

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

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

SEC FILE NUMBER
8- 35381

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 01/01/17 AND ENDING 12/31/17  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **BOK Financial Securities, Inc.**

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

**One Williams Center, Plaza East**

(No. and Street)

**Tulsa**

**Oklahoma**

**74172**

(City)

(State)

(Zip Code)

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

**Robert Ledvora (405) 272-2311**

(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)

**One Williams Center, Suite 1700 Tulsa**

**Oklahoma**

**74172**

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

☒

Certified Public Accountant

☐

Public Accountant

☐

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

**FOR OFFICIAL USE ONLY**

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


## OATH OR AFFIRMATION

I, Robert Ledvora, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of BOK Financial Securities, Inc., as of December 31, 20 17, 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:

\_\_\_\_\_


\_\_\_\_\_

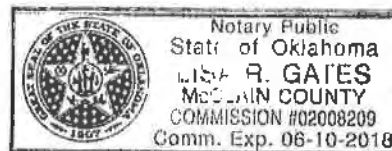
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Signature

Chief Financial Officer

Title

  
Notary Public



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

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

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

FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION

BOK Financial Securities, Inc.  
Year Ended December 31, 2017  
With Report of Independent  
Registered Public Accounting Firm

# **BOK Financial Securities, Inc.**

## **Financial Statements and Supplemental Information As of and for the Year Ended December 31, 2017**

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## Report of Independent Registered Public Accounting Firm

To the Board of Directors  
BOK Financial Securities, Inc.

### **Opinion on the Financial Statements**

We have audited the accompanying statement of financial condition of BOK Financial Securities, Inc. (the Company), as of December 31, 2017, the related statement of income, changes in stockholder's equity, and cash flows for the year then ended, and 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 at December 31, 2017, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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 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 information contained in Schedules I, II and III has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. Such information is the responsibility of the Company's management. Our audit procedures included determining whether the 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. In forming our opinion on the information, we evaluated whether such 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

*Ernst & Young LLP*

We have served as the Company's auditor since 1990

February 28, 2018

## **BOK Financial Securities, Inc.**

### **Statement of Financial Condition**

**December 31, 2017**

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<b>Assets</b>		
Cash and cash equivalents	\$	23,432,401
Receivables from broker/dealers		35,495,074
Receivables from investment banking activities		1,316,673
Interest receivable		225,610
Receivable from affiliate		1,097,525
Prepaid expenses and other assets		747,324
Securities owned, at fair value		22,219,722
Furniture, fixtures, software and equipment, at cost, less accumulated depreciation of \$1,961,850		1,249,408
Deferred tax asset, net		326,584
Intangible assets		1,138,611
Deposits with third parties		2,737,500
Margin deposits		500,000
Total assets	\$	90,486,432
<b>Liabilities and stockholder's equity</b>		
Accrued operating expenses	\$	6,520,915
Current income taxes payable to Parent, net		854,830
Securities sold not yet purchased, at fair value		1,965,918
Total liabilities		9,341,663
<b>Stockholder's equity:</b>		
Common stock, \$10 par value – 2,500 shares authorized and issued		25,000
Additional paid-in capital		53,764,078
Retained earnings		27,355,691
Total stockholder's equity		81,144,769
Total liabilities and stockholder's equity	\$	90,486,432

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*See accompanying notes.*

## **BOK Financial Securities, Inc.**

### **Statement of Income**

**Year Ended December 31, 2017**

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#### **Revenues**

Trading gains and losses, net	22,115,620
Brokerage fees and commissions	23,941,005
Investment banking fees and commissions	16,277,593
Interest income	1,414,396
Other revenue	736,571
Total operating revenues	64,485,185

#### **Expenses**

Personnel expense	42,665,273
Affiliate allocated expenses	8,594,626
Equipment rental	3,120,194
Business promotion	1,064,671
Clearance fees	2,237,061
Professional fees	1,737,943
Data processing	1,739,976
Administrative expense	603,085
Brokerage licensing and registration	461,152
Other	479,856
Depreciation and amortization	728,735
Total operating expenses	63,432,572

