

AB
3/20

AB
3/7



SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



OMB APPROVAL
OMB Number: 3235-0123
Expires: April 30, 2013
Estimated average burden
hours per response.... 12.00

SEC FILE NUMBER
8-67043

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

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 1/1/2011 AND ENDING 12/31/2011
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Client Name: BATS Trading, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

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

8050 Marshall Drive, Suite 120

(No. and Street)

Lenexa

(City)

KS

(State)

66214-1585

(Zip Code)

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

Brian Schell

913-815-7126

(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)

1000 Walnut, Suite 1000 Kansas City, MO 64106

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

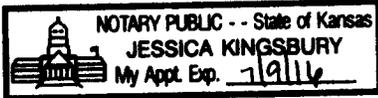
FOR OFFICIAL USE ONLY

* 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)

Handwritten initials/signature

OATH OR AFFIRMATION

I, Brian Schell, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of BATS Trading, Inc., as of December 31, 2011, 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.



#1026122

[Signature]
Signature

FINOP
Title

Jessica Kingsbury
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 Proprietor's 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.
- (o) Independent Auditor's Report on Internal Control

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



BATS TRADING, INC.

Financial Statements and Schedules

(With Report of Independent Registered Public Accounting Firm Thereon)

December 31, 2011

Table of Contents

	Page
Report of Independent Registered Public Accounting Firm	1
Financial Statements:	
Statement of Financial Condition	2
Statement of Income	3
Statement of Stockholder's Equity	4
Statement of Cash Flows	5
Notes to Financial Statements	6
Supplementary Schedules	
Schedule 1 – Computation of Net Capital Pursuant to Rule 15c3-1	13
Schedule 2 – Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3	14
Schedule 3 – Information for Possession or Control Requirements under Rule 15c3-3	15
Report of Independent Registered Public Accounting Firm on Internal Control Required by SEC Rule 17a-5	16



KPMG LLP
Suite 1000
1000 Walnut Street
Kansas City, MO 64106-2162

Report of Independent Registered Public Accounting Firm

The Board of Directors
BATS Trading, Inc.:

We have audited the accompanying statement of financial condition of BATS Trading, Inc. as of December 31, 2011, and the related statements of income, stockholder's equity, and cash flows for the year then ended that are filed 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 audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial condition of BATS Trading, Inc. as of December 31, 2011, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information contained in schedules 1 through 3 required by Rule 17a-5 under the Securities Exchange Act of 1934 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

KPMG LLP

February 28, 2012

BATS TRADING, INC.
Statement of Financial Condition
December 31, 2011

Assets

Cash and cash equivalents	\$ 7,071,345
Receivables:	
Non-customers	5,837,245
Other	168,333
Total receivables	6,005,578
Securities owned, at fair value	31,032,660
Deferred income taxes	116,800
Other assets	12,532
Total assets	\$ 44,238,915

Liabilities and Stockholder's Equity

Liabilities:	
Accounts payable and accrued expenses	\$ 6,036,907
Accounts payable and accrued expenses to broker dealers	2,333,531
Income tax payable	312,605
Deferred income taxes	556
Total liabilities	8,683,599
Commitments and contingencies (note 7)	
Stockholder's equity:	
Common stock, \$0.01 par value. 1,000 shares authorized; 100 shares issued and outstanding	1
Additional paid-in capital	34,797,557
Retained earnings	757,758
Total stockholder's equity	35,555,316
Total liabilities and stockholder's equity	\$ 44,238,915

See accompanying notes to financial statements.

BATS TRADING, INC.
Statement of Income
Year ended December 31, 2011

Revenues:		
Routing fees from Affiliates		\$ 79,772,575
Operating expenses:		
Clearing and execution fees, including \$25,432,343 to affiliated broker dealers		74,429,179
Telecommunications and data		797,426
General and administrative		1,115,373
Compensation and benefits		422,340
Legal and professional		301,274
Occupancy		41,118
Total operating expenses		77,106,710
Other income (expense):		
Interest income		33,758
Other expenses		(10,024)
Other income, net		23,734
Income before provision for income taxes		2,689,599
Provision for income taxes		734,665
Net income		\$ 1,954,934

See accompanying notes to financial statements.

BATS TRADING, INC.

