived asset is not recoverable if the carrying value exceeds the sum of the expected future undiscounted cash flows. When the carrying amount of the long-lived asset is not recoverable, the asset is reduced to its fair value and a charge against income is recorded.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

2. Summary of Significant Accounting Policies, continued:

Income Taxes

As a single-member limited liability company, the Company is disregarded as an entity separate from its owner and its operations are included in the federal and state income tax returns of FMR or its Parent. The Company is not allocated income taxes by FMR and therefore, does not include any income tax expense in its financial statements.

Recent Accounting Pronouncements

Recently Issued and Adopted

Credit Losses Related to Financial Instruments

On January 1, 2020, the Company adopted a new credit loss standard issued by the Financial Accounting Standards Board ("FASB"). The guidance replaced the current incurred loss impairment model for financial instruments with a methodology that reflects expected credit losses. The new guidance requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The Company established new processes to implement these changes and the adoption did not have a material impact on the financial statements.

Cloud Computing Arrangements

In August 2018, the FASB issued new guidance to align the requirements for capitalizing implementation costs incurred in cloud computing arrangements with the requirements for capitalizing costs incurred to develop or obtain internal-use software. The Company applied the guidance as of January 1, 2020. The adoption did not have a material impact on the financial statements.

Fair Value Disclosures

In August 2018, the FASB issued new guidance that eliminates, modifies and adds certain disclosure requirements related to fair value measurements. The Company applied the guidance as of January 1, 2020. The adoption did not have a material impact on the financial statements.

Income Taxes

In December 2019, the FASB issued new guidance that simplifies the accounting for income taxes by eliminating certain exceptions related to the approach for intraperiod tax allocation, and simplifies other areas such as accounting for a franchise tax (or similar tax) that is partially based on income. The new guidance clarifies, among other things, that single-member limited liability companies and similar disregarded entities that are not subject to income tax are not required to recognize an allocation of consolidated income tax expense in their separate financial statements. The Company early adopted the guidance as of January 1, 2020 by reversing the deferred tax asset and recognizing a cumulative effect adjustment to member's equity of \$16 and no longer records a provision for income taxes in its financial statements.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

3. Revenue:

The statement of income presents the Company's revenue from contracts with customers in the manner that depicts how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors.

Revenue from Contracts with Customers

At contract inception, the Company assesses its contracts with customers and identifies performance obligations for distinct promises to transfer services (or a bundle of services) to the customer. The Company considers all of the services promised in the contract regardless of whether the services are explicitly stated or implied by contract or customary business practices. The Company records revenue from contracts with customers based on the transaction price specified in the contracts and recognizes revenue when or as performance obligations are satisfied by transferring control of the services to customers.

Payment Terms

Payments for services delivered pursuant to contracts with customers are generally due in full when the services are delivered, and our contract terms do not permit payment beyond a year.

Contract Costs

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if the Company expects to recover those costs. The Company amortizes these costs over the original contract term.

Practical Expedient

The Company has elected the practical expedient to not disclose revenue related to its unsatisfied performance obligations for contracts with an original expected length of one year or less, contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed, and contracts with variable consideration allocated entirely to an unsatisfied series of distinct services.

Asset and Account Based Fees

Asset and account based fees are primarily related to facilitating the purchase and sale of affiliated and non-affiliated mutual fund assets on behalf of customers. A portion of the fees are based on a fixed percentage applied to the amount of assets of those mutual funds held by customers with the remainder based on an agreed fee and the number of customer positions. Revenue is recognized as the related service is performed. Also included in asset and account-based fees are various fees earned by the Company in providing brokerage services to its customers other than commissions that are reported separately. These revenues are recognized as the related services are performed.

Commissions and Clearing Fees

Commissions and clearing fees are earned by executing and settling brokerage customer transactions. The Company satisfies its performance obligation upon execution of the trade. These fees from third-parties are earned on a per trade basis on security type. See Note 13 for revenues earned from FBS. Commissions and clearing fees are recorded on a trade date basis.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

3. Revenue, continued:

Interest

Interest is earned primarily from brokerage customer related activity including securities and margin loan transactions, collateral financing transactions, securities owned and on the Company's cash and securities segregated under federal regulations. Interest expense relates primarily to brokerage customer activity including securities loan transactions and customer payable balances. Interest expense includes amounts allocated to FBS (See Note 13). Interest expense also includes charges relating to daily funding needs through credit facilities. Interest is recognized as earned.

