

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
<b>8-44874</b>

**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 01/01/2020 AND ENDING 12/31/2020  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Monex Securities, Inc.**

OFFICIAL USE ONLY

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

FIRM I.D. NO.

**440 Louisiana Street, STE 1240**

(No. and Street)

**Houston**

**TX**

**77002**

(City)

(State)

(Zip Code)

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

Ruben Contreras

713-877-8234

(Area Code – Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**EEPB Company**

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

**2950 North Loop West, Suite 1200 Houston**

**TX**

**77092**

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**



Certified Public Accountant



Public Accountant



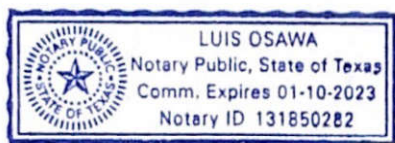
Accountant not resident in United States or any of its possessions.

**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, Ruben Contreras, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Monex Securities, Inc., as of December 31, 2020, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



LUIS - OSAWA  
Notary Public

[Signature]  
Signature  
Chief Financial Officer  
Title

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

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- ☐ (d) Statement of Changes in Financial Condition.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

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

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# MONEX SECURITIES, INC.

## FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

DECEMBER 31, 2020

# PUBLIC

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders  
of MONEX SECURITIES, INC.

### Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of MONEX SECURITIES, INC., as of December 31, 2020, the related statements 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 MONEX SECURITIES, INC. 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 MONEX SECURITIES, INC.'s management. Our responsibility is to express an opinion on MONEX SECURITIES, INC.'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 MONEX SECURITIES, INC. 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.

A handwritten signature in blue ink that reads "EEPB".

We have served as MONEX SECURITIES, INC.'s auditor since 2007.

Houston, Texas

January 26, 2021

MONEX SECURITIES, INC.  
STATEMENT OF FINANCIAL CONDITION  
DECEMBER 31, 2020

ASSETS

CURRENT ASSETS

Cash	\$ 105,115
Marketable securities	44,563
Receivable from clearing broker/dealer	613,818
Short term investments	3,500,149
Commissions receivable	252,264
Employee receivable	61,211
Deposits held by clearing brokers, restricted	250,000
Receivable from related party	167,132
Other assets	30,016

TOTAL CURRENT ASSETS	5,024,268
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Property and equipment, net	95,726
Operating lease, right-of-use-asset	336,870

TOTAL ASSETS	\$ 5,456,864
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LIABILITIES AND STOCKHOLDER'S EQUITY

CURRENT LIABILITIES

Commissions payable	\$ 198,649
Accounts payable and accrued liabilities	500,134
Securities - short market value	41,153
Accrued income taxes	213,634
Current portion of operating lease liability	86,323

TOTAL CURRENT LIABILITIES	1,039,893
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Deferred income tax liability	26,944
Interest payable	2,295
Long term operating lease liability	251,792
Note payable	344,300

TOTAL LIABILITIES	1,665,224
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STOCKHOLDER'S EQUITY

Common stock, 1,000 shares authorized, issued, outstanding, \$0.01 par value	10
Additional paid-in capital	1,744,969
Retained earnings	2,046,661

TOTAL STOCKHOLDER'S EQUITY	3,791,640
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TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 5,456,864
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The accompanying notes are an integral  
part of these financial statements.

MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2020

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

MONEX SECURITIES, INC. ("the Company"), a Delaware corporation, is a wholly owned subsidiary of Monex Casa de Bolsa, S.A. de C.V. (Parent), a Mexican corporation and registered Mexican broker. The Company is registered as a broker/dealer with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). The Company's management and administrative operations are located in Texas and related sales activities are conducted primarily in Mexico. The Company's customers are primarily individuals and institutions located throughout Mexico.

Basis of Accounting

The Company operates under the provisions of Paragraph (k)(2)(ii) of Rule 15c3-3 of the SEC and, accordingly, is exempt from the remaining provisions of that Rule. Essentially, the requirements of Paragraph (k)(2)(ii) provide that the Company clear all transactions on behalf of customers on a fully disclosed basis with a clearing broker/dealer, and promptly transmit all customer funds and securities to the clearing broker/dealer. The clearing broker/dealer carries all of the accounts of the customers and maintains and preserves all related books and records as are customarily kept by a clearing broker/dealer.

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 reported amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Foreign Currency Transactions

As an agent, in the normal course of business, the Company enters into securities transactions which are denominated in foreign currencies, primarily the Mexican peso. Realized and unrealized foreign currency gains and losses on such transactions are recorded in income in the period they are incurred. The Company did not record any net realized or unrealized foreign currency losses during 2020. For the purposes of reporting cash flows, the Company has determined that the effect of exchange rate changes on foreign currency transactions is immaterial.

MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Cash Equivalents

Money market funds and highly liquid investments, generally government obligations and commercial paper, with an original maturity of three months or less that are not held for sale in the ordinary course of business, if any, are reflected as cash equivalents in the accompanying statement of financial condition and for purposes of the statement of cash flows. From time to time, cash balances exceed federally insured limits at certain financial institutions. The Company has not incurred any losses to date regarding these balances.

Marketable Securities

Marketable securities held for trading purposes are recorded at fair value. The increase or decrease in fair value is credited or charged to operations. Realized gain on marketable securities of \$34,420 is reflected in the accompanying statement of income in other income. As of December 31, 2020, the Company did not have any unrealized gains or losses.

Property and Equipment

Property and equipment are carried at cost less accumulated depreciation. Depreciation is provided for using the straight-line method over the estimated useful lives of five to seven years. Maintenance and repairs are charged to operations as incurred.

Security Transactions

Securities transactions and related income and expense are recorded on the trade date. Realized gains and losses from sales of securities are computed using the first-in, first-out method.

Securities owned and securities sold, not yet purchased are valued at market value. Unrealized gain or loss from marking securities owned and securities sold, not yet purchased to market value is included in other income.

Income Taxes

The Company files its income tax return on a separate company basis.

The Company records its federal and state tax liabilities in accordance with FASB Accounting Standards Codification Topic 740-10, "Accounting for Income Taxes". The Company uses the liability method of accounting for income taxes that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements. In estimating future tax consequences, all expected future events are



MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

considered other than enactment of changes in the tax law or rates. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to amounts that are not likely to be realized.

The Company's deferred tax liability represents the tax effects of taxable temporary differences in book and tax reporting. The taxable temporary differences consist of depreciation methods and lives.

Risks and Uncertainties

Securities owned and securities sold, not yet purchased are recorded at fair value and have exposure to market risk, including the volatility of securities markets. Significant changes in the prices of these securities could have a significant impact on the Company's results of operations for any particular year.

Advertising Costs

The Company expenses advertising costs as incurred. The Company did not incur any advertising costs during 2020.

Lease Accounting

The Company accounts for leases under ASC 842, Leases ("ASC 842"), which requires substantially all leases (with the exception of leases with a term of one year or less) to be recorded on the balance sheet using a method referred to as the right-of-use ("ROU") asset approach.

The standard introduces two lease accounting models, which result in a lease being classified as either a "finance" or "operating" lease on the basis of whether the lessee effectively obtains control of the underlying asset during the lease term. A lease is classified as a finance lease if it meets one of five classification criteria, four of which are generally consistent with current lease accounting guidance. By default, a lease that does not meet the criteria to be classified as a finance lease will be deemed an operating lease. Regardless of classification, the initial measurement of both lease types will result in the balance sheet recognition of a ROU asset representing the Company's right to use the underlying asset for a specified period of time and a corresponding lease liability. The lease liability is recognized at the present value of the future lease payments, and the ROU asset equals the lease liability adjusted for any prepaid rent, lease incentives provided by the lessor, and any indirect costs.

Leases classified as a finance lease are accounted for using the effective interest method. The lessee amortizes the ROU asset (generally on a straight-line basis in a manner similar to depreciation) and the discount on the lease liability (as a component of interest expense). Leases classified as an operating lease result in the recognition of a single lease expense amount that is recorded on a straight-line basis (or another systematic basis, if more appropriate).

MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Fair value measurement

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement. ASU 2018-13 removes or modifies certain current disclosures and adds additional disclosures. The changes are meant to provide more relevant information regarding valuation techniques and inputs used to arrive at measures of fair value, uncertainty in the fair value measurements, and how changes in fair value measurements impact an entity's performance and cash flows. Certain disclosures in ASU 2018-13 need to be applied on a retrospective basis and others on a prospective basis. The Company adopted the provisions of this guidance on January 1, 2020. The adoption had no material effect on the disclosures of the Company's financial instruments valued at Level 1.

NOTE 2: REVENUE RECOGNITION

Revenues are recognized when control of the promised services is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Revenues are analyzed to determine whether the Company is the principal (i.e., reports revenues on a gross basis) or agent (i.e., reports revenues on a net basis) in the contract. Principal or agent designations depend primarily on the control an entity has over the product or service before control is transferred to a customer. The indicators of which party exercises control include primary responsibility over performance obligations, inventory risk before the good or service is transferred and discretion in establishing the price.

