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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- 65770

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 01/01/2012 AND ENDING 12/31/2012  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: SOUTH STREET SECURITIES LLC  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
825 THIRD AVENUE, 35TH FLOOR  
(No. and Street)  
New York NY 10022  
(City) (State) (Zip Code)

OFFICIAL USE ONLY  
FIRM I.D. NO.

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
DAVID DE BLASE (212) 803 5050  
(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*  
PRICE WATERHOUSE COOPERS LLP  
(Name - if individual, state last, first, middle name)  
300 MADISON AVENUE NEW YORK NY 10017  
(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)

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OATH OR AFFIRMATION

I, DAVID DEBLASE, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of SOUTH STREET SECURITIES LLC, as of DECEMBER 31<sup>ST</sup>, 2012, 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:

\_\_\_\_\_  
\_\_\_\_\_

RICHARD M ANDREW  
NOTARY PUBLIC-STATE OF NEW YORK  
No. 01AN6163244  
Qualified in New York County  
My Commission Expires March 19, 2015

Richard M. Andrew  
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).
- (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).

**South Street Securities LLC**  
**Statement of Financial Condition**  
**December 31, 2012**



**South Street Securities LLC**  
**Statement of Financial Condition**  
**December 31, 2012**

**South Street Securities LLC**

**Index**

**December 31, 2012**

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|  | <b>Page(s)</b> |
|--|----------------|
| <b>Report of Independent Auditors</b> .....            | 1              |
| <b>Statement of Financial Condition</b> .....          | 2              |
| <b>Notes to Statement of Financial Condition</b> ..... | 3-7            |

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## Independent Auditor's Report

To Member of South Street Securities, LLC:

We have audited the accompanying statement of financial condition of South Street Securities, LLC as of December 31, 2012.

### ***Management's Responsibility for the Statement of Financial Condition***

Management is responsible for the preparation and fair presentation of the statement of financial condition in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a statement of financial condition that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the statement of financial condition 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 statement of financial condition is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statement of financial condition. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the statement of financial condition, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the statement of financial condition in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statement of financial condition. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the accompanying statement of financial condition presents fairly, in all material respects, the financial position of South Street Securities, LLC at December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

February 28, 2013

**South Street Securities LLC**  
**Statement of Financial Condition**  
**December 31, 2012**

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|   |                          |
|---|--------------------------|
| <b>Assets</b>                                       |                          |
| Cash  | \$ 13,580,459            |
| Receivable and deposits with clearing organizations | 30,402,844               |
| Securities purchased under agreements to resell     | 13,659,642,533           |
| Other assets  | <u>309,549</u>           |
| Total assets  | <u>\$ 13,703,935,385</u> |
| <b>Liabilities and Member's Equity</b>              |                          |
| <b>Liabilities</b>                                  |                          |
| Securities sold under agreements to repurchase      | \$ 13,600,895,040        |
| Accrued expenses                                    | <u>981,431</u>           |
| Total liabilities                                   | 13,601,876,471           |
| Member's equity                                     | <u>102,058,914</u>       |
| Total liabilities and member's equity               | <u>\$ 13,703,935,385</u> |

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

**South Street Securities LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

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**1. Organization and Nature of Business**

South Street Securities LLC ("South Street" or the "Company") is a limited liability company established in the state of Delaware. The Company is a registered broker-dealer subject to the rules and regulations of the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). The Company was formed to create and manage for its own account, a matched-book portfolio of repurchase agreements and reverse repurchase agreements transactions, including bond borrowing and related hedging activities (the "Repo Program").

The Company is a wholly owned subsidiary of South Street Securities Funding LLC ("SSSF" or the "Parent"), which owns the Member Interest in South Street. The Company, SSSF, Capital Markets Engineering & Trading LLC ("CMET LLC") and other third parties have entered into a Program Agreement dated April 19, 2004 and as amended thereafter, (collectively the "Program Agreement"), which details the business arrangement related to the Repo Program (Note 5). SSSF and CMET LLC are both wholly owned subsidiaries of South Street Securities Holdings Inc. ("SSSH").