Principal Transactions

Principal transactions and the related realized and unrealized gains and losses are recorded on a trade date basis. Securities owned, and securities sold, but not yet purchased are reported at fair value and any fluctuations in value are included in principal transactions, net, in the statement of income.

4. Securities Segregated Under Federal Regulations:

Securities segregated under federal regulations consist of the following at December 31, 2020:

U.S. Government and agency securities obtained as collateral under resale agreements (See Note 2)	\$ 27,025
U.S. Government and agency securities - at fair value	14,922
Total	<u>\$ 41,947</u>

As of December 31, 2020, interest bearing cash deposits segregated under federal regulations of \$32 are included in cash and segregated cash on the statement of financial condition.

5. Credit Facilities:

The Company has entered into committed and uncommitted overnight credit facilities which are borrowed against periodically to satisfy daily operating needs. The committed credit facility permits the Company to borrow at any time up to \$750 and requires the payment of a commitment fee. At December 31, 2020, the Company had uncommitted credit facilities with fourteen financial institutions. There were no outstanding borrowings against these committed or uncommitted facilities at December 31, 2020. The Company also has a liquidity facility with FMR. There were no borrowings under this line as of December 31, 2020.

Amounts available under these facilities at December 31, 2020 were as follows:

Committed, unsecured credit facilities	\$ 750
Uncommitted facilities:	
Secured	500
Unsecured	3,295
Liquidity facility with FMR	2,500
	<u>\$ 7,045</u>

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

6. Securities Owned and Securities Sold, but Not Yet Purchased:

Securities owned and securities sold, but not yet purchased consist of the following at December 31, 2020:

Securities owned - at fair value:

Money market funds	\$ 1,304
U.S. Government and agency	360
Municipals	89
Equities	63
Corporates	1
Other	12
Total	<u>\$ 1,829</u>

Securities sold, but not yet purchased - at fair value:

U.S. Government and agency	<u>\$ 13</u>
Total	<u>\$ 13</u>

7. Derivative Financial Instruments:

The Company enters into foreign exchange contracts to facilitate certain customer transactions. These contracts are subject to volatility in the currency markets. At December 31, 2020, the Company included \$4 related to these contracts in securities owned at fair value in the statement of financial condition. The contracts are recorded at fair value and included in Level 2 assets in the valuation hierarchy (See Note 11). The Company's determination of fair value includes an assessment of non-performance risk. For the year ended December 31, 2020, the Company recorded a gain of \$4 related to these contracts which is included in principal transactions in the statement of income. The notional value of the outstanding contracts purchased as of December 31, 2020 totaled \$470.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

8. Leases:

The Company leases certain office space under non-cancelable operating leases that expire over various terms. Certain lease agreements contain renewal options and escalation clauses. ROU assets of \$30 are included in other assets and lease liabilities of \$36 are included in accrued expenses and other liabilities in the statement of financial condition at December 31, 2020. Rent expense is recognized on a straight-line basis over the applicable lease term. The operating lease cost for the year ended December 31, 2020 was \$6. For the year ended December 31, 2020, the Company did not have any financing leases.

Supplemental balance sheet information related to leases at December 31, 2020 is as follows:

Operating leases:		
ROU asset	\$	30
Lease liabilities	\$	36

Weighted average remaining lease term:		
Operating leases		5.4 years

Weighted average discount rate:		
Operating leases		3.7%

Maturities of lease liabilities are as follows:

2021	\$	7
2022		7
2023		7
2024		7
2025		7
Thereafter		3
Total lease payments		38
Less: imputed interest		(2)
Total	\$	<u>36</u>

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

9. Commitments and Contingencies:

Litigation

The Company has been named as a defendant in several legal proceedings and is subject to regulatory inquiries incidental to the nature of its business. The Company reviews such matters on a case by case basis and records reserves if a loss is probable and the amount of the loss can be reasonably estimated. The resolution of such actions is not expected to materially impact the Company's statements of financial condition, income, or cash flows.

Guarantees

Guarantees are defined as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying input (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) in relation to an asset, liability or equity security of a guaranteed party. Guarantees are also defined 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 the indebtedness of others.