Net income before taxes	1,052,613
Income tax expense	291,890
Net income	\$ 760,723

*See accompanying notes.*



## **BOK Financial Securities, Inc.**

### **Statement of Changes in Stockholder's Equity Year Ended December 31, 2017**

	<b>Common Stock</b>		<b>Additional</b>	<b>Retained</b>	
	<b>Shares</b>	<b>Par Value</b>	<b>Paid- in Capital</b>	<b>Earnings</b>	<b>Total</b>
Balance January 1, 2017	2,500	\$ 25,000	\$ 53,436,015	26,594,968	\$ 80,055,983
Net income	—	—	—	760,723	760,723
Capital provided by stock-based compensation	—	—	328,063	—	328,063
Balance, December 31, 2017	2,500	\$ 25,000	\$ 53,764,078	\$ 27,355,691	\$ 81,144,769

*See accompanying notes.*

# BOK Financial Securities, Inc.

## Statement of Cash Flows

Year Ended December 31, 2017

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### Operating activities

Net income	\$ 760,723
Adjustments to reconcile net income to net cash used in operating activities:	
Depreciation and amortization	728,735
Share-based compensation	328,063
Deferred income taxes	1,042,536
(Increase) decrease in operating assets:	
Receivables from broker/dealer	(12,471,795)
Receivable from investment banking activities	266,704
Current income taxes receivable from Parent, net	1,399,165
Interest receivable	11,593
Receivable from affiliate	(1,097,525)
Prepaid expenses and other assets	445,304
Securities owned, at fair value	(1,153,733)
Current income taxes payable to Parent, net	854,830
Deposits with third parties	(2,389,250)
Increase (decrease) in operating liabilities:	
Accrued operating expenses	(717,650)
Payable to affiliate	(357,881)
Net payable for unsettled regular-way trades	(911,293)
Securities sold not yet purchased	(379,446)
Net cash used by operating activities	(13,640,920)

### Investing activities

Sale of fixed assets	129,390
Net cash provided by investing activities	129,390

Net decrease in cash and cash equivalents	(13,511,530)
Cash and cash equivalents at beginning of year	36,943,931
Cash and cash equivalents at end of year	\$ 23,432,401

### Supplemental disclosure of cash flow information

Cash refunded of taxes	\$ (2,857,864)
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See accompanying notes.

# **BOK Financial Securities, Inc.**

## **Notes to Financial Statements**

**As of and for the Year Ended December 31, 2017**

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### **1. Organization and Description of Business**

BOK Financial Securities, Inc. ("BOKFS" or "the Company"), a wholly owned subsidiary of BOK Financial Corporation ("the Parent"), is a registered broker/dealer with the Securities and Exchange Commission ("SEC") under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority ("FINRA"). BOKFS is a registered investment adviser with the SEC under the Investment Advisers Act of 1940. BOKFS is permitted to transact business as a broker/dealer in all 50 states, subject to certain state securities regulations. BOKFS is registered with the SEC as a municipal adviser and with the Municipal Securities Rulemaking Board. BOKFS' Parent is a financial holding company, authorized to conduct the full range of activities permitted under Section 4(k) of the US Bank Holding Company Act.

BOKFS is a full-service securities firm and engages in investment banking, trading and underwriting, and retail and institutional securities sales. BOKFS offers a variety of investment options, including mutual funds, unit investment trusts, variable annuities, municipal and other fixed-income securities, stocks, real estate investment trusts, exchange-traded funds and financial advisory services. BOKFS financial consultants use a network of branch offices located primarily within branches of its national bank affiliate, BOKF, NA, in Oklahoma, Texas, New Mexico, Kansas/Missouri, Colorado, Arkansas and Arizona. BOKFS also services clients through standalone offices in Wisconsin. As a bank-affiliated broker/dealer, BOKFS is required to disclose to clients and potential clients its relationship with the Parent and that investments (1) are not insured by the Federal Deposit Insurance Corporation, (2) are not deposits or other obligations of and are not guaranteed by any bank or bank affiliate, and (3) are subject to risks, including possible loss of principal invested.

