

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

SEC FILE NUMBER
8-35096

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder FEB 26 2004

REPORT FOR THE PERIOD BEGINNING 01/01/03 AND ENDING 12/31/03
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:
Commerce Brokerage Services, Inc.
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

8000 Forsyth

(No. and Street)

Clayton

Missouri

63105

(City)

(State)

(Zip Code)

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

Karen L. Finke

(816) 760-7711

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP

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

1600 Commerce Bank Building, Kansas City

Missouri

64199

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

PROCESSED

MAR 17 2004

THOMSON
FINANCIAL

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

DW

OATH OR AFFIRMATION

I, Karen L. Finke, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Commerce Brokerage Services, Inc., as of December 31, 2003, 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:

Karen L. Finke

Signature

Treasurer

Title

See Attachment

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 Cash Flows
- (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 15c3-3 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).

COMMERCE BROKERAGE SERVICES, INC.
(A Wholly Owned Subsidiary of
Commerce Bank, N.A. (Missouri))

Financial Statements and
Annual Audited Focus Report
Part III

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)

COMMERCE BROKERAGE SERVICES, INC.

(A Wholly Owned Subsidiary of
Commerce Bank, N.A. (Missouri))

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KPMG LLP
Suite 1600, 1000 Walnut
P.O. Box 13127
Kansas City, MO 64106

Independent Auditors' Report

The Board of Directors
Commerce Brokerage Services, Inc.:

We have audited the accompanying balance sheets of Commerce Brokerage Services, Inc. (the Company), a wholly owned subsidiary of Commerce Bank, N.A. (Missouri), as of December 31, 2003 and 2002, and the related statements of earnings, stockholder's equity, and cash flows for the years then ended, that you are filing pursuant to rule 17a-5 under the Securities Exchange Act of 1934. 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Commerce Brokerage Services, Inc. as of December 31, 2003 and 2002, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in schedules 1 through 3 is presented for purposes of additional analysis and is not required for a fair presentation of the financial statements, but is supplementary information required by Rule 17a-5 of the Securities Exchange Act of 1934. Such information has been subjected to the procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

KPMG LLP

Kansas City, Missouri
February 13, 2004



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

COMMERCE BROKERAGE SERVICES, INC.

(A Wholly Owned Subsidiary of
Commerce Bank, N.A. (Missouri))

Balance Sheets

December 31, 2003 and 2002

Assets	2003	2002
Cash	\$ 739,312	823,212
U. S. government securities	2,094,031	1,793,506
Accounts receivable from affiliates	—	213,273
Receivable from clearing organization	178,928	135,592
Furniture, equipment, and leasehold improvements, at cost less accumulated depreciation and amortization of \$506,568 in 2003 and \$470,089 in 2002	176,549	148,225
Current income taxes receivable	7,133	—
Other assets	149,520	10,624
Total assets	<u>\$ 3,345,473</u>	<u>3,124,432</u>
Liabilities and Stockholder's Equity		
Liabilities:		
Accounts payable and accrued expenses	\$ 473,104	396,367
Current income taxes payable	—	3,308
Deferred income taxes payable	37,491	21,493
Total liabilities	<u>510,595</u>	<u>421,168</u>
Stockholder's equity:		
Common stock, \$5 par value. Authorized 6,000 shares; issued and outstanding 5,000 shares	25,000	25,000
Additional paid-in capital	225,000	225,000
Retained earnings	2,584,878	2,453,264
Total stockholder's equity	<u>2,834,878</u>	<u>2,703,264</u>
Total liabilities and stockholder's equity	<u>\$ 3,345,473</u>	<u>3,124,432</u>

See accompanying notes to financial statements.

COMMERCE BROKERAGE SERVICES, INC.