Statement of Stockholder's Equity

Year ended December 31, 2011

	<u>Common stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>paid-in capital</u>	<u>earnings</u>	<u>stockholder's</u>
					<u>equity</u>
Balance at December 31, 2010	100	\$ 1	\$ 35,852,606	\$ 1,856,448	\$ 37,709,055
Distributions to Parent	—	—	(697,960)	(3,053,624)	(3,751,584)
Tax sharing allocation to Parent	—	—	(357,089)	—	(357,089)
Net income	—	—	—	1,954,934	1,954,934
Balance at December 31, 2011	<u>100</u>	<u>\$ 1</u>	<u>\$ 34,797,557</u>	<u>\$ 757,758</u>	<u>\$ 35,555,316</u>

See accompanying notes to financial statements.

BATS TRADING, INC.
Statement of Cash Flows
Year ended December 31, 2011

Cash flows from operating activities:	
Net income	\$ 1,954,934
Adjustments to reconcile net income to net cash used in operating activities:	
Deferred income taxes	120,179
Provision for income taxes - deemed capital distribution	(357,089)
Changes in assets and liabilities:	
Current income taxes	749,833
Receivables	202,431
Securities owned	(21,033,660)
Other assets	17,267
Accounts payable and accrued expenses	<u>(1,905,535)</u>
Net cash used in operating activities	(20,251,640)
Cash flow from financing activity:	
Distributions to parent	<u>(3,751,584)</u>
Net cash used in financing activities	<u>(3,751,584)</u>
Decrease in cash and cash equivalents	(24,003,224)
Cash and cash equivalents:	
Beginning of year	<u>31,074,569</u>
End of year	<u><u>\$ 7,071,345</u></u>
Supplemental disclosure of cash flow information:	
Cash paid during the year for income taxes	\$ 551,012

See accompanying notes to financial statements.

BATS TRADING, INC.

Notes to Financial Statements

December 31, 2011

(1) Nature of Business

BATS Trading, Inc. (the Company or BATS) is registered with the U.S. Securities and Exchange Commission (SEC) as a securities broker-dealer. The main function of BATS is to route orders to other market centers on behalf of BATS Exchange, Inc. (BATS Exchange) and BATS Y-Exchange, Inc. (together, the Exchanges or Affiliates), which operate as national stock and option exchanges. BATS and the Exchanges are wholly-owned by BATS Global Markets, Inc. (the Parent).

(2) Summary of Significant Accounting Policies

(a) Principles of Accounting

The financial statements are presented in conformity with generally accepted accounting principles in the United States (GAAP) as established by the Financial Accounting Standards Board (FASB). References to GAAP in these footnotes are to the FASB Accounting Standards Codification (ASC or Codification).

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as well as disclosure of the amounts 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 significantly from those estimates. Current market conditions increase the risks and complexities of the judgments in these estimates.

(c) Cash and Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains cash at various financial institutions and brokerage firms which, at times, may be in excess of the federal depository insurance limit. The Company's management regularly monitors the institutions and believes that the potential for future loss is minimal.

(d) Receivables

Receivables are carried at cost and primarily represent amounts due from non-customers.

(e) Securities Owned

Securities owned are recorded at fair value. Realized and unrealized gains and losses are included in interest income. Securities owned as of December 31, 2011 consist of U.S. Treasury securities.

(f) Income Taxes

The Company is included in the consolidated federal tax return filed by the Parent. The provision for income taxes is based on income reported for financial statement purposes. Current taxes and uncertain tax positions are calculated on a separate return basis utilizing currently enacted tax laws and rates.

BATS TRADING, INC.

Notes to Financial Statements

December 31, 2011

Deferred taxes are recorded on a liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based upon the technical merits of the position. The tax benefits recognized in the financial statements from such a position is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Also, interest and penalties expense are recognized on the full amount of deferred benefits for uncertain tax positions. The Company's policy is to include interest and penalties related to unrecognized tax benefits in the provision for income taxes within the statement of income.

(g) Revenue Recognition

Routing fee revenue, consisting of fees earned on any share that is routed out to another market center on behalf of the Exchanges, is recognized on a trade date basis. Pursuant to ASC 605-45, *Revenue Recognition: Principal Agent Considerations*, routing fee revenue and the corresponding clearing and execution fees are recorded on a gross basis in revenues and expenses, as the Company is considered the primary obligor.

The Company is assessed regulatory transaction fees by other market centers. Regulatory transaction fees are collected from customers by the Exchanges on behalf of the Company. The Company acts as the agent versus the principal on these transactions, and therefore these transactions are reported net in the statement of income.