BOKFS' securities transactions are executed and customer accounts are carried and cleared on a fully disclosed basis with Pershing, LLC ("Pershing"), a clearing broker/dealer and a wholly owned subsidiary of Bank of New York Mellon ("BNY"). Pershing is a member of FINRA, the New York Stock Exchange and the Securities Investor Protection Corporation.

### **2. Significant Accounting Policies**

#### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Management believes that the estimates utilized in preparing the financial statements are reasonable and prudent. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

Cash and cash equivalents includes bank deposit accounts and money market funds. As of December 31, 2017, cash and cash equivalents includes \$17,406,416 in a money market fund sponsored by an unrelated global investment bank and \$303,451 is on deposit with an unaffiliated bank. Additionally, \$1,397,467 is on deposit with BOKF, NA and \$4,325,067 is held in a money market fund sponsored by BOKF, NA.

#### **Depreciation**

Depreciation is computed on a straight-line basis over the estimated useful lives of the assets. The majority of the assets are software and furniture, the estimated useful lives of which range from three to ten years.

### **Receivables From Broker/Dealers**

BOKFS has net receivables from broker/dealers of \$35,495,074 at December 31, 2017, including \$26,395,900 in BOKFS's proprietary account at Pershing available for future settlement of securities trades, a net receivable for unsettled trades \$8,632,770 and all other net \$466,404. BOKFS may reserve for uncollectible accounts based on an aging analysis and estimated collectability of those receivables. No reserve was recorded at December 31, 2017. Amounts not collected after 90 days are generally written off.

### **Revenues Receivable From Investment Banking Activities**

Revenues for investment banking activities are accrued when all significant responsibilities have been completed and the underwriting revenue has been determined. BOKFS evaluated the aging and collectability of these receivables and no reserve was recorded at December 31, 2017.

### **Securities, at Fair Value**

Securities are acquired by the Company for profit through resale with purchases carried at fair value with unrealized gains and losses included in trading gains and losses, net, in the Statement of Income. The purchase or sale of securities is recognized on a trade date basis. Realized gains or losses are based upon the cost of the specific security sold and included in trading gains and losses, net, in the Statement of Income.

### **Derivative Contracts**

The company may use derivative contracts to economically hedge its Securities Owned as part of its internal risk management programs. The Company may also have to provide cash margin as collateral for derivative liabilities. There were no outstanding derivatives contracts at December 31, 2017. During 2017, the Company had \$76,341 of net losses on its derivative contracts, which are included in Other revenue in the Statement of Income.

None of the derivative contracts utilized by the Company have been designated as a hedging instrument for accounting purposes.

### **Amortization**

Intangible assets represent customer relationships acquired in conjunction with an acquisition by the Parent and contributed to the Company. Intangible assets are being amortized on a straight-line basis over useful lives of three to five years. Amortization for the year ended December 31, 2017 was \$423,334 and is included Depreciation and amortization in the Statement of Net Income. Expected amortization expense for the next four years is 2018 \$423,333; 2019 \$346,945, 2020 \$340,000 and 2021 \$28,333.

### **Securities Sold Not Yet Purchased**

Securities sold not yet purchased represents the liability for securities sold that are not yet owned by BOKFS. The Company is obligated to purchase the securities at a future date at the then current market price. Securities sold not yet purchased are recorded at fair value on a trade date basis.

### **Revenue Recognition**

BOKFS receives a percentage of commissions that Pershing charges its customers, as described in the clearing contract with Pershing. The agreement requires BOKFS to indemnify Pershing for uncollected amounts relating to customers introduced by BOKFS.

Trading gains and losses are recorded on a trade-date basis.

Commissions on sales of annuities are recorded when the contracts are accepted by the insurance companies.

