

Russell Investments Financial Services, LLC

Statement of Financial Condition

December 31, 2021

Filed as PUBLIC Information Pursuant Rule 17a-5(d)

Under the Securities Exchange Act of 1934

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

ANNUAL REPORTS
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PART III

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FACING PAGE

Information Required Pursuant to Rules 17a-5, 17a-12, and 18a-7 under the Securities Exchange Act of 1934

FILING FOR THE PERIOD BEGINNING 01/01/21 AND ENDING 12/31/21
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF FIRM: Russell Investments Financial Services, LLC

TYPE OF REGISTRANT (check all applicable boxes):

- ☒ Broker-dealer ☐ Security-based swap dealer ☐ Major security-based swap participant
☐ Check here if respondent is also an OTC derivatives dealer

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use a P.O. box no.)

1301 Second Ave, 18th Floor

(No. and Street)

Seattle

WA

98126

(City)

(State)

(Zip Code)

PERSON TO CONTACT WITH REGARD TO THIS FILING

David Siegel

(206) 505-2716

dsiegel@russellinvestments.com

(Name)

(Area Code – Telephone Number)

(Email Address)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose reports are contained in this filing*

RSM US LLP

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

30 South Wacker Drive, Ste 3300

Chicago

IL

60606

(Address)

(City)

(State)

(Zip Code)

9/24/2003

49

(Date of Registration with PCAOB)(if applicable)

(PCAOB Registration Number, if applicable)

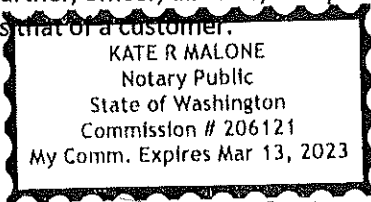
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* Claims for exemption from the requirement that the annual reports be covered by the reports of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis of the exemption. See 17 CFR 240.17a-5(e)(1)(ii), if applicable.

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Andrew Plaehn, swear (or affirm) that, to the best of my knowledge and belief, the financial report pertaining to the firm of Russell Investments Financial Services, LLC, as of December 31, 2021, is true and correct. I further swear (or affirm) that neither the company nor any partner, officer, director, or equivalent person, as the case may be, has any proprietary interest in any account classified solely as that of a customer.



Signature: Andrew Plaehn

Title: Financial Operations Principal

Kate R Malone
Notary Public

This filing** contains (check all applicable boxes):

- ☒ (a) Statement of financial condition.
- ☒ (b) Notes to consolidated statement of financial condition.
- ☐ (c) Statement of income (loss) or, if there is other comprehensive income in the period(s) presented, a statement of comprehensive income (as defined in § 210.1-02 of Regulation S-X).
- ☐ (d) Statement of cash flows.
- ☐ (e) Statement of changes in stockholders' or partners' or sole proprietor's equity.
- ☐ (f) Statement of changes in liabilities subordinated to claims of creditors.
- ☐ (g) Notes to consolidated financial statements.
- ☐ (h) Computation of net capital under 17 CFR 240.15c3-1 or 17 CFR 240.18a-1, as applicable.
- ☐ (i) Computation of tangible net worth under 17 CFR 240.18a-2.
- ☐ (j) Computation for determination of customer reserve requirements pursuant to Exhibit A to 17 CFR 240.15c3-3.
- ☐ (k) Computation for determination of security-based swap reserve requirements pursuant to Exhibit B to 17 CFR 240.15c3-3 or Exhibit A to 17 CFR 240.18a-4, as applicable.
- ☐ (l) Computation for Determination of PAB Requirements under Exhibit A to § 240.15c3-3.
- ☐ (m) Information relating to possession or control requirements for customers under 17 CFR 240.15c3-3.
- ☐ (n) Information relating to possession or control requirements for security-based swap customers under 17 CFR 240.15c3-3(p)(2) or 17 CFR 240.18a-4, as applicable.
- ☐ (o) Reconciliations, including appropriate explanations, of the FOCUS Report with computation of net capital or tangible net worth under 17 CFR 240.15c3-1, 17 CFR 240.18a-1, or 17 CFR 240.18a-2, as applicable, and the reserve requirements under 17 CFR 240.15c3-3 or 17 CFR 240.18a-4, as applicable, if material differences exist, or a statement that no material differences exist.
- ☐ (p) Summary of financial data for subsidiaries not consolidated in the statement of financial condition.
- ☒ (q) Oath or affirmation in accordance with 17 CFR 240.17a-5, 17 CFR 240.17a-12, or 17 CFR 240.18a-7, as applicable.
- ☐ (r) Compliance report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (s) Exemption report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☒ (t) Independent public accountant's report based on an examination of the statement of financial condition.
- ☐ (u) Independent public accountant's report based on an examination of the financial report or financial statements under 17 CFR 240.17a-5, 17 CFR 240.18a-7, or 17 CFR 240.17a-12, as applicable.
- ☐ (v) Independent public accountant's report based on an examination of certain statements in the compliance report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (w) Independent public accountant's report based on a review of the exemption report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (x) Supplemental reports on applying agreed-upon procedures, in accordance with 17 CFR 240.15c3-1e or 17 CFR 240.17a-12, as applicable.
- ☐ (y) Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit, or a statement that no material inadequacies exist, under 17 CFR 240.17a-12(k).
- ☐ (z) Other: _____