(3) Fair Value Measurements

Fair value is defined as 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 and sets out a fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The types of investments included in Level 1 include listed equities and listed derivatives.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; fair value is determined through the use of models or other valuation methodologies. Investments which are generally included in this category include corporate bonds and loans, less liquid and restricted equity securities and certain over-the-

BATS TRADING, INC.

Notes to Financial Statements

December 31, 2011

counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments that are included in this category generally include equity and debt positions in private companies.

Securities owned as of December 31, 2011 consist of highly liquid U.S. Treasury securities. These securities are valued by obtaining feeds from a number of live data sources, including active market markers and inter-dealer brokers and therefore categorized as Level 1.

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2011:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Securities owned:				
U.S. Treasury securities	\$ 31,032,660	\$ 31,032,660	\$ —	\$ —
Total	<u>\$ 31,032,660</u>	<u>\$ 31,032,660</u>	<u>\$ —</u>	<u>\$ —</u>

(4) Net Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital. The SEC's requirement also provides that equity capital may not be withdrawn or cash dividend paid if certain minimum net capital requirements are not met. The Company computes its net capital requirements under the basic method provided for in SEC Rule 15c3-1, which, as of December 31, 2011, requires the Company to maintain net capital equal to greater of 6-2/3% of aggregate indebtedness items, as defined, or \$100,000. At December 31, 2011, the Company had net capital of \$29,307,776 which was \$28,728,869 in excess of its required net capital of \$578,907. The ratio of aggregate indebtedness to net capital is 0.30 to 1.

(5) Related Party Transactions

The Company maintains brokerage accounts with affiliates of stockholders of the Parent. As of December 31, 2011, \$35,926,789 in cash and cash equivalents and securities owned were held in such accounts.

Routing fee revenue consists of fees earned on any share that is routed out to another market center on behalf of the Exchanges. As a result, all routing revenues represent transactions with Affiliates.

The Company enters into clearing and execution fee transactions with affiliated broker dealers in the normal course of business. These affiliated broker dealers are stockholders of the Parent or are affiliated with stockholders of the Parent.

BATS TRADING, INC.

Notes to Financial Statements

December 31, 2011

The Company has entered into an Administrative Services and Support Agreement with BATS Exchange. Pursuant to the agreement, BATS Exchange provides certain administrative and support services to the Company for an administrative fee. Also, the Company pays employee costs to Exchange equal to 2% of actual salaries, bonuses, and other payroll related expenses incurred by BATS Exchange each month.

The following table presents the Company's allocation of expenses from BATS Exchange for the year ended December 31, 2011:

Telecommunications and data	\$	484,117
General and administrative		262,225
Compensation and benefits		422,340
Legal and professional		204,456
Occupancy		41,118
	\$	<u>1,414,256</u>

(6) Income Taxes

Net deferred tax assets consist of the following components as of December 31, 2011:

Deferred tax assets:		
Start-up costs	\$	32,412
Intangibles		52,891
Other		33,083
Total deferred tax assets		<u>118,386</u>
Deferred tax liabilities:		
Prepaid expenses		<u>2,143</u>
Total deferred tax liabilities		<u>2,143</u>
Net deferred tax assets	\$	<u>116,243</u>

Management believes it is more likely than not that the deferred tax assets will be realized based upon expectations of future taxable income. At December 31, 2011, the Company had \$94,524 of unrecognized tax benefits that, if recognized, would affect the effective tax rate. The Company had accrued interest and penalties of \$6,389 related to uncertain tax positions at December 31, 2011. The Company's policy is to recognize interest and penalties as a component of income tax expense.

BATS TRADING, INC.
Notes to Financial Statements
December 31, 2011

A reconciliation of the unrecognized tax benefits for the year ended December 31, 2011 is as follows:

	Unrecognized Tax Benefit
Balance at December 31, 2010	\$ 376,488
Additions for current year tax positions	23,258
Additions for prior year tax positions	57,003
Reductions for prior year tax positions	(362,225)
Balance at December 31, 2011	\$ 94,524

The Company does not anticipate the balance of unrecognized tax benefits to materially change in the next twelve months.

As of December 31, 2011, the Company had \$312,605 of income tax payable recorded of which the balance principally relates to amounts due to Affiliates for its share of taxes related to consolidated federal and state taxes. The Company's share of income taxes is calculated based on the Company's tax sharing agreement with the Parent.