**Summary of Significant Accounting Policies**

**Cash**

Cash consists of cash in banks which is held primarily at one major U.S. financial institution.

**Financial Instruments Owned**

Financial instruments owned consist of U.S. Treasury Bills. They are accounted for as trading securities recorded on a trade date basis and carried at fair value with changes in fair value recognized in the statement of operations.

**Fixed Assets**

Fixed assets consist of furniture, equipment and computer software which are stated at cost. Depreciation is computed using the straight-line method over the estimated useful life of 5 years.

**Income Taxes**

The Company is a single member LLC and is treated as a disregarded entity for income tax purposes. Accordingly, no income tax provision is reflected in the Company's financial statements. Any income tax liabilities or assets that result from the operations of the Company are reflected in the financial statements of SSSH, the Company's ultimate parent.

**Securities Purchased and Sold Under Agreements to Resell and Repurchase**

Securities purchased under agreements to resell ("reverse repurchase agreements") and securities sold under agreements to repurchase ("repurchase agreements") are accounted for as collateralized financing transactions and are carried at contract value plus accrued interest. It is the policy of the Company to obtain possession of the collateral with market values equal to or in excess of the principal amount loaned under reverse repurchase agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral when appropriate. Reverse repurchase agreements and repurchase agreements are reported net by counterparty when permitted under applicable accounting standards.

As of December 31, 2012, the Company has the right to sell or repledge all of the securities it has received under reverse repurchase agreements. These repledged securities have been used in the normal course of business.

**South Street Securities LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

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As of December 31, 2012, the Company has received securities with market values of \$25,479,718,842 under resale agreements and pledged securities with market values of \$25,258,641,524 under repurchase agreements, prior to netting. The Company's counterparties to its repurchase agreements have the right by contract to sell or repledge the Company's pledged securities. As of December 31, 2012, the Company had forward commitments to enter into repurchase agreements in the amount of \$10,117,157,816 and reverse repurchase agreements in the amount of \$2,030,729,375.

South Street enters into Repo-to-Maturity and Reverse Repo-to-Maturity contracts whereby the term of the repo contract coincides with the maturity date of the underlying collateral. As of December 31, 2012 the total fair value of collateral for these transactions was securities owned of \$27,491,482,216 and securities sold, not yet purchased, of \$2,638,745,750. These transactions meet the criteria for sale and purchase accounting.

As part of the Company's matched-booked trading activities the Company can enter into futures transactions to manage its interest rate risk.

**Use of Estimates**

The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires the Company's management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**2. Clearing Arrangement with FICC and Concentration of Credit Risk**

The Company is a netting member of the Government Securities Division of the Fixed Income Clearing Corporation ("FICC"), an industry clearinghouse for repurchase and reverse repurchase transactions. At the end of each business day, for every trade submitted to and matched by FICC, the transaction is novated to FICC, thereby FICC becomes the Company's counterparty.

At December 31, 2012, included in securities purchased under agreements to resell on the statement of financial condition are amounts under contracts with FICC. In accordance with applicable accounting guidance, netting applied to the FICC Reverse Repo and FICC Repo balances was \$11,633,119,821. Customers whose individual balances account for 10% or more of total securities purchased under agreements to resell on the statement of financial condition have a total balance of \$13,650,316,250, including FICC, prior to netting.

Securities purchased under agreements to resell are collateralized by obligations of the U.S. Government and its agencies.

As of December 31, 2012, the Company has pledged \$127,293,750 of securities obtained under resale agreements to FICC. The size of the pledged amount is subject to change from time to time and is dependent upon the volume of business transacted.

**3. Member's Equity**

During the year ended December 31, 2012, the Company received \$35,465,165 in aggregate capital contributions from SSSF. For the year ended December 31, 2012, the Company has made distributions of \$10,111,190 to SSSF.