Commission Revenue

Commission revenue represents sales commissions generated by advisors for their clients' purchases and sales of securities on exchanges and over-the-counter, as well as purchases of other investment products. The Company views the selling, distribution and marketing, or any combination thereof, of investment products to such clients as a single performance obligation to the product sponsors.

The Company is the principal for commission revenue, as it is responsible for the execution of the clients' purchases and sales and maintains relationships with the product sponsors. Advisors assist the Company in performing its obligations. Accordingly, total commission revenues are reported on a gross basis.

MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 2: REVENUE RECOGNITION (*Continued*)

The following table presents the Company's total commission revenue disaggregated by investment product category for the year ended December 31, 2020:

Equities	\$	2,113,026
Options		10,676
Foreign Exchange		196,010
Mutual Funds		1,785,797
Debt		1,610,453
Alternative Investments		486,827
Commission income	\$	<u>6,202,789</u>

The Company generates two types of commission revenue: sales-based commission revenue that is recognized at the point of sale on the trade date and trailing commission revenue that is recognized over time as earned. Sales-based commission revenue varies by investment product and is based on a percentage of an investment product's current market value at the time of purchase. Trailing commission revenue is generally based on a percentage of the current market value of clients' investment holdings in trail-eligible assets, and is recognized over the period during which services, such as on-going support, are performed. As trailing commission revenue is based on the market value of clients' investment holdings, this variable consideration is constrained until the market value is determinable.

The following table presents the Company's sales-based and trailing commission revenues disaggregated by product category for the year ending on December 31, 2020:

Sales based		
Equities	\$	2,113,026
Options		10,676
Foreign Exchange		196,010
Mutual Funds		291,477
Debt		1,610,454
Alternative Investments		486,827
Total sales-based revenue	\$	<u>4,708,470</u>
Trailing		
Mutual Funds	\$	<u>1,494,319</u>
Total trailing revenue		<u>1,494,319</u>
Total commission revenue	\$	<u>6,202,789</u>

MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 2: REVENUE RECOGNITION (*Continued*)

Administrative fees are based upon an agreement with Monex Asset Management, Inc. and cover expenses related to both entities, see Note 6 for Related Party Transactions.

Other income is generated by interest income from margin accounts, non-purpose loan accounts, firm account revenue, annual fees charged to customers and gains and losses on firm investments.

NOTE 3: TRANSACTIONS WITH CLEARING BROKER/DEALER

The Company's clearing broker/dealer is a national United States clearing broker/dealer. The agreements with the clearing broker/dealers provide for clearing charges at a fixed rate multiplied by the number of tickets traded by the Company. The agreement also requires the Company to maintain a minimum of \$250,000 as a deposit in an account with the clearing broker/dealer.

NOTE 4: NET CAPITAL REQUIREMENTS

The Company is subject to the SEC uniform net capital rule (Rule 15c3-1), which requires the maintenance of a minimum amount of net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. Rule 15c3-1 also provides that equity capital may not be withdrawn or cash dividends paid if the resulting net capital ratio would exceed 10 to 1. At December 31, 2020, the Company had net capital and net capital requirements of \$3,164,717 and \$250,000 respectively. The Company's net capital ratio was 0.30 to 1.

NOTE 5: FAIR VALUE MEASUREMENT

Fair value measurement when applicable is reported in accordance with FASB Accounting Standards Codification Topic 820-10, "Fair Value Measurements". ASC 820-10 provides standards and disclosures for assets and liabilities that are measured and reported at fair value. As defined in ASC 820-10, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). ASC 820-10 requires disclosure that establishes a framework for measuring fair value and expands disclosure about fair value measurements. The statement requires fair value measurements be classified and disclosed in one of the following categories:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 5: FAIR VALUE MEASUREMENT (*Continued*)

Level 2: Measured based upon inputs that are observable, either directly or indirectly, for the asset or liability other than quoted market prices included in Level 1. These inputs include: a) quoted prices for similar asset or liabilities in active markets b) quoted prices for identical or similar assets or liabilities in markets that are not active c) inputs other than quoted market prices that are observable and d) inputs that are derived primarily from or corroborated by observable market data by correlation or other means.

Level 3: Measured based on unobservable inputs for the asset or liability for which there is little, if any, market activity for the asset or liability at the measurement date. This input includes management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. The inputs are developed based on the best information available in the circumstances, which might include management's own data.

As required by ASC 820-10, financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels.