Investment banking fees and commissions include gains, losses, and underwriting fees, net of syndicate expenses, arising from securities in which BOKFS acts as underwriter. Investment banking revenue also includes fees earned from providing financial advisory services and structured financing services. Revenue is recognized at the time the underwriting or service is substantially complete and the income is reasonably determinable.

### Newly Adopted and Pending Accounting Pronouncements

#### FASB Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09")

On May 28, 2014, the FASB issued ASU 2014-09 to clarify the principles for recognizing revenue by providing a more robust framework that will give greater consistency and comparability in revenue recognition practices. In the new framework, an entity recognizes revenue in an amount that reflects the consideration to which the entity expects to be entitled in exchange for goods or services. The new model requires the identification of performance obligations included in contracts with customers, a determination of the transaction price and an allocation of the price to those performance obligations. Trading gains and losses, net and Interest Income are excluded from the scope of ASU 2014-09. The entity recognizes revenue when performance obligations are satisfied. ASU 2014-09 was effective for the Company for the Company on January 1, 2018. There were no significant adjustments as a result of implementation as the Company's current revenue recognition policies generally conform with the principals in the standard.

#### FASB Accounting Standards Update No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ("ASU 2016-08")

On March 17, 2016, the FASB Issued ASU 2016-08 to amend the principal versus agent implementation guidance in ASU 2014-09. The ASU clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. ASU 2016-08 was effective for the Company for the Company on January 1, 2018. There were no significant adjustments as the result of implementation of ASU 2016-08 on January 1, 2018. Recognition of reimbursed expenses related to municipal bond underwritings that previously have been recognized on a net basis will generally be recognized gross basis for BOKFS's proportional share. Recognition of reimbursed expenses related to municipal bond underwritings that previously have been recognized on a net basis will generally be recognized gross basis for BOKFS's proportional share.

### 3. Net Capital Requirements

BOKFS is subject to the SEC Uniform Net Capital Rule ("SEC Rule 15c3-1"), which requires the maintenance of a minimum net capital, as therein defined, and requires that the ratio of aggregate indebtedness, defined as total money liabilities of a broker/dealer arising in connection with any transaction subject to certain exclusions, to net capital, shall not exceed 15 to 1 (or 1500%).

At December 31, 2017, BOKFS' net capital position was as follows:

Net capital, as defined	\$ 67,608,763
Net capital required	492,671
Excess capital	\$ 67,116,092
Net capital ratio***	10.93%

\*\*\*The net capital ratio is calculated as aggregate indebtedness, as defined, divided by net capital.

BOKFS does not carry its own customer accounts.

#### **4. Deposits With Third Parties**

As of December 31, 2017, deposits with third parties totaled \$2,737,500, including a \$100,000 cash security deposit with Pershing for the purpose of maintaining a fully disclosed clearing arrangement which are provided to issuers as a guarantee of performance. Amounts totaling \$2,587,500 represents deposits at issuers to guarantee BOKFS performance in underwritings. The remaining \$50,000 represent miscellaneous other deposits with third parties.

#### **5. Margin Deposits**

Margin deposits of \$500,000 as of December 31, 2017, consisted of cash on deposit with Pershing in a preferred stock trading account. BOKFS may buy and hold preferred stock in a Pershing firm account for the purpose of selling to BOKFS customers. The preferred stock may be held on margin and, as such, requires a 50% deposit against the margin balance. The unused portion of the preferred stock margin balance at Pershing does not currently earn interest.

#### **6. Related-Party Transactions**

As of December 31, 2017, receivable from affiliate of \$1,097,525 consisted of a receivable from BOKF, NA for intercompany settlement of certain operating expenses. BOKFS' financial obligations to BOKF, NA are guaranteed by a pledge of cash collateral by the Parent.