**South Street Securities LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

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**4. Related Parties**

**Program Agreement**

In accordance with the Program Agreement, the Company is required to make quarterly distributions to SSSF based upon (i) a return on certain obligations of SSSF (ii) certain expenses of SSSF and (iii) the Program Cash Flow, as defined in the Program Agreement.

The Company is required to pay to CMET LLC, the program administrator, an administrative fee for providing certain portfolio management, operational and administrative services to the Company. The fee is set at a maximum \$500,000 per month.

**Data Processing**

For the year ended December 31, 2012, the Company incurred costs related to data processing and consulting services that were provided by Matrix Applications LLC, an entity that is an affiliate.

The accompanying financial statements have been prepared from the separate records maintained by South Street, but may not necessarily be indicative of the conditions that would have existed, or the results of operations, if South Street had been operated as an unaffiliated entity.

**5. Commitments and Contingencies**

**Services Arrangement**

South Street is operating under the terms and conditions of the April 19, 2004, and as amended, Back Up Services Agreement (the "Back Up Services Agreement") with a third party program servicer (the "Back Up Program Servicer") to provide South Street with various accounting, investment, compliance and operations functions. The Back Up Services Agreement has an initial term that commenced on August 1, 2005 and expired on April 19, 2012. Under the terms of the agreement the agreement has been renewed until April 19, 2013.

The Back Up Services Agreement calls for a fee of one basis point (.01%) per annum on the Daily Average Balance, as defined in the Back Up Services Agreement. The minimum payments for all subsequent contract years are \$100,000 per month. For the year ended December 31, 2012 \$100,000 of these fees are included in accrued expenses in the accompanying statement of financial condition.

**Software License and Technology Commitments**

South Street has entered into a software license and maintenance agreement with a third party software vendor (the "Software Provider"), whereby the Software Provider agreed to provide certain software and maintenance services used to operate the Repo Program. The agreement provides for South Street to pay a \$50,000 monthly lease fee.

**General**

In 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 potential exposure under these arrangements would involve potential 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 based on currently available information.

**South Street Securities LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

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**6. Fair Value of Financial Instruments**

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"), establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

- Level 1      Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date;
- Level 2      Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active;
- Level 3      Inputs that are unobservable.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. The Company uses actively quoted market prices as the primary input to its valuation.

An individual investment's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" may require judgment by the Company's management. The Company considers observable data to be that market data which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by multiple, independent sources that are actively involved in the relevant market. The categorization of an investment within the hierarchy is based upon the pricing transparency of that investment and does not necessarily correspond to the Company's perceived risk of that investment.

All of the Company's financial instruments owned have been classified within Level 1, as observable prices are readily available. The carrying amounts of the Company's financial assets and liabilities, including cash, receivable and deposits with clearing organizations, securities purchased under agreements to resell, and securities sold under agreements to repurchase approximate fair value because of the short-term maturity of these instruments. Such amounts are reflected as Level 1 within the fair value hierarchy.

**7. Net Capital Requirements**

South Street, the broker-dealer subsidiary of SSSF, is subject to the SEC Uniform Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital. Under Rule 15c3-1, South Street is required to maintain minimum net capital equal to the greater of \$250,000 or 2 percent of aggregate debit balances arising from customer transactions, as defined. At December 31, 2012, South Street had net capital of \$101,355,385 which was \$101,105,385 above its required net capital of \$250,000.

South Street is subject to Rule 15c3-3 under the Securities Exchange Act of 1934. As of December 31, 2012, the Company was not required to and did not hold any customer money or securities.

**South Street Securities LLC**  
**Notes to Statement of Financial Condition**  
**December 31, 2012**

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**8. Subsequent Event**

As of February 28, 2013, the date which the financial statements were issued, management has determined that no other subsequent events have occurred after December 31, 2012, which require recognition or disclosure in the financial statements.



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