**To request confidential treatment of certain portions of this filing, see 17 CFR 240.17a-5(e)(3) or 17 CFR 240.18a-7(d)(2), as applicable.

Russell Investments Financial Services, LLC

Index

December 31, 2021

	Page(s)
Report of Independent Registered Public Accounting Firm.....	1
Financial Statement	
Statement of Financial Condition	2
Notes to Financial Statement	3-12



RSM US LLP

Report of Independent Registered Public Accounting Firm

Board of Directors and Member
Russell Investments Financial Services, LLC

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Russell Investments Financial Services, LLC (the Company) as of December 31, 2021, and the related notes (collectively, the financial statement). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

RSM US LLP

We have served as the Company's auditor since 2020.

Chicago, Illinois
February 28, 2022

Russell Investments Financial Services, LLC
Statement of Financial Condition
December 31, 2021

Assets

Cash and cash equivalents	\$	27,777,224
Distribution fees receivable		1,327,816
Prepaid expenses and other		588,231
Due from affiliates		15,705
Fixed assets, net		500,646
Right of use assets, net		620,499
Deferred income taxes		11,758,018
Total assets	\$	<u>42,588,139</u>

Liabilities and Member's Equity

Liabilities

Distribution fees payable	\$	2,562,098
Administrative fees payable		6,799,061
Compensation payable		2,678,185
Due to affiliates		2,583,969
Accrued expenses and other liabilities		2,050,223
Operating lease liabilities		650,415
Incentive compensation liabilities		25,263
Total liabilities		<u>17,349,214</u>

Commitments, guarantees and contingencies (Notes 9, 11 and 12)

Member's equity

Member's equity		14,440,224
Retained earnings		10,798,701
Total member's equity		<u>25,238,925</u>
Total liabilities and member's equity	\$	<u>42,588,139</u>

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

Russell Investments Financial Services, LLC

Notes to Financial Statement

December 31, 2021

1. Nature of Business and Summary of Significant Accounting Policies

Nature of Business

Russell Investments Financial Services, LLC, a Washington limited liability company (the "Company"), is a wholly owned subsidiary of Russell Investment Management, LLC ("RIM", "Parent" or "Member"), which is part of Russell Investments, the marketing name used to represent Russell Investments Group Ltd ("Russell Investments Group") and its global subsidiaries. RIM is a wholly owned subsidiary of Russell Investments US Retail Holdco, Inc. ("RIURH"), which is ultimately owned by Russell Investments Group.

The Company is a Limited Liability Company ("LLC"). Liabilities of the Company are not the liabilities of its Member beyond the extent of the Member's equity in the Company.