The following is a description of the valuation methodology used for the assets measured at fair value as of December 31, 2020:

*Corporate Bonds:* Valued at the closing price reported on the active market on which the individual bonds are traded.

*US Securities:* Valued at the closing price reported on the active market on which the individual securities are sold short and traded.

The following table summarizes the valuation of the Company's financial instruments by ASC 820-10 pricing levels as of December 31, 2020:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value at December 31, 2020
Corporate bonds	\$ 44,563	\$ -	\$ -	\$ 44,563
US Securities sold short: EFT's	(41,153)	-	-	(41,153)
Total:	\$ 3,410	\$ -	\$ -	\$ 3,410

The bonds mature in September 2088.

MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 6: RELATED PARTY TRANSACTIONS

The Company entered into a services agreement with Monex Asset Management, Inc. (MAMI), an entity under common ownership, in February 2009. This agreement requires the Company to provide administrative services to MAMI. The term of the agreement is indefinite and may be terminated by either party with 30 days written notice. The total service fees earned under this agreement for the year ended December 31, 2020 were \$487,880. Revenue is recorded on a monthly basis as services are administered. In addition, the Company gets reimbursed for commissions paid to employees on MAMI's behalf. Total commissions reimbursed for the year ended December 31, 2020 were \$574,240. As of December 31, 2020, the total amount receivable from MAMI was \$164,312. During 2017, the Company opened a brokerage account with an affiliate Monex Casa De Bolsa. As of December 31, 2020, the balance receivable was \$2,820.

NOTE 7: INCOME TAXES

The provision for income taxes is as follows for the year ended December 31, 2020:

Federal

Current tax expense	\$ 368,272
Deferred tax expense	<u>16,445</u>
Total federal tax expense	384,717

State

Current tax expense	<u>26,490</u>
Total provision for taxes	<u>\$ 411,207</u>

The Company accounts for uncertainty in income taxes in accordance with FASB ASC 740-10, which prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return.

The Company files income tax returns in the U.S. federal jurisdiction and state of Texas. The Company's federal income tax returns for tax years 2017 and beyond remain subject to examination by the Internal Revenue Service. The Company's Texas Gross Margin tax returns for the tax years 2017 and beyond remain subject to examination by the state of Texas.

The Company did not have unrecognized tax benefits as of December 31, 2020 and does not expect this to change significantly over the next 12 months. The Company recognizes interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense in accordance with ASC 740-10-25. As of December 31, 2020, the Company has not accrued interest or penalties related to uncertain tax positions.

MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 8:     PROPERTY AND EQUIPMENT, NET

Property and equipment, net consisted of the following at December 31, 2020:

Furniture, fixtures, and equipment	\$       465,246
Accumulated depreciation	(369,520)
	<u>\$       95,726</u>

Depreciation expense for the year ended December 31, 2020 was \$12,043.

NOTE 9:     COMMITMENTS AND CONTINGENCIES

Security transactions

The Company executes securities transactions on behalf of its customers. If either the customer or the counterparty fails to perform, the Company may be required to discharge the obligation of the nonperforming party. In such circumstances, the Company may sustain a loss if the market value of the security contract is different from the contract value of the transaction. The Company does not expect nonperformance by customers or counterparties.

The Company clears all of its securities transactions through clearing brokers on a fully disclosed basis. Pursuant to the terms of the agreements between the Company and the clearing brokers, the clearing brokers have the right to charge the Company for losses that result from a counterparty's failure to fulfill its contractual obligations. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to this right. At December 31, 2020, the Company has no recorded liabilities with regard to the right. During 2020, the Company did not pay the clearing brokers any amounts related to these guarantees.

The Company's policy is to monitor its market exposure, customer risk, and counterparty risk through the use of a variety of credit exposure reporting and control procedures, including marking-to-market securities and any related collateral as well as requiring adjustments of collateral levels as necessary. In addition, the Company has a policy of reviewing, as considered necessary, the credit standing of each counterparty and customer with which it conducts business.

Other

During the normal course of business, the Company enters into contracts that contain a variety of representations and warranties and which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown as this would involve future claims that may be made against the Company that have not yet occurred.

MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 9: COMMITMENTS AND CONTINGENCIES *(Continued)*

The Company, as a normal course of business, has unasserted and asserted claims as a result of lawsuits and regulatory investigations. In accordance with ASC 450-20-25, management evaluates these claims including consultation with legal counsel to determine if the ultimate outcome and monetary obligations are remote or reasonably possible, or probable and estimable. Based on management's evaluation of the claim, the Company will record an accrual of the estimated liability for probable unfavorable outcomes or no accrual for remote or reasonably possible claims.