The Company enters into securities lending transactions on behalf of mutual funds managed by an affiliate. When entering into these securities lending transactions, the Company acts as an agent whereby it lends securities of the mutual funds to brokers and other institutions. The Company indemnifies these clients for the difference between the fair market value of collateral posted by the borrower and the fair market value of the securities loaned to the borrower, in the event that the borrower fails to return such securities. The borrowers in these agent securities lending transactions are required to maintain collateral in an amount in excess of 100% of the fair market value of the securities borrowed. Securities on loan and the collateral are revalued daily to determine if additional collateral is necessary or if excess collateral is required to be returned to the borrower. The Company acts as an agent and any collateral received in connection with these securities lending transactions is not recorded in the Company's statement of financial condition. For the year ended December 31, 2020, the Company has not incurred any losses related to the indemnification.

The Company is a member of numerous exchanges and clearinghouses. Under the membership agreements, members are generally required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral as well as meet certain minimum financial standards. The Company's maximum potential liability under these arrangements cannot be quantified. However, management believes the potential for the Company to be required to make payments under these arrangements is remote. Accordingly, no contingent liability is recorded in the statement of financial condition for these arrangements.

Letters of Credit

At December 31, 2020, the Company had \$16 in unsecured letters of credit outstanding.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

10. Collateralized Securities and Other Secured Transactions:

Collateralized Securities Transactions

Resale and repurchase agreements are accounted for as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. These agreements are generally collateralized by U.S. Government and agency securities. It is the Company's policy to take possession of securities purchased under resale agreements with a market value in excess of the principal amount loaned plus accrued interest to collateralize these transactions. Similarly, the Company is generally required to provide securities to counterparties in order to collateralize repurchase agreements. This collateral is valued daily and the Company or the counterparty may be required to deposit additional securities or return securities pledged when appropriate. The majority of securities obtained as collateral under resale agreements are segregated for the exclusive benefit of customers pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934, and are included in securities segregated under federal regulations in the statement of financial condition.

The Company borrows securities to facilitate the settlement process and lends securities to finance securities transactions. When the Company borrows securities, it usually provides the counterparty with the collateral in the form of cash. In loaning securities, the Company utilizes securities owned by customers and held as collateral on customers' margin debt, as well as securities borrowed. Securities borrowed and securities loaned are recorded based on the amount of cash collateral advanced or received. For securities borrowed transactions, the Company is typically required to deliver collateral with a fair value approximately equal to the carrying value of the securities borrowed transactions. The Company monitors the market value of securities borrowed and loaned, with excess collateral returned, or additional collateral obtained, when deemed appropriate.

In certain cases, the Company borrows and pledges collateral in the form of securities. In non-cash loan versus pledge securities transactions, when the Company initiates such transactions as lender, it records the collateral received as both an asset and as a liability, recognizing the obligation to return the collateral to the borrower. The Company did not have any outstanding non-cash loan versus pledge securities transactions at December 31, 2020.

When the Company initiates such transactions as a borrower, they are not recorded in the statement of financial condition. At December 31, 2020, such off-balance sheet transactions with third parties totaled \$312.

The Company applies the practical expedient based on collateral maintenance provisions in reviewing allowance for credit losses for resale agreements and receivables from securities borrowed. An allowance for credit losses is recognized and estimated only on the unsecured portion of these accounts. There was no allowance for credit losses recorded for these accounts as of December 31, 2020.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

10. Collateralized Securities and Other Secured Transactions, continued:

Collateralized Securities Transactions, continued

The table below presents gross amounts of the resale and repurchase agreements and securities borrowed and loaned transactions included in the statement of financial condition. The following table also presents amounts not offset in the statement of financial condition, including the related amount of netting with the same counterparty under enforceable netting arrangements that does not meet the criteria for netting under GAAP and the fair value of cash or securities collateral received or posted subject to collateral arrangements. These arrangements have been determined by the Company to be legally enforceable in the event of default.