The Company, a broker-dealer registered pursuant to the Securities Exchange Act of 1934, is a member of the Financial Industry Regulatory Authority ("FINRA") and a member of the Securities Investor Protection Corporation ("SIPC"). The Company engages in the sale of redeemable shares of registered investment companies and direct participation programs in the United States of America.

The Company operates under the provisions of Section (k)(1) of Rule 15c3-3 of the Securities Exchange Act of 1934 and, accordingly, claims exemption from the provisions of that Rule.

Russell Investment Company ("RIC") and Russell Investment Funds ("RIF") are registered investment companies affiliated with the Parent and Russell Investments Group. The Company has entered into a distribution agreement with RIC and RIF. The Company has also entered into a sales support agreement and a shareholder servicing agreement with RIC.

Risks and Uncertainties

Volatility and disruption of the capital and credit markets, adverse changes in the US and global economy and political uncertainty, may significantly affect the Company's results of operations and may put pressure on the Company's financial results.

The business and regulatory environments in which the Company operates remain complex, uncertain and subject to change. The Company is subject to various laws, rules and regulations globally that impose restrictions, limitations and registration, reporting and disclosure requirements on its business and add complexity to its compliance operations. Legislative and regulatory changes, regulatory risk alerts and industry intelligence relating to regulatory examinations continue to drive analysis and enhancements of the Company's control systems, business development and oversight programs.

Beginning in February 2020, global financial markets have experienced and may continue to experience significant volatility resulting from the spread of a novel coronavirus known as COVID-19. The outbreak of COVID-19 has resulted in travel and border restrictions, quarantines, supply chain disruptions, lower consumer demand and general market uncertainty. The effects of COVID-19 and the resulting market impact have and may continue to adversely affect the global economy and the economies of certain nations and individual companies, all of which have impacted the Company's financial performance. The Company continues to work diligently to protect clients, associates, and business during this challenging time.

Use of Estimates

The preparation of 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 and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates are inherent in the preparation of the financial statements. Actual results could differ materially from those estimates.

Russell Investments Financial Services, LLC

Notes to Financial Statement

December 31, 2021

Cash and Cash Equivalents

Cash and cash equivalents consist of nonconsolidated sponsored money market funds and deposits with financial institutions and are carried at cost. Due to the short-term nature and liquidity of these financial instruments, the carrying values of these assets approximate fair value. The Company considers all money market funds and instruments with original maturities of three months or less at the purchase date as cash equivalents.

Cash is held at financial institutions in excess of Federal Deposit Insurance Corporation ("FDIC") limits. The Company conducts ongoing evaluations of the creditworthiness of the financial institutions with which it does business.

Fixed Assets

Fixed assets are reported at cost less accumulated depreciation and amortization. Depreciation is calculated using the straight-line method. Furniture and equipment are depreciated over estimated useful lives ranging from three to seven years. Capitalized software includes purchased and internally developed software. Purchased software is amortized over three years using the straight-line method. Internally developed software represents internal and external costs incurred to develop internal use software during the application development stage. Once the internal use software is ready for its intended use, the accumulated development costs are amortized over three years using the straight-line method. Leasehold improvements are amortized over the shorter of their estimated useful lives or the remaining life of the lease. When fixed assets are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the respective accounts and the resulting gains or losses are included in income from operations. Repair and maintenance costs are expensed as incurred.

Leases

The Company recognizes and measures its leases in accordance with Accounting Standard Update ("ASU") 2016-02, *Leases* ("Topic 842"). The Company is a lessee in several noncancelable operating leases for office space. The Company determines if an arrangement is a lease, or contains a lease, at the inception of a contract and when the terms of an existing contract changes. The Company recognizes a lease liability and a Right of Use ("ROU") asset at the commencement date of the lease. The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. The discount rate is the implicit rate if it is readily determinable or otherwise the Company uses its incremental borrowing rate. The Company's incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment. The ROU asset is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) prepaid (accrued) lease payments, less the unamortized balance of lease incentives, and any impairment recognized. Lease costs are recognized on a straight-line basis over the term of the lease.