The Company files consolidated federal and state income tax returns with the Parent and separate company state tax returns in jurisdictions that do not permit the Company to file on a consolidated basis. The Company is generally subject to examination by tax authorities for tax years since the inception of the Company. The Company was under Internal Revenue Service examination for tax year 2009 and the audit was completed without material adjustment.

The provision for income taxes charged to income from continuing operations for the year ended December 31, 2011 consists of the following:

Current tax expense	
Federal	\$ 762,434
State	(147,948)
Total current income tax expense	614,486
Deferred income tax expense	
Federal	103,501
State	16,678
Total deferred income tax expense	120,179
Total income tax expense	\$ 734,665

BATS TRADING, INC.

Notes to Financial Statements

December 31, 2011

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income from continuing operations for the year ended December 31, 2011 due to the following:

Income tax expense at statutory tax rate	\$ 941,360
Increase (decrease) in income tax resulting from:	
Nondeductible expenses	93,633
Domestic production activities deduction	(268,441)
State income taxes, net of federal tax benefit	<u>(31,887)</u>
Income tax expense	<u>\$ 734,665</u>

During 2011, the Company filed amended state returns as a result of changes to certain state allocations.

(7) Commitments and Contingencies

The Company is subject to reviews and inspections by the SEC and FINRA. Additionally, from time to time the Company is also involved in various legal proceedings arising in the ordinary course of business. The Company does not believe that the outcome of any of these reviews, inspections, or other legal proceedings will have a material impact on the financial statements; however, litigation is subject to many uncertainties, and the outcome of individual litigated matters is not predictable with assurance.

The Company uses Wedbush Securities and Morgan Stanley to clear its routed cash equities transactions. Wedbush Securities and Morgan Stanley guarantee the trade until one day after the trade date, after which time the National Securities Clearing Corporation (NSCC) provides a guarantee. In the case of a failure to perform on the part on one of its clearing firms, Wedbush Securities or Morgan Stanley, the Company provides the guarantee to the counterparty to the trade. The Options Clearing Corporation (OCC) acts as a central counterparty on all transactions in listed equity options, and as such, guarantees clearance and settlement of all of the Company's options transactions. The Company believes that any potential requirement to for the Company to make payments under these guarantees is remote and accordingly, has not recorded any liability in the financial statements for these guarantees.

(8) Subsequent Events

The Company performed an evaluation of events that have occurred subsequent to December 31, 2011 through February 28, 2012, which is the date the financial statements were issued. There have been no subsequent events that have occurred during such period that would require disclosure in the financial statements or would be required to be recognized in the financial statements as of and for the year ending December 31, 2011.

BATS TRADING, INC.

Computation of Net Capital Pursuant to Rule 15c3-1

December 31, 2011

Total stockholder's equity	<u>\$ 35,555,316</u>
Less nonallowable assets:	
Receivables	6,005,578
Other assets	<u>179,332</u>
Total nonallowable assets	<u>6,184,910</u>
Net capital before haircuts on securities positions	29,370,406
Less haircuts on securities	<u>(62,630)</u>
Net capital	29,307,776
Computation of standard net capital requirement:	
Net capital requirement (greater of 6 2/3% of aggregate indebtedness or \$100,000)	<u>578,907</u>
Excess net capital	<u><u>\$ 28,728,869</u></u>
Aggregate indebtedness	\$ 8,683,599
Ratio of aggregate indebtedness to net capital	0.30 to 1

There were no material differences between the amounts presented in the computation of net capital set forth above and the amounts as reported in the Company's unaudited Part II-A FOCUS Report as of December 31, 2011, as amended and filed on February 22, 2012.

See accompanying report of independent registered public accounting firm.

BATS TRADING, INC.

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

December 31, 2011

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

See accompanying report of independent registered public accounting firm.

BATS TRADING, INC.

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

December 31, 2011

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

See accompanying report of independent registered public accounting firm.



KPMG LLP
Suite 1000
1000 Walnut Street
Kansas City, MO 64106-2162

Report of Independent Registered Public Accounting Firm on Internal Accounting Control Required by SEC Rule 17a-5

The Board of Directors
BATS Trading, Inc.:

In planning and performing our audit of the financial statements of BATS Trading, Inc. (the Company), as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's 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 consideration of control activities for safeguarding securities. This study included tests of compliance with 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 the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13.
2. 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 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 the 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 previously 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 the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities that we consider 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 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, as described in the second paragraph of this report, were adequate at December 31, 2011, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the Financial Industry Regulatory Authority, Inc., and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 28, 2012