NOTE 10: LEASES

The Company recognizes an ROU asset and a corresponding lease liability based on the present value of the future lease payments over the lease term at the commencement date. The Company remeasured the ROU liability in October 2020 when the Company amended the lease to extend the maturity date to September 30, 2024 with fixed monthly lease payments of \$8,439. The Company recorded an increase of \$256,920 to the ROU liability and ROU asset to account for the re-measurement.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. For determining the present value of lease payments, the Company uses the discount rate implicit in the lease when readily determinable. As most of the Company's leases do not provide an implicit rate, The Company uses an incremental borrowing rate in determining the present value of lease payments that approximates the rate of interest the Company would have to pay to borrow on a collateralized basis over a similar term.

The ROU measurement was calculated using the fixed scheduled rent payments (annual increase of 3%) up to the maturity date of September 2021. The agreement does contain variable rent payments composed of common area maintenance ("CAM"), insurance and utilities. The Company did not elect the practical expedient in ASU 2018-16 and therefore, was able to separate CAM fees as non-lease component. CAM fees are adjusted annually based on the company's pro-rata share of the lessor's expenses to maintain the building. Because the adjustment is not based on an index or market rate, the Company did not include the CAM expenses in its ROU calculation. The lease agreement does not contain any material residual value guarantees, renewal options or material restrictive covenants.

The Company determines if an agreement is a lease at inception. A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment (an identified asset) for a period of time in exchange for consideration.



MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 10: LEASES *(Continued)*

The Company does not recognize ROU assets and lease liabilities for short-term leases and instead records them in a manner similar to operating leases under ASC 840, *Leases*, lease accounting guidelines. A short-term lease is one with a maximum lease term of 12 months or less and does not include a purchase option or renewal option the lessee is reasonably certain to exercise. The Company does have two twelve-month leases for office space located in San Antonio, TX and San Diego, CA.

Lease Expense

The following table presents the lease expenses as of December 31, 2020:

Operating lease expense	\$ 106,029
Short-term lease expense	32,559
Total lease expense	<u>\$ 138,588</u>

Other Information

The following table presents supplemental cash flow information and the weighted average rate and term for the operating lease:

Cash paid for amounts included in measurement of the lease liability:	
Operating cash flows from the operating lease	\$ 107,959
ROU asset obtained in exchange for an increase to the operating lease liability due to a lease amendment	\$ 256,920
Weighted-average remaining lease term (years)	3.75
Weighted-average discount rate	5%

Maturities

The maturity of the lease liability on an undiscounted cash flow basis and a reconciliation to the operating lease liability recognized on the statement of financial condition as of December 31, 2020:

2021	\$ 107,659
2022	101,268
2023	101,268
2024	75,951
Total lease payments	<u>386,146</u>
Less: Interest	<u>(48,031)</u>
Present value of the lease liability	<u>\$ 338,115</u>
Current portion of lease obligation	\$ 86,323
Long-term lease obligation	251,792
Total operating lease liability	<u>\$ 338,115</u>

MONEX SECURITIES, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE 11: SUBORDINATED LIABILITIES

The Company had no subordinated liabilities at any time during the year ended December 31, 2020. Therefore, the statement of changes in liabilities subordinated to claims of general creditors has not been presented for the year ended December 31, 2020.

NOTE 12: NOTE PAYABLE

On May 1, 2020, the Company entered into a promissory note ("PPP Loan") with a principal balance of \$344,300 with UMB Bank pursuant to the Paycheck Protection Program under the Coronavirus Aid, Relieve and Economic Security Act (The "CARES Act"). The PPP Loan has a maturity date of May 1, 2022 with an annual interest rate of 1% and can be forgiven without interest if the loan is paid within the first ten months of receiving the loan. Under the CARES Act, loan forgiveness is available based on the Company's expenditures for qualified expenses during a 24-week period beginning with the loan approval. The Company will apply for loan forgiveness and anticipates the loan being forgiven in full based upon its expenditures for qualified expenses. As of December 2020, the Company had a balance of \$334,300 and \$2,295 due to UMB Bank for principal and interest payable, respectively. During the year ended December 31, 2020, the Company recorded interest expense of \$2,295 related to the PPP Loan.

NOTE 13: SUBSEQUENT EVENTS

Subsequent events were evaluated from January 1, 2021 through January 26, 2021, which is the date the financial statements were available to be issued. No reportable subsequent events were noted.