The Company has elected, for all underlying classes of assets, to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement, and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. The Company recognizes lease costs associated with our short-term leases on a straight-line basis over the lease term.

The Company made an accounting policy election by class of underlying asset, to account for each separate lease component of a contract and its associated non-lease components as a single lease component.

Fair Value Measurements

In accordance with Accounting Standards Codification ("ASC") 820, the Company discloses the fair value of its investments in a hierarchy that prioritizes the inputs to valuation techniques used to measure the fair value. The

Russell Investments Financial Services, LLC

Notes to Financial Statement

December 31, 2021

fair value disclosure framework prioritizes and ranks the level of market price observability used in measuring assets and liabilities at fair value into three broad levels. In some instances, the inputs used to measure fair value might fall in different levels of the fair value hierarchy. Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics and other factors. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability. The categorization within the hierarchy is based upon the pricing transparency of the financial asset or liability and does not necessarily correspond to the Company's perceived risk or liquidity. See Note 3.

Revenue Recognition

The recognition and measurement of revenue is based on the assessment of contracts with customers and recorded in accordance with ASU 2014-09, *Revenue from Contracts with Customers* ("Topic 606"). Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events. Revenue is recognized upon transfer of control of promised services to customers in an amount that reflects consideration to which the Company expects to be entitled in exchange for those services. The Company enters into contracts that contain a single performance obligation. In determining the transaction price, the Company considers multiple factors, including whether constraints on variable consideration should be applied due to uncertain future events.

Distribution fees

Distribution fees represent distribution, sales and marketing activities performed for affiliates. Compensation for this performance obligation is generally calculated as a percentage of the Assets Under Management ("AUM"). This performance obligation is satisfied over time because the customer is receiving and consuming the benefits as they are provided by the Company. The Company is the principal in these arrangements as it is responsible for providing the distribution, sales and marketing services.

12b-1 and shareholder servicing fees

12b-1 and shareholder servicing fees represent distribution and servicing fees performed for affiliated mutual funds. Compensation for this performance obligation is generally calculated as a percentage of AUM. This performance obligation is satisfied over time because the customer is receiving and consuming the benefits as they are provided by the Company. The Company is the principal in these arrangements as it is responsible for providing the distribution and shareholder servicing services.

Sales commissions revenue

Sales commissions revenue primarily consists of underwriting and sponsorship fees, as well as front-end and deferred sales charges, of affiliated mutual funds. Compensation for these performance obligations is generally calculated as a percentage of the amount of the investment in the affiliated mutual funds. This performance obligation is satisfied at the point in time the transactions occur. The Company is the principal in these arrangements as it is responsible for providing the service.

Contract balances

The timing of the Company's revenue recognition may differ from the timing of payment by its customers. The Company records receivables when revenue is recognized prior to payment and it has an unconditional right to payment. The Company had receivables related to revenue from contracts with customers of \$1,366,158 at January 1, 2021 (opening balance) and \$1,327,816 at December 31, 2021, included in distribution fees receivable.

Russell Investments Financial Services, LLC

Notes to Financial Statement

December 31, 2021

ASU 2016-13, *Financial Instruments - Credit Losses* ("Topic 326") impacts financial instruments that are carried by the Company at amortized cost such as distribution fees receivable. Expected credit losses are measured based on historical experience, current conditions and forecasts that affect the collectability of the reported amount. There was no allowance for credit losses at December 31, 2021.

Income Taxes

The Company is a single-member limited liability company classified as a disregarded entity and is included in the U.S federal and separate and combined state income tax returns with RIURH. RIURH allocates these income taxes to the Company using the separate return method. Federal income taxes payable are included as a reduction of due from affiliates. State income taxes payable are included in due to affiliates and accrued expenses and other liabilities. State income taxes receivable are included in prepaid expenses and other.