(A Wholly Owned Subsidiary of
Commerce Bank, N.A. (Missouri))

Statements of Earnings

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Revenues:		
Commissions	\$ 8,294,072	8,543,176
Interest income	26,048	38,471
Other income	106,662	88,416
Total revenues	<u>8,426,782</u>	<u>8,670,063</u>
Expenses:		
Rent, salaries, and fees paid to affiliates, net	6,933,017	7,086,737
Advertising	154,504	166,178
Telephone	50,249	84,331
Office supplies and postage	177,329	129,934
Depreciation and amortization	108,595	72,391
Other	789,236	863,014
Total expenses	<u>8,212,930</u>	<u>8,402,585</u>
Earnings before income taxes	<u>213,852</u>	<u>267,478</u>
Income tax expense:		
Current	66,240	93,386
Deferred	15,998	8,135
Total income tax expense	<u>82,238</u>	<u>101,521</u>
Net earnings	<u>\$ 131,614</u>	<u>165,957</u>

See accompanying notes to financial statements.

COMMERCE BROKERAGE SERVICES, INC.

(A Wholly Owned Subsidiary of
Commerce Bank, N.A. (Missouri))

Statements of Stockholder's Equity

Years ended December 31, 2003 and 2002

	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at December 31, 2001	\$ 25,000	225,000	2,287,307	2,537,307
Net earnings	—	—	165,957	165,957
Balance at December 31, 2002	25,000	225,000	2,453,264	2,703,264
Net earnings	—	—	131,614	131,614
Balance at December 31, 2003	<u>\$ 25,000</u>	<u>225,000</u>	<u>2,584,878</u>	<u>2,834,878</u>

See accompanying notes to financial statements.

COMMERCE BROKERAGE SERVICES, INC.

(A Wholly Owned Subsidiary of
Commerce Bank, N.A. (Missouri))

Statements of Cash Flows

Years ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
Operating activities:		
Net earnings	\$ 131,614	165,957
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Accretion of discounts on investments	(21,861)	(32,596)
Depreciation and amortization	108,595	72,391
Deferred income taxes	15,998	8,135
Current income taxes	(10,441)	6,211
Decrease (increase) in receivables	169,937	(160,810)
Increase (decrease) in accounts payable and accrued expenses	76,737	(306,698)
(Increase) decrease in other assets	(159,896)	836
Net cash provided by (used in) operating activities	<u>310,683</u>	<u>(246,574)</u>
Investing activities:		
Proceeds from maturities of U. S. government securities	3,700,000	3,300,000
Purchases of U. S. government securities	(3,978,664)	(3,470,895)
Purchases of furniture, equipment, and leasehold improvements	(115,919)	(23,350)
Net cash used in investing activities	<u>(394,583)</u>	<u>(194,245)</u>
Decrease in cash	(83,900)	(440,819)
Cash at beginning of year	<u>823,212</u>	<u>1,264,031</u>
Cash at end of year	\$ <u><u>739,312</u></u>	<u><u>823,212</u></u>
Cash payments of income taxes	\$ 76,681	87,175

See accompanying notes to financial statements.

COMMERCE BROKERAGE SERVICES, INC.

(A Wholly Owned Subsidiary of
Commerce Bank, N.A. (Missouri))

Notes to Financial Statements

December 31, 2003 and 2002

(1) Summary of Significant Accounting Policies

(a) *Organization and Purpose of Company*

Commerce Brokerage Services, Inc. (the Company) is a wholly owned subsidiary of Commerce Bank, N.A. (Missouri) (the Parent). The Company is registered with the Securities and Exchange Commission to conduct a general securities business. Current activities consist of providing investment services to their customers for a variety of securities including mutual funds, exchange-listed and OTC equity securities, options, municipal bonds, corporate bonds, and U. S. government debt issues. The Company also sells fixed and variable annuities, which are investment products provided by insurance companies.

Transactions for equities, options, and a substantial portion of the Company's mutual fund sales are executed and cleared through National Financial Services Corporation, a clearing organization which also maintains customer brokerage accounts on a fully disclosed basis.

(b) *Investment Securities*

Investment securities are stated at amortized cost, which approximates fair value. The fair value of investment securities is based on bid prices published in financial newspapers. Investments consist of U. S. government securities with initial maturities of six months.

(c) *Furniture, Equipment, and Leasehold Improvements*

Furniture, equipment, and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on the straight-line basis over the estimated useful lives, ranging from 4 to 10 years, of the assets for financial reporting purposes.