	December 31, 2020			
	Assets		Liabilities	
	Resale Agreements	Securities Borrowed	Repurchase Agreements	Securities Loaned
Amounts included in the statement of financial condition				
Gross carrying value	\$ 27,441	\$ 11,353	\$ 325	\$ 3,763
Counterparty netting	—	—	—	—
Collateral	—	—	—	—
Total	27,441	11,353	325	3,763
Amounts that have not been offset in the statement of financial condition				
Counterparty netting	—	(276)	—	(276)
Collateral	(27,440)	(10,672)	(325)	(3,362)
Total	\$ 1	\$ 405	\$ —	\$ 125

Resale agreements of \$27,025 at December 31, 2020 are segregated for the exclusive benefit of customers pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934 and are included in securities segregated under federal regulations in the statement of financial condition. Other resale agreements of \$416 at December 31, 2020, are reported in resale agreements in the statement of financial condition.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

10. Collateralized Securities and Other Secured Transactions, continued:

Collateralized Securities Transactions, continued

The table below presents repurchase agreements and securities loaned by remaining contractual term to maturity and class of collateral pledged as of December 31, 2020:

	Overnight and Continuous
Repurchase agreements	
U.S. Government and agency securities	\$ 325
Total	<u>\$ 325</u>
Securities loaned	
Equity securities	\$ 3,743
Other	20
Total	<u>\$ 3,763</u>

Assets Pledged and Other Secured Transactions

In the normal course of business, the Company executes, settles and finances customer, correspondent and principal securities transactions. Customer and correspondent transactions include securities sold, but not yet purchased (short sales) and the writing of options. These activities may expose the Company to off-balance sheet credit risk arising from the potential that the customer or counterparty may fail to satisfy its obligations and the collateral will be insufficient. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers and counterparties.

The Company seeks to control the risks associated with its customer and correspondent activities by requiring customers and correspondents to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors trade date customer and correspondent exposure and collateral values daily and requires customers and correspondents to deposit additional collateral or reduce positions when necessary.

Securities sold, but not yet purchased represent obligations of the Company to deliver the specified security at the contracted price, and thereby create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in exposure to market risk as the Company's ultimate obligation to purchase securities sold, but not yet purchased may exceed the amount recognized in the statement of financial condition.

The Company seeks to control the risks associated with these transactions by establishing and monitoring credit limits for significant counterparties for each type of transaction and monitoring collateral and transaction levels daily. The Company may require counterparties to deposit additional collateral or return collateral pledged. In the case of aged securities failed to receive, the Company may, under industry regulations, purchase the underlying securities in the market and seek reimbursement for any losses from the counterparty.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

10. Collateralized Securities and Other Secured Transactions, continued:

Collateral

At December 31, 2020, the fair value of securities received as collateral by the Company that can be delivered or repledged was \$105,379. This collateral was generally obtained under resale agreements, securities borrowed or margin lending agreements. Of these securities received as collateral, \$59,478 was delivered or repledged.

11. Disclosure About Fair Value of Financial Assets and Liabilities:

Valuation Hierarchy

The Company categorizes the financial assets and liabilities carried at fair value in its statement of financial condition based upon a three-level valuation hierarchy. The hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable valuation inputs (Level 3). If the inputs used to measure a financial asset or liability cross different levels of the hierarchy, categorization is based on the lowest level input that is significant to the fair value measurement. Management's assessment of the significance of a particular input to the overall fair value measurement of a financial asset or liability requires judgment and considers factors specific to the asset or liability. Management seeks to maximize the use of observable inputs. The three levels are described below:

Level 1 Inputs

Unadjusted quoted prices for identical assets and liabilities in an active market.

- Level 1 assets include securities segregated under federal regulations, money market funds, government and agency securities (primarily U.S. treasury securities) and equity securities.
- Level 1 liabilities include government and agency securities.

Level 2 Inputs

Quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.

- Level 2 assets include corporate bonds, municipal bonds, and other securities.
- The Company did not have any Level 2 financial liabilities at December 31, 2020.

Level 3 Inputs

Prices or valuation techniques that require inputs that are both unobservable in the market and significant to the overall fair value measurement. These inputs reflect management's judgment about the assumptions that a market participant would use in pricing the asset or liability, and are based on the best available information, some of which is internally developed.

- The Company did not have any Level 3 financial assets or liabilities at December 31, 2020.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

11. Disclosure About Fair Value of Financial Assets and Liabilities, continued:

Valuation Processes and Techniques

There are three main approaches to measuring fair value of assets and liabilities: the market approach, which uses observable prices and other relevant information that is generated by market transactions involving identical or comparable assets or liabilities; the income approach, which uses valuation techniques to convert future amounts to a single, discounted amount; and the cost approach, which reflects the amount that would be required to replace the service capacity of an asset. The following is a description of the valuations techniques and inputs used in determining the fair values of assets and liabilities categorized as Level 2.