Consistent with the separate company method, and other than described above, deferred tax assets and liabilities are recorded for temporary differences between the tax basis of the Company's assets and liabilities and the reported amounts in the financial statements using the statutory tax rates in effect for the year when the reported amount of the asset or liability is expected to be recovered or settled, respectively. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date. For each tax position taken or expected to be taken in a tax return, the Company determines whether it is more likely than not that the position will be sustained upon examination based on the technical merits of the position, including resolution of any related appeals or litigation. A tax position that meets the more likely than not recognition threshold is measured at the largest amount of benefit that is greater than 50% likely of being realized upon settlement. The Company recognizes the accrual of tax and interest on uncertain tax positions as a component of income tax expense.

Stock-Based Compensation

Russell Investments Group has a Long-term Equity-Based Incentive Plan ("LTIP") covering eligible employees of the Company, as more fully described in Note 6. Equity-classified awards are measured at fair value as of the grant dates or modification dates and the resulting cost is recognized over the period from the date of grant to the date when the award is no longer contingent upon the employee providing additional service (the required service period). For awards that vest upon retirement, the required service period does not extend beyond the date an employee is eligible for retirement. This situation can result in compensation expense being recognized over a period less than the stated vesting period.

2. Fixed Assets

Fixed assets consist of the following balances at December 31, 2021:

Software	\$	1,310,394
Furniture and equipment		117,060
Leasehold improvements		343,978
		<u>1,771,432</u>
Accumulated depreciation and amortization		(1,270,786)
	\$	<u>500,646</u>

3. Assets and Liabilities Measured at Fair Value on a Recurring Basis

The Company carries investments in money market funds at fair value in the statement of financial condition. The fair value is measured on a recurring basis using a market approach based on published net asset value per share.

Russell Investments Financial Services, LLC

Notes to Financial Statement

December 31, 2021

Assets and liabilities measured and reported at fair value are classified and disclosed in one of the following categories based on the lowest level of input that is significant to the fair value measurement in its entirety:

- Level 1 Inputs are quoted prices (unadjusted) in active markets or exchanges for identical assets or liabilities.
- Level 2 Inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly as of the reporting date, and fair value is determined through the use of models or other valuation methodologies.
- Level 3 Inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. The inputs into the determination of fair value require significant management judgment or estimation. Assumptions used by the Company due to the lack of observable inputs may significantly impact the resulting fair value and therefore the Company's results of operations.

Fair Value Tabular Disclosures

The following table summarizes the valuation of the Company's assets measured at fair value on a recurring basis using the fair value hierarchy levels as of December 31, 2021:

	Level 1	Level 2	Level 3	Total
Assets				
<u>Cash and cash equivalents</u>				
Money market funds	\$ 27,777,224	\$ —	\$ —	\$ 27,777,224

Russell Investments Financial Services, LLC

Notes to Financial Statement

December 31, 2021

4. Current and Deferred Income Taxes

The tax effects of temporary differences that gave rise to the net deferred income tax assets as of December 31, 2021 are presented below:

Deferred income tax assets	
Tax deductible goodwill	\$ 11,620,678
Accrued equity plan expense	170,595
Operating lease liability	161,362
Other	83,035
Total deferred income tax assets	<u>12,035,670</u>
Deferred income tax liability	
Right of use assets	(153,941)
Depreciation of fixed assets	(123,711)
Total deferred income tax liability	<u>(277,652)</u>
Total deferred income tax assets, net	<u>\$ 11,758,018</u>

Deferred tax assets include tax deductible goodwill resulting from a deemed asset purchase of the Company in 2016. Reductions to the deferred tax assets from the amortization of the tax deductible goodwill are presented as a deemed capital distribution.

Federal income taxes due to RIM as of December 31, 2021 are \$563,924 and are included in due to affiliates. State income taxes payable as of December 31, 2021 are \$1,042,084 and are included in accrued expenses and other liabilities.