(d) *Income Taxes*

The Company files consolidated income tax returns with Commerce Bancshares, Inc. Deferred income taxes result primarily from the use of accelerated methods of depreciation and amortization for tax purposes.

(e) *Use of Estimates*

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

COMMERCE BROKERAGE SERVICES, INC.

(A Wholly Owned Subsidiary of
Commerce Bank, N.A. (Missouri))

Notes to Financial Statements

December 31, 2003 and 2002

(2) Related Party Transactions

A significant portion of the Company's expenses represents payments to the Parent and affiliated companies for rent on the Company's offices, various administrative services provided to the Company, and fees under revenue sharing arrangements:

	<u>2003</u>	<u>2002</u>
Rent	\$ 221,437	165,643
Salaries and benefits	4,187,276	4,364,967
Fees paid to affiliates, net	<u>2,524,304</u>	<u>2,556,127</u>
	<u>\$ 6,933,017</u>	<u>7,086,737</u>

The Company leases office space from the Parent under month-to-month arrangements. Rent expense aggregated approximately \$18,500 per month in 2003 and \$13,800 per month in 2002.

(3) Net Capital Requirements

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (and the rule of the "applicable" exchange 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, 2003, the Company had net capital of \$2,218,864, which was \$1,968,864 in excess of its required net capital of \$250,000.

COMMERCE BROKERAGE SERVICES, INC.(A Wholly Owned Subsidiary of
Commerce Bank, N.A. (Missouri))

Computation of Net Capital Requirement—Rule 15c3-1

December 31, 2003

Total stockholder's equity per balance sheet	\$ 2,834,878
Nonallowable assets	333,202
Haircuts on securities	5,500
Other adjustment	<u>277,312</u>
Net capital	2,218,864
Minimum net capital requirement	<u>250,000</u>
Excess of net capital over minimum net capital requirement	<u>\$ 1,968,864</u>
Aggregate indebtedness	\$ 473,104
Ratio: Aggregate indebtedness to net capital	0.21 to 1

A reconciliation is not necessary pursuant to Rule 17a-5(d)(4), as the above calculation does not differ materially from the computation for determination of the net capital requirement for broker-dealers under Rule 15c3-1 as of December 31, 2003.

See accompanying independent auditors' report.

COMMERCE BROKERAGE SERVICES, INC.

(A Wholly Owned Subsidiary of
Commerce Bank, N.A. (Missouri))

Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3

December 31, 2003

The Company is exempt from Rule 15c3-3 pursuant to the provisions of subparagraphs (k)(2)(i) and (k)(2)(ii) of that rule.

See accompanying independent auditors' report.

COMMERCE BROKERAGE SERVICES, INC.

(A Wholly Owned Subsidiary of
Commerce Bank, N.A. (Missouri))

Information for Possession or Control Requirements Under Rule 15c3-3

December 31, 2003

The Company is exempt from Rule 15c3-3 pursuant to the provisions of subparagraphs (k)(2)(i) and (k)(2)(ii) of that rule.

See accompanying independent auditors' report.



KPMG LLP
Suite 1600, 1000 Walnut
P.O. Box 13127
Kansas City, MO 64106

Independent Auditors' Report on Internal Accounting Control Required by SEC Rule 17a-5

The Board of Directors
Commerce Brokerage Services, Inc.:

In planning and performing our audit of the financial statements of Commerce Brokerage Services, Inc. (the Company), a wholly owned subsidiary of Commerce Bank, N.A. (Missouri), for the year ended December 31, 2003, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11), and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons.
2. Recordation of differences required by Rule 17a-13.
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the board of governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining an internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures.



Because of inherent limitations in any internal control, errors or fraud may occur and not be detected. Also, projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the accounting system and control procedures, including procedures for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities and Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003 to meet the SEC's objectives.

This report is intended solely for the information and use of the board of directors, management, the Securities and Exchange Commission, and other regulatory agencies which rely on Rule 17a-5(a) under the Securities and Exchange Act of 1934, and should not be used for any other purpose.

KPMG LLP

Kansas City, Missouri
February 13, 2004