Financial assets and liabilities categorized as Level 2 in the hierarchy are generally valued using techniques consistent with the market approach. All inputs used to value Level 2 financial assets and liabilities are sourced from third-party pricing vendors. Generally, prices obtained from vendors are categorized as Level 2 as the vendor uses observable inputs in determining the price.

Fair Value Measurements

The following fair value hierarchy table presents information about the Company's financial assets and liabilities measured at fair value on a recurring basis at December 31, 2020:

	Level 1	Level 2	Level 3	Total
Assets:				
Securities segregated under federal regulations	\$ 14,922	\$ —	\$ —	\$ 14,922
Securities owned:				
Money market funds	1,304	—	—	1,304
U.S. Government and agency	360	—	—	360
Corporates and municipals	—	90	—	90
Equities	63	—	—	63
Other securities	—	12	—	12
Total securities owned	<u>1,727</u>	<u>102</u>	<u>—</u>	<u>1,829</u>
Total Assets	<u>\$ 16,649</u>	<u>\$ 102</u>	<u>\$ —</u>	<u>\$ 16,751</u>
Liabilities:				
Securities sold, but not yet purchased:				
U.S. Government and agency	\$ 13	\$ —	\$ —	\$ 13
Total securities sold, but not yet purchased	<u>13</u>	<u>—</u>	<u>—</u>	<u>13</u>
Total Liabilities	<u>\$ 13</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 13</u>

Securities segregated under federal regulations consist of U.S. Government securities.

During the year ended December 31, 2020, there were no changes to the valuation techniques used by the Company to determine fair value, nor were there transfers between levels.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

11. Disclosure About Fair Value of Financial Assets and Liabilities, continued:

Financial Assets and Liabilities Not Carried at Fair Value

Certain financial assets and liabilities that are not carried at fair value in the statement of financial condition are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk. These financial assets and liabilities include securities borrowed, resale agreements, receivables, securities loaned, repurchase agreements and payables, which are classified as Level 2 within the fair value hierarchy, while cash and segregated cash is classified as Level 1 in the fair value hierarchy.

12. Regulatory Requirements:

As a registered broker-dealer, the Company is subject to the Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934 (the “Rule”) in addition to the rules of FINRA and other principal exchanges on which it is a member or licensed to transact business. The Company has elected the alternative method permitted by the Rule which requires that minimum net capital, as defined, be the greater of \$1.5 or 2% of aggregate debit items arising from customer transactions. At December 31, 2020, the Company had net capital of \$5,179 which was 12.16% of aggregate debit items and exceeded its minimum requirement by \$4,328.

The Company is also subject to Rule 15c3-3 under the Securities Exchange Act of 1934 and/or other applicable regulations, which require the Company to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of customers. In accordance with Rule 15c3-3, the Company had cash and securities segregated for the exclusive benefit of customers at December 31, 2020. The amount of cash and the market value of securities segregated for the exclusive benefit of customers was \$41,767. On January 5, 2021, the Company deposited an additional \$768 of cash and qualified securities into its segregated reserve bank accounts.

During 2020, the Company performed the computations for the assets in the proprietary accounts of its introducing brokers (“PAB”) in accordance with the customer reserve computation (Rule 15c3-3) set forth under the Securities and Exchange Act of 1934. As of December 31, 2020, the Company performed a PAB reserve computation, which indicated the Company’s credits exceeded its debits. The amount held in the segregated reserve bank account at December 31, 2020 was \$174. On January 5, 2021, the Company deposited an additional \$45 of cash and qualified securities into its PAB reserve bank accounts.