The Company remains subject to examination by state jurisdictions for the period ended December 31, 2016. The Company's predecessor, Russell Financial Services, Inc., remains subject to examination by certain state jurisdictions for certain years subsequent to and including 2015.

As of December 31, 2021, the Company has gross unrecognized tax benefits of \$395,405.

The Company does not believe it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

5. Benefit Plans

The Company participates in the Russell Investments Retirement Plan (the "Plan"), a defined contribution plan covering eligible employees. The Plan is sponsored by Russell Investments Group, LLC ("RI"), a subsidiary of Russell Investments Group, and allows for contributions to be made out of the Company's net operating profits at the discretion of RI's Board of Directors. Employees may also contribute a percentage of their compensation as defined by the Plan.

6. Employee Compensation Arrangements

LTIP

The Company participates in the Russell Investments Group LTIP covering eligible employees. The LTIP provides for the award of stock options in Russell Investments Group's common stock. The maximum number of shares of Russell Investments Group common stock that are issuable, or are issued and outstanding, cannot exceed 4,916,000 shares of common stock. Awards that are canceled, forfeited, terminated or otherwise settled by the holder or by Russell Investments Group are available for award under the LTIP, subject to the above limitations.

Stock options that time vest generally vest over five years, either quarterly over five years or 40% on the second anniversary date and the remaining 60% over 36 months in equal monthly installments. Stock options that vest upon performance vest 1/3 on the applicable earned reference date and the remaining 2/3 vest in two equal annual installments on each of the first anniversary and second anniversary of the earned reference date. Stock options generally expire 10 years from the date of grant. Vested shares can be exercised at any time.

Russell Investments Group estimates the fair value of stock options using the Black-Scholes option pricing model, which requires, among other inputs, an estimate of the fair value of Russell Investments Group common stock on the date of grant and the expected volatility of the common stock over the expected term of the related grants. Stock options are granted with an exercise price equal to the per share fair value of Russell Investment Group's common stock at the date of grant. Russell Investments Group has determined that it was not practicable to calculate the volatility of its share price since its securities are not publicly traded and therefore, there is no readily determinable market value for its stock. Therefore, Russell Investments Group estimates its expected volatility based on reported market value data for a group of publicly traded companies, which it selected from certain market indices, that Russell Investments Group believes are relatively comparable after consideration of their size, stage of lifecycle, profitability, growth and risk and return on investment. Russell Investments Group uses the average expected volatility rates reported by the comparable group for the expected terms it estimates.

The expected terms of the stock options are derived from the average midpoint between the vesting and contractual term. The risk-free rate for the expected term of the awards is based on the U.S. Treasury yield curve at the time of grant. The expected annual dividend yield was based on Russell Investment Group's current dividend yield.

Russell Investments Group records expense on the graded method of attribution, net of expected forfeitures.

As of December 31, 2021, the Company's total unrecognized compensation cost related to nonvested awards is \$536,985, which will be recognized over the weighted-average remaining requisite service period of 3.41 years. The Company records a liability for the employer's portion of payroll taxes on stock-based compensation under the LTIP on the date of the event triggering the measurement and payment of the tax to the taxing authority.

Detail related to stock option activity under the LTIP, representing the Company's equity-classified awards, is as follows:

Russell Investments Financial Services, LLC

Notes to Financial Statement

December 31, 2021

	Stock Options - Time Based		
	Number of Shares Under Option	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Life (years)
Outstanding at January 1, 2021	60,002	\$ 32.94	
Granted	43,703	47.15	
Outstanding at December 31, 2021	<u>103,705</u>	\$ 30.58	8.44
Exercisable at December 31, 2021	<u>31,329</u>	22.25	8.07
Vested and expected to vest at December 31, 2021	<u>96,575</u>	\$ 31.44	8.40

The fair value of stock options vested during the year ended December 31, 2021 was \$944,367. The weighted-average grant date fair value of stock options granted during the year ended December 31, 2021 was \$16.00.