Current income taxes payable to Parent, net of \$854,830 included payables of \$981,977 for federal income taxes and \$127,147 of receivables for state income taxes. BOKFS is included in the consolidated income tax return filed by the Parent. Pursuant to a tax sharing agreement between BOKFS and the Parent, income taxes are allocated to BOKFS on a separate return basis. The amount of current income tax expense or benefit is either remitted to or received from the Parent.

The Company acted as a co-manager in a debt offering for an entity with a common director of the Firm's parent. The issuance settled on July 13, 2017. As a co-manager BOKFS earned \$217,865 in Investment Banking Fees & Commissions.

BOKFS affiliate allocated expenses are paid to third parties by BOKF, NA. In 2017, BOKFS incurred \$8,594,626 of general and administrative expenses allocated to BOKFS by, and reimbursable to, BOKF, NA. Of this, management fees were \$3,135,912, technology & communication costs were \$2,108,781, occupancy costs were \$1,764,794, human resources costs were \$815,223, risk management costs were \$523,629 and other expenses were \$246,287.

To facilitate customer demand in the ordinary course of business, the Company will purchase securities from and sell securities to its affiliated Bank, BOKF, NA. During 2017, the Company purchased securities with a total market value of \$968,168,477 from BOKF, NA and sold securities with a market value \$971,371,649 to BOKF, NA. These exchanges are executed at fair value. The net gain on these transactions is included in Trading gains and losses, net and was approximately \$42,779 for 2017 .

BOKFS has two secured revolving lines of credit with BOKF, NA and an unsecured revolving line of credit with the Parent, as discussed in Note 8.

BOKF, NA may serve as trustee for municipal bond issues underwritten by BOKFS. In that role, BOKF, NA assumes responsibility for all distributions of the proceeds along with payments for principal and interest to the bondholders through maturity.

In compliance with applicable regulations, BOKFS may provide broker/dealer services for certain executive officers, directors, and affiliates of the Parent.

There were no subordinated borrowings during 2017.

## **7. Financial Instruments**

Fair value is defined by applicable accounting guidance as the price to sell an asset or transfer a liability in an orderly transaction between market participants in the principal market for the given asset or liability at the measurement date based on market conditions at that date.

A hierarchy for fair value has been established that categorizes into three levels the inputs to valuation techniques used to measure fair value:

Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1) - Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities.

Significant Other Observable Inputs (Level 2) - Fair value is based on significant other observable inputs, which are generally determined based on a single unadjusted price for each financial instrument provided by an applicable third-party pricing service and is based on one or more of the following:

- Quoted prices for similar, but not identical, assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable, such as interest rate and yield curves, volatilities, prepayment speeds, loss severities, credit risks and default rates; and
- Other inputs derived from or corroborated by observable market inputs.

Significant Unobservable Inputs (Level 3) - Fair value is based on model-based valuation techniques for which at least one significant assumption is not observable in the market.

Transfers between levels are recognized as of the end of the reporting period. There were no transfers in or out of quoted prices in active markets for identical instruments, significant other observable inputs or significant unobservable inputs for the year ended December 31, 2017.

The underlying methods used by the third-party pricing services are considered in determining the primary inputs used to determine fair values. Management has evaluated the methodologies employed by the third-party pricing services by comparing the price provided by the pricing service with other sources, including brokers' quotes, sales or purchases of similar instruments and discounted cash flows to establish a basis for reliance on the pricing service values. Significant differences between the pricing service provided value and other sources are discussed with the pricing service to understand the basis for their values. Based on all observable inputs, management may adjust prices obtained from third-party pricing services to more appropriately reflect the prices that would be received to sell assets or paid to transfer liabilities in orderly transactions in the current market. No significant adjustments were made to prices provided by third-party pricing services at December 31, 2017.