13. Transactions with Affiliated Companies:

Clearing services are provided to FBS under an agreement with the Company. Pursuant to the clearing agreement, the Company is entitled to certain fees for the execution, clearance and settlement of introduced customer securities transactions. These fees are based upon a contractual agreed upon amount. For the year ended December 31, 2020, the Company earned \$504 related to these services, which is included in commissions and clearing fees in the statement of income.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

13. Transactions with Affiliated Companies, continued:

In addition, the Company collects and distributes to FBS its share of customer related net interest income and other fees. The Company generally retains only a portion of interest and other fees related to unaffiliated correspondents. Pursuant to its clearing agreement with FBS, the Company does not retain interest related to customers introduced by FBS. The amount of net interest collected and distributed to FBS was \$393 for the year ended December 31, 2020, and primarily relates to customer margin interest. The net impact of this amount is included in net interest revenue in the statement of income. The Company also allocates to FBS its share of interest income on securities segregated under Federal regulations and securities lending transactions which were \$144 and \$76, respectively, for the year ended December 31, 2020. These amounts are included in interest expense in the statement of income.

The clearing agreement with FBS is reviewed on a periodic basis and is subject to change upon approval from both parties.

The Company enters into both cash and non-cash loan versus pledge securities loan transactions with an affiliated registered broker-dealer, Fidelity Prime Financing LLC ("FPF"). At December 31, 2020, the Company had cash securities loaned to FPF of \$1,963 which is included in securities loaned in the statement of financial condition. The Company pays a fee to FPF for facilitating these arranged financing transactions. This fee is a tiered rate structure based on the average arranged finance balance. For the year ended December 31, 2020, the fee was \$4 and is included in administrative and other service charges from affiliates in the statement of income. The Company earns net interest income on these arranged financing transactions. The revenue earned for the year ended December 31, 2020 was \$22 and is included in interest revenue in the statement of income.

The Company earned fees from affiliated companies related to mutual fund transactions and balances. These fees are based on a fixed rate applied to the amount of assets of those mutual funds held by the Company's customers with the remainder based on an agreed fee and the number of customer positions. The revenue for the year ended December 31, 2020 was \$78, and is included in asset and account based fees in the statement of income. The Company also earned revenue for distributing mutual funds managed by an affiliate. This revenue was \$70 for the year ended December 31, 2020 and is reported in asset and account based fees in the statement of income.

The Company also earned fees from affiliated companies for providing transfer agent related services. The amount of fees earned is based on activity of affiliates and includes a standard annual account fee. The revenue for the year ended December 31, 2020 was \$46 and is included in assets and account based fees in the statement of income.

The Company is party to an agreement with FMR, whereby FMR and its subsidiaries provide services, including office space, legal, technology, administrative and other services for which the Company is charged. The Company is charged for these services based upon (a) actual costs incurred, where they are separately identifiable, (b) usage of office space or resources directly supporting the Company and (c) allocations of other general and administrative costs incurred by FMR based on the Company's relative revenue and expenses to other affiliates that FMR provides such services.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

13. Transactions with Affiliated Companies, continued:

Pursuant to this agreement, the Company was charged the following amounts which are included in the statement of income for the year ended December 31, 2020:

Administrative and other service charges from affiliates	\$ 103
Occupancy and equipment	33
Other	1
	<u>\$ 137</u>

Transactions with affiliated companies are settled with FMR, with the exception of certain transactions with FBS (which are settled directly pursuant to the clearing agreement). Payables to affiliates represent the amounts due to FMR and FBS of \$194 and \$52, respectively, at December 31, 2020.

The Company participates in FMR's defined contribution Retirement Savings Plan, (the "Plan") covering eligible employees. FMR contributes annually to the Plan in amounts that are generally at the discretion of FMR and equal to a percentage of participating employees' eligible compensation. Additionally, FMR makes matching contributions to the Plan based on amounts contributed by employees to the Plan during the year. The Company is allocated expense from FMR associated with the contributions made to the Company's employees under the Plan.

The Company participates in FMR's Retiree Health Reimbursement Plan ("RHRP"), a defined benefit health reimbursement arrangement covering eligible employees, and has established the Fidelity Welfare Benefit Plans VEBA Trust (the "Trust") to provide a funding vehicle for certain benefits related to FMR's benefit plans, including the RHRP. In 2020, FMR accrued a benefit to participants under the RHRP based on awards to employees that are subject to ten year cliff vesting with consideration given for prior service. Future awards under the RHRP are at the discretion of FMR. Participant contributions are not required. The Company is allocated expense from FMR associated with the actuarially-derived annual cost of providing these benefits to the Company's employees.