The fair value of employee stock option awards granted during the year ended December 31, 2021 was estimated using the Black-Scholes option pricing model with the following assumptions:

Risk-free rate	1.16 %
Expected term	6.31 years
Expected dividend yield	—
Expected volatility	33.22 %

7. Related Party Transactions

Related parties include affiliated funds and affiliated entities. Substantially all of the Company's revenues and receivables as well as some operating expenses are from related parties. Amounts due from and to affiliates as of December 31, 2021 related to transactions and agreements with related parties are as follows:

Related Party	Due From Affiliate	Due To Affiliate
Russell Investments Group, LLC ("RI")	\$ —	\$ 1,743,626
Russell Investment Management, LLC ("RIM")	—	840,343
Other	15,705	—
	<u>\$ 15,705</u>	<u>\$ 2,583,969</u>

Under a joint paymaster and a joint purchasing agreement, RI processes payroll transactions and payments for the direct expenses of the Company. The Company reimburses RI monthly for these expenses.

The Company has entered into an Expense Sharing and Support agreement with RIM. Under this agreement, RIM agrees to compensate the Company for providing marketing, distribution and client service activities with respect to the RIC and RIF funds.

The Company is charged for general administrative and executive support services provided by affiliated entities.

Russell Investments Financial Services, LLC

Notes to Financial Statement

December 31, 2021

The Company has entered into a sales support agreement and a distribution agreement with RIC. Substantially all fees received in connection with these agreements are remitted to financial intermediaries. Amounts receivable for these services were \$1,327,816 at December 31, 2021 and are presented as distribution fees receivable.

8. Net Capital and Reserve Requirements

The Company is subject to the Securities and Exchange Commission's uniform net capital rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital, as defined. The Company has elected to use the alternative method permitted by Rule 15c3-1, which requires that the Company maintain net capital equal to the greater of 2% of aggregate debit items or \$250,000. At December 31, 2021, the Company has net capital of \$10,492,965 which is \$10,242,965 in excess of its minimum net capital requirement of \$250,000.

9. Commitments

The Company leases office space under a noncancelable lease agreement expiring in 2027. The Company classified this lease as an operating lease. The operating lease has a remaining lease term of 6.0 years and contains a renewal option of 5 years. Because the Company is not reasonably certain to exercise this renewal option, the optional period is not included in determining the lease term, and associated payments under the renewal option are excluded from lease payments. The Company's lease does not include a termination option for either party to the lease or restrictive financial or other covenants. Payments due under the lease contract include fixed payments plus variable payments. The Company's office space lease requires it to make variable payments for the Company's proportionate share of common area maintenance costs such as cleaning, electrical and security. These variable lease payments are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred. The lease provides for annual rental increases of 2.375% of the prior year's base rent.

At December 31, 2021, the Company's remaining maturities of lease liabilities is as follows:

Years Ending December 31,

2022	\$	123,137
2023		126,061
2024		129,055
2025		132,120
2026		135,258
Thereafter		126,680
Total lease payments		<u>772,311</u>
Less: imputed interest		<u>(121,896)</u>
Operating lease liabilities	\$	<u>650,415</u>

10. Concentration of Risk

Substantially all revenue earned and accounts receivable outstanding of the Company is generated from transactions with affiliated entities.

11. Guarantees

In the normal course of business, the Company enters into contracts that contain a variety of representations that provide general indemnifications. The Company's maximum exposure under these arrangements is

Russell Investments Financial Services, LLC

Notes to Financial Statement

December 31, 2021

unknown as this would involve future claims that may be made against the Company that have not yet occurred. However, the Company expects the risk of loss to be remote and has not recorded any contingent liability in the financial statements for these indemnifications.

12. Contingencies

The Company has various claims and legal matters occurring in the normal course of business, which management, based upon the advice of legal counsel, does not expect to have a material adverse effect on the financial condition, results of operations or cash flows of the Company.

13. Subsequent Events

The Company has performed an evaluation of subsequent events through February 28, 2022 which is the date the financial statement was issued.