Certain assets and liabilities recorded in the financial statements are measured at fair value on a recurring basis are as follows as of December 31, 2017:

	Total	Quoted Prices in Active Market for Identical Instruments	Significant Other Observable Inputs	Significant Unobservable Inputs
<b>Assets</b>				
Securities:				
Obligations of the Federal Home Loan Bank	\$ 3,263,507	\$ —	\$ 3,263,507	\$ —
Obligations of the U.S. Government or other agencies	2,785,948	—	2,785,948	—
State and municipal obligations	13,559,054	—	13,559,054	—
Corporate obligations and other	2,611,213	—	2,611,213	—
Total securities	\$ 22,219,722	\$ —	\$ 22,219,722	\$ —
<b>Liabilities</b>				
Securities sold not yet purchased	\$ 1,965,918	\$ —	\$ 1,965,918	\$ —

The carrying value of cash and cash equivalents approximates fair value based on the short term nature of these items.

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

## 8. Funding Arrangements

In addition to its own resources, BOKFS utilizes financing agreements with BOKF, NA and Pershing as funding sources for its trading and investment banking activities.

BOKFS has two revolving lines of credit with BOKF, NA of \$60 million and \$20 million. As of December 31, 2017, there were no amounts drawn on either line of credit. Any outstanding amounts under the \$60 million line must be fully collateralized by qualifying securities from the trading securities portfolio. Any outstanding amounts under the \$20 million line must be fully collateralized by U.S. Treasuries or securities issued by U.S. government agencies. BOKF, NA does not have the right to sell or re-pledge these securities. For both lines of credit, interest is based on the 30-day LIBOR rate plus 1.50% and is paid monthly. Both lines mature on May 24, 2018. It is anticipated both lines will be renewed with substantially the same terms.

In accordance with SEC rules, the Company's trades are executed and cleared in proprietary accounts, which allow Pershing, as the clearing firm, to loan BOKFS funds for the purposes of financing securities purchases or to facilitate funding of investment banking activities, on terms to be negotiated at the time of the borrowing. Such loans are subject to SEC regulations and clearing firm requirements. BOKFS had no borrowings from Pershing outstanding at December 31, 2017.



BOKFS has an unsecured \$15 million revolving line of credit with the Parent, for which no amount was drawn as of December 31, 2017. The primary purpose of the line is to provide additional liquidity and other uses, as allowed with prior approval from the Parent. Interest is based on the 30-day LIBOR rate plus 1.50%, not to fall below 3%, and is paid monthly. The line matures on May 24, 2018 and is expected to be renewed with substantially the same terms.

## **9. Commitments and Contingencies**

BOKFS is an introducing broker to Pershing for equity and fixed income investment transactions pursuant to a fully disclosed clearing agreement. As such, BOKFS has agreed to indemnify Pershing against potential losses due to a customer's failure to settle a transaction or repay a margin loan. Equity and fixed income transactions are settled within three business days of the trades date. Customer margin loans are due on demand. All unsettled transactions are collateralized by the security being purchased. Customer margin loans are secured, as required by the Board of Governors of the Federal Reserve Regulation T, *Credit by Brokers and Dealers*. At December 31, 2017, the total amount of customer balances subject to indemnification was \$2,905. In accordance with applicable margin lending practices, customer balances are typically collateralized by customer securities or supported by other types of recourse provisions. The fair value of the guarantee is not significant and no amount was recorded on BOKFS's Statement of Financial Condition to reflect this contingent liability based on an assessment of probable loss.

The Director of the New Mexico Securities Division of the State of New Mexico Regulation and Licensing Department ("the Director") has issued a Notice of Contemplated Action in connection with the purchase of various municipal bonds by the elected County Treasurer of Bernalillo County, New Mexico from the BOK Financial Securities, Inc. The Notice was settled by a \$125,000 payment to the Division's Educational Fund, without any fine, penalty or sanction. The County of Bernalillo, New Mexico, has commenced arbitration pursuant to the Arbitration Rules of FINRA seeking recovery of \$5.6 million alleging that various municipal bonds purchased by the elected County Treasurer of Bernalillo County, New Mexico, from BOK Financial Securities, Inc. were unsuitable. The arbitration panel found the County of Bernalillo's complaint frivolous and awarded BOK Financial Securities, Inc. attorney fees and costs. The County has sued in the United States District Court for New Mexico to set aside the award of fees and costs to BOK Financial Securities but not the finding that the County's complaint was frivolous.