The Company participates in various share-based compensatory plans sponsored by FMR and is allocated a compensation charge from FMR that is amortized over the period in which it is earned by participants. The various share-based compensation arrangements are accounted for as share appreciation rights by FMR. These share-based compensation arrangements are solely compensatory for U.S. federal income tax purposes, and generally provide holders with compensation based on participation in changes in FMR's Net Asset Value per share (as defined) ("NAV") over their respective terms. All plans are settled in cash or senior notes at the end of their defined term or when plan participants are no longer employees.

For the year ended December 31, 2020, aggregate compensation expense charged to the Company related to these retirement and share-based plans was \$206 which is included in employee compensation and benefits in the statement of income.

NATIONAL FINANCIAL SERVICES LLC
NOTES TO FINANCIAL STATEMENTS
(Dollars in millions)

14. Concentration of Credit Risk:

The Company provides brokerage, clearance, financing and related services to a customer base primarily in the United States, including institutional and individual investors and brokers and dealers (including affiliates). The Company's exposure to credit risk associated with these transactions is measured on an individual customer or counterparty basis. To reduce the potential for risk concentration, credit limits are established and continually monitored in light of changing customer and market conditions. In the normal course of providing such services, the Company requires collateral on a basis consistent with industry practice or regulatory requirements. The type and amount of collateral is continually monitored and counterparties are required to provide additional collateral as necessary.

15. Subsequent Events:

The Company has performed an evaluation of events that have occurred subsequent to December 31, 2020, and through February 12, 2021 (the date of this report). As part of a technology centralization initiative across FMR, the Company's technology development employees were transferred to Fidelity Technology Group, LLC ("FTG"), a wholly-owned subsidiary of FMR. In January 2021 in connection with the technology centralization initiative, the Company declared and settled a dividend to the Parent of software assets at their carrying value of \$148. On a prospective basis, the Company will be charged a fee by FTG for providing technology services, which is not expected to have a material impact to the Company's statement of income. There have been no additional material subsequent events that occurred during such period that would require disclosure in this report, or would be required to be recognized in the financial statements as of December 31, 2020.

NATIONAL FINANCIAL SERVICES LLC
COMPUTATION OF NET CAPITAL FOR BROKERS AND DEALERS
PURSUANT TO RULE 15c3-1 UNDER THE SECURITIES EXCHANGE ACT OF 1934
AS OF DECEMBER 31, 2020
(Dollars in millions)

SCHEDULE 1

MEMBER'S EQUITY	\$ 5,786
NON-ALLOWABLE ASSETS AND OTHER CAPITAL CHARGES:	
Total non-allowable assets	461
Additional charges for customers' and non-customers' security accounts	5
Aged fail-to-deliver	2
Aged short security differences	1
Commodity futures contracts and spot commodities - proprietary capital charges	1
Other deductions and/or charges	13
Total non-allowable assets and other capital charges	<u>483</u>
NET CAPITAL BEFORE HAIRCUTS ON SECURITIES POSITIONS	5,303
HAIRCUTS ON SECURITIES POSITIONS	
U.S. and Canadian government obligations	83
State and municipal government obligations	4
Stocks and warrants	9
Other securities	28
Total haircuts on securities positions	<u>124</u>
NET CAPITAL	5,179
COMPUTATION OF ALTERNATE NET CAPITAL REQUIREMENTS	
NET CAPITAL REQUIREMENT—Alternative method (2% of aggregate debit items or \$1.5, whichever is greater)	<u>851</u>
EXCESS NET CAPITAL	\$ 4,328
PERCENTAGE OF NET CAPITAL TO AGGREGATE DEBIT ITEMS	<u>12.16%</u>

PARAGRAPH PURSUANT TO (d)(4) OF RULE 17a-5:

There are no material differences between the amounts presented above and the amounts reported in the Company's unaudited Form X-17A-5 Part II FOCUS as of December 31, 2020, filed on January 27, 2021.