In the ordinary course of business, BOKFS is subject to legal actions and complaints. Management believes, based upon the opinion of counsel, that actions and liability or loss, if any, resulting from the final outcomes of any such actions and complaints will not have a material effect on the Company's financial condition, results of operations or cash flows.

For 2017, BOKFS expensed \$2,456,386 for certain information services contracts and has commitments to purchase information services of \$1,886,970 in 2018 and \$509,385 in 2019.

In the normal course of business, BOKFS enters into underwriting commitments. Transactions relating to such underwriting commitments that were open at December 31, 2017, and were subsequently settled, had no material effect on the financial statements.

## **10. Income Taxes**

The Tax Cuts and Jobs Act (the "Act"), which was enacted on December 22, 2017, reduces the federal corporate tax rate from 35% to 21% for periods beginning January 1, 2018. Provisions of the Act are broad and complex. As a result, we are still evaluating the impact that certain aspects of the Act will have on the Company's financial position and results of operations, including recognition and measurement of deferred tax assets and liabilities and the determination of effective current and deferred federal and state income tax rates. We have made reasonable estimates of the Act's impact on net deferred tax assets and recorded a provisional adjustment of \$166,247.

We are not aware of any material areas where we were not able to determine provisional amounts. However, accounting for income tax effect of the Act is still in process and provisional adjustments recognized in 2017 may be adjusted as a result of our ongoing evaluation, including subsequent guidance provided by federal and state taxing authorities and other information as it becomes available.

Deferred tax asset, net of \$326,584 reflects the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. As a result of the Act, the deferred tax balances for 2017 have generally been revalued from the combined federal and state statutory rate of 38.9% to 25.5%. The net deferred tax asset consists of deferred tax assets of \$640,297 and deferred tax liabilities of \$313,713. A valuation allowance is provided when it is more likely than not that some portion of the entire deferred tax asset may not be realized. No valuation allowance was required at December 31, 2017. The significant components of deferred income taxes principally relate to accrued liabilities, prepaid expenses and depreciation.

The reconciliation of the income tax provision computed at the U.S. federal statutory tax rate to the effective income tax expense, for the year ended December 31, 2017, was as follows:

	Amount	Percent
Federal statutory tax	\$ 368,414	35 %
Tax-exempt revenue	(357,943)	(34)%
State income tax, net of federal tax benefit	68,247	6 %
Meals and entertainment	93,504	9 %
Share-based compensation	(88,168)	(8)%
Revaluation of deferred taxes due to change in federal tax rates	166,247	16 %
Other	41,589	4 %
Total income tax expense (benefit)	\$ 291,890	28 %

Significant components of the income tax provision for the year ended December 31, 2017, were as follows:

Current:	
Federal	\$ (707,745)
State	(42,901)
Total current	(750,646)
Deferred:	
Federal	970,605
State	71,931
Total deferred	1,042,536
Total income tax expense	\$ 291,890

Based on the provisions of Accounting Standards Codification (ASC) 740, *Income Taxes*, regarding uncertain tax positions (formerly FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) at December 31, 2017 there were no unrecognized tax benefits recorded. If unrecognized tax benefits were recorded, the related interest and penalties would be recorded in income tax expense.

Federal statute remains open for federal tax returns filed in the previous three reporting periods. Various state income tax statutes remain open for the previous three to six reporting periods.

## **11. Employee Benefits**

BOKFS employees who meet certain service requirements may participate in a defined-contribution thrift plan sponsored by BOKF. Employee contributions are matched by BOKFS equal to 6% of base compensation as defined in the plan. BOKFS matching contribution rates range from 50% for employees with less than four years of service to 200% for employees with 15 or more years of service. Additionally, a maximum non-elective annual contribution of up to \$750 is made for employees whose annual base compensation is less than \$40,000. Participants may direct investments in their account to a variety of options, including the Parent's common stock fund or funds where BOKF, NA serves as the custodian. Employer contributions invested in accordance with the participant's investment options vest over five years. BOKFS employees who satisfy certain age and service requirements also participate in a defined-benefit cash balance pension plan sponsored by BOKF. BOKFS incurred total expenses of \$1,744,671 included in the allocation of personnel expense, from these plans in 2017.

BOKFS's employees may also be awarded share-based compensation through BOKF's various share-based compensation plans, primarily in the form of non-vested common shares of the Parent. Grant date fair value of non-vested shares is based on the then-current market value of the Parent's common stock. Non-vested shares generally vest in three years and are subject to a two year holding period after vesting. Compensation cost is recognized as expense over the service period, which is generally the vesting period. Expense is reduced for estimated forfeitures over the vesting period and adjusted for actual forfeitures as they occur. In 2017, the Parent allocated \$328,063 of share-based compensation expense to BOKFS, which is included in personnel expense.

## **12. Subsequent Events**

BOK Financial Securities, Inc. has evaluated events from the date of the financial statements on December 31, 2017, through the issuance of those financial statements on February 28, 2018. No events were identified requiring recognition and/or disclosure in the financial statements.

## Supplemental Information

**BOK Financial Securities, Inc.****Computation of Net Capital Pursuant to Rule 15c3-1  
Year Ended December 31, 2017**

<b>Net capital</b>		
Stockholder's equity	\$	81,144,769
Deduct ownership equity not allowable for net capital		—
Total ownership equity qualified for net capital		81,144,769
Non-allowable assets:		
Securities owned, defined by SEC rule as not readily marketable		4,325,067
Intangible assets		1,138,611
Receivable from affiliate		1,097,525
Deferred tax asset		326,584
Prepaid expenses		678,501
Commissions receivable		686,831
Fixed assets		1,249,408
Other assets		72,016
Total non-allowable assets		9,574,543
Other deductions or charges		81,701
Net capital before haircuts		71,488,525
Haircuts on securities		(3,879,762)
Net capital	\$	67,608,763
<b>Computation of basic net capital requirement</b>		
Minimum net capital required (1/15 of aggregate indebtedness)	\$	492,671
Minimum dollar net capital requirement	\$	100,000
Net capital requirement	\$	492,671
Excess net capital	\$	67,116,092
<b>Computation of aggregate indebtedness</b>		
Total aggregate indebtedness	\$	7,390,057
Deduct adjustment based on deposits in Special Reserve Bank Accounts (15c3-1(c)(1)(vii))		—
Total aggregate indebtedness	\$	7,390,057
Percentage of aggregate indebtedness to net capital		10.93%

The Company does not carry its own customer accounts.

There are no material differences between the Company's computation included in this report and the corresponding schedule included in the Company's revised and unaudited December 31, 2017, Part II FOCUS report.

*See accompanying Report of Independent Registered Public Accounting Firm.*

**BOK Financial Securities, Inc.**

**Computation for Determination of Reserve Requirements  
Under Rule 15c3-3 of the Securities and Exchange Commission  
Year Ended December 31, 2017**

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The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, pursuant to paragraph (k)(2)(ii) of the rule.

The Company does not carry its own customer accounts.

There are no material differences between the Company's computation included in this report and the corresponding schedule included in the Company's revised and unaudited December 31, 2017, Part II FOCUS report.

*See accompanying Report of Independent Registered Public Accounting Firm.*

**BOK Financial Securities, Inc.**

**Information Relating to Possession or Control Requirements  
Under Rule 15c3-3 of the Securities and Exchange Commission  
Year Ended December 31, 2017**

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The Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934, pursuant to paragraph (k)(2)(ii) of the rule.

There are no material differences between the Company's computation included in this report and the corresponding schedule included in the Company's revised and unaudited December 31, 2017, Part II FOCUS report.

*See accompanying Report of Independent Registered Public Accounting Firm.*