NATIONAL FINANCIAL SERVICES LLC
COMPUTATION FOR DETERMINATION OF RESERVE REQUIREMENTS
FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3
UNDER THE SECURITIES EXCHANGE ACT OF 1934
AS OF DECEMBER 31, 2020
(Dollars in millions)

SCHEDULE 2

CREDIT BALANCES:

Free credit balances and other credit balances in customers' security accounts	\$ 74,990
Monies borrowed collateralized by securities carried for the accounts of customers	2,923
Monies payable against customers' securities loaned	2,020
Customers' securities failed to receive	344
Credit balances in firm accounts which are attributable to principal sales to customers	6
Market Value of stock dividends, stock splits and similar distributions receivable outstanding over 30 calendar days	1
Market Value of short securities and credits in all suspense accounts over 30 calendar days	5
Other	2,822
TOTAL CREDITS	<u>83,111</u>

DEBIT BALANCES:

Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection	30,255
Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver	9,414
Failed to deliver of customers' securities not older than 30 calendar days	49
Margin required and on deposit with the Options Clearing Corporation for all option contracts written or purchased in customer accounts	2,869
Aggregate Debit Items	42,587
Less 3% of Aggregate Debit Items	1,277
TOTAL 15c3-3 DEBITS	<u>41,310</u>

EXCESS OF TOTAL CREDITS OVER TOTAL DEBITS	<u>41,801</u>
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Cash and market value of qualified securities held on deposit in reserve bank accounts at December 31, 2020	<u>41,767</u>
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Deposit of cash and market value of qualified securities in reserve bank accounts on January 5, 2021	<u>768</u>
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Cash and market value of qualified securities held on deposit in reserve bank accounts at January 5, 2021	<u><u>\$ 42,535</u></u>
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PARAGRAPH PURSUANT TO (d)(4) OF RULE 17a-5:

There are no material differences between the amounts presented above and the amounts reported in the Company's unaudited Form X-17A-5 Part II FOCUS as of December 31, 2020, filed on January 27, 2021.

NATIONAL FINANCIAL SERVICES LLC
INFORMATION RELATING TO POSSESSION OR CONTROL REQUIREMENTS
FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3
UNDER THE SECURITIES EXCHANGE ACT OF 1934
AS OF DECEMBER 31, 2020
(Dollars in millions)

SCHEDULE 3

1. Customers' fully paid securities and excess margin securities not in the Company's possession or control as of December 31, 2020 (for which instructions to reduce to possession or control had been issued as of December 31, 2020), but for which the required action was not taken by the Company within the time frames specified under Rule 15c3-3:
 - a. Market value \$ 1
 - b. Number of Items 228
2. Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of December 31, 2020, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3:
 - a. Market value \$ 0
 - b. Number of Items 0

PARAGRAPH PURSUANT TO (d)(4) OF RULE 17a-5:

There are no material differences between the amounts presented above and the amounts reported in the Company's unaudited Form X-17A-5 Part II FOCUS as of December 31, 2020, filed on January 27, 2021.

CONFIDENTIAL

NATIONAL FINANCIAL SERVICES LLC
COMPUTATION FOR DETERMINATION OF PAB ACCOUNT RESERVE REQUIREMENTS
FOR BROKERS AND DEALERS PURSUANT TO RULE 15c3-3 UNDER THE SECURITIES
EXCHANGE ACT OF 1934
AS OF DECEMBER 31, 2020

(Dollars in millions)

SCHEDULE 4

CREDIT BALANCES

Free credit balances and other credit balances in PAB security accounts	\$ 702
Monies payable against PAB securities loaned	29
PAB securities failed to receive	7
Credit balances in firm accounts which are attributable to principal sales to PAB	13
Total PAB credits	<u>751</u>

DEBIT BALANCES

Debit balances in PAB cash and margin accounts excluding unsecured accounts and accounts doubtful of collection	148
Securities borrowed to effectuate short sales by PAB and securities borrowed to make delivery on PAB securities failed to deliver	413
Failed to deliver of PAB securities not older than 30 calendar days	22
Total PAB debits	<u>583</u>

RESERVE COMPUTATION

Excess of total PAB credits over total PAB debits	168
PAB Reserve Requirement	<u>168</u>
Amount held on deposit in "Reserve Bank Account(s)", including value of qualified securities, at end of reporting period	<u>174</u>
Amount of deposit including value of qualified securities	45
New amount in "Reserve Bank Account(s)" after adding deposit or subtracting withdrawal including value of qualified securities	<u>\$ 219</u>
Date of Deposit	1/5/2021

PARAGRAPH PURSUANT TO (d)(4) OF RULE 17a-5:

There are no material differences between the amounts presented above and the amounts reported in the Company's unaudited Form X-17A-5 Part II FOCUS as of December 31, 2020, filed on January 27, 2021.

CONFIDENTIAL