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

Mail Processing Section

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FACING PAGE

Washington DC  
402

**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:

**G-Trade Services LLC**

OFFICIAL USE ONLY

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

**1633 Broadway, 48<sup>th</sup> Floor**

FIRM ID. NO.

**New York**

**NY**

**10019**

(City)

(State)

(Zip Code)

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

**PETER CAMERON HYZER**

**(617) 316-1012**

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

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

**Ernst & Young LLP**

**5 Times Square**

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

**New York**

**NY**

**10036**

(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).

SEC 1410 (06-02)

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3/12/13

## OATH OR AFFIRMATION

We, Craig S. Lax and Peter Cameron Hyzer, affirm that, to the best of our knowledge and belief the accompanying statement of financial condition pertaining to the firm of G-Trade Services LLC, as of December 31st, 2012, are true and correct. We further 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.



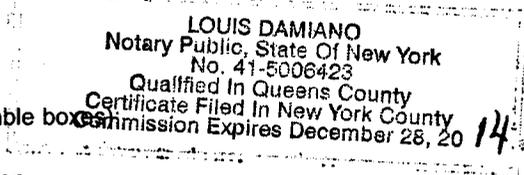
Craig S. Lax, Chief Executive Officer



Notary Public



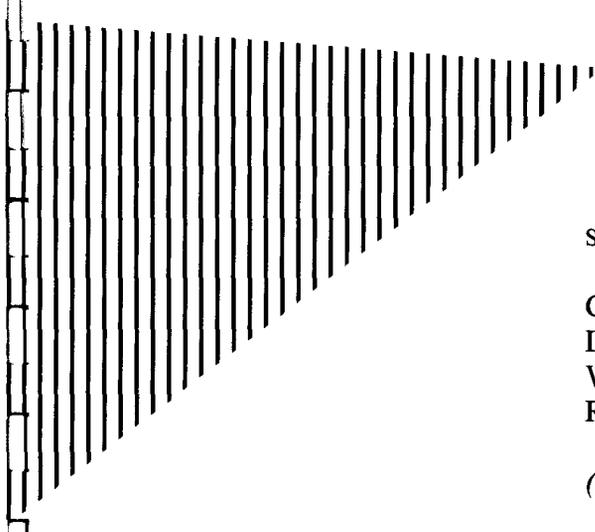
Peter Cameron Hyzer, Treasurer



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 Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims or Creditors.
- (g) Computation of Net Capital Pursuant to Rule 15c3-1.
- (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) Supplementary Report of Independent Registered Public Accounting Firm required by SEC Rule 17a-5(g)(1).

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



STATEMENT OF FINANCIAL CONDITION

G-Trade Services LLC

December 31, 2012

With Report and Supplementary Report of Independent  
Registered Public Accounting Firm

*(SEC I.D. No. 8-67304)*

Ernst & Young LLP

 **ERNST & YOUNG**

G-Trade Services LLC

Statement of Financial Condition

December 31, 2012

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## Report of Independent Registered Public Accounting Firm

The Member and Board of Managers of  
G-Trade Services LLC

We have audited the accompanying statement of financial condition of G-Trade Services LLC (the "Company") as of December 31, 2012, and the related notes to the statement of financial condition.

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

Management is responsible for the preparation and fair presentation of the statement of financial condition in conformity with U.S. generally accepted accounting principles; 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers 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 statement of financial condition referred to above presents fairly, in all material respects, the financial position of G-Trade Services LLC at December 31, 2012, in conformity with U.S. generally accepted accounting principles.



February 27, 2013

## G-Trade Services LLC

### Statement of Financial Condition

December 31, 2012

<b>Assets</b>	
Cash and cash equivalents	\$ 9,570,156
Deposits with clearing organizations and segregated cash	36,032,221
Receivables from brokers, dealers and clearing organizations	24,668,064
Receivables from customers	13,727,982
Fixed assets, net of accumulated depreciation and amortization of \$3,391,306	4,543,344
Other assets, net of allowance of \$87,138	1,080,818
<b>Total assets</b>	<b><u>\$ 89,622,585</u></b>
 <b>Liabilities and member's equity</b>	
<b>Liabilities:</b>	
Due to banks	\$ 4,921,902
Payables to brokers, dealers and clearing organizations	8,116,490
Payables to customers	18,722,787
Payables to related parties	7,633,581
Accrued compensation and other liabilities	10,730,622
<b>Total liabilities</b>	<b><u>50,125,382</u></b>
 Member's equity	 <u>39,497,203</u>
<b>Total liabilities and member's equity</b>	<b><u>\$ 89,622,585</u></b>

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

# G-Trade Services LLC

## Notes to Statement of Financial Condition

December 31, 2012

### **1. Organization and Description of Business**

G-Trade Services LLC (the "Company") is a registered broker-dealer under the Securities Exchange Act of 1934. The Company is a self-clearing institutional agency brokerage firm that specializes in execution and clearance services in over one hundred international markets for listed equity securities. The Company's institutional clients include banks, investment managers, hedge funds, pension plan sponsors and broker-dealers. The Company is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). FINRA serves as the Company's self-regulatory organization.

The Company is a wholly owned subsidiary of ConvergeEx Group, LLC ("Group"). ConvergeEx Holdings LLC ("Holdings") and its wholly owned subsidiary Eze Castle Software, Inc. ("Eze Castle") own all of the membership interests in Group (together, Holdings, Group, and Eze Castle to be referred to as "ConvergeEx"). The Bank of New York Mellon Corporation ("BNY Mellon") (through its wholly owned subsidiary, Agency Brokerage Holding, LLC) and private investment funds managed by GTCR Golder Rauner, LLC, a private equity firm, each hold a 33.2 percent ownership stake in Holdings. The remaining ownership stakes are held by ConvergeEx's management as well as current and former directors and employees.

### **2. Significant Accounting Policies**

The statement of financial condition has been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and codified in the Accounting Standards Codification ("ASC"), as set forth by the Financial Accounting Standards Board ("FASB"). Significant accounting policies are as follows:

#### **Use of Estimates**

The preparation of the statement of financial condition, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the reported amounts in the statement of financial condition and the accompanying notes. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

All unrestricted highly liquid investments with initial or remaining maturities of less than 90 days at the time of purchase are considered cash and cash equivalents. These investments typically include demand deposits, money market accounts and U.S. Treasury bills.

## G-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### **2. Significant Accounting Policies (continued)**

Deposits with Clearing Organizations and Segregated Cash Under the terms of the agreements between the Company and some of its clearing organizations and banks, balances owed are collateralized by certain of the Company's cash and securities balances.

#### **Securities Transactions**

Receivables from brokers, dealers and clearing organizations include amounts receivable for fails to deliver, cash deposits for securities borrowed, amounts receivable from clearing organizations, and commissions receivable from broker dealers. The Company typically borrows securities when securities are needed to deliver against a settling transaction, such as a fail to receive or non-standard settlements requested by a customer. Securities borrowed transactions require the Company to deposit cash with the lender, and are recorded at the value of the cash advanced to the lender. The cash advanced to the lender is equal to or greater than the fair value of the securities borrowed. The Company monitors the fair value of the securities borrowed on a regular basis and adjusts the collateral, as appropriate.

Receivables from customers consist of customer fails to deliver. Securities held by the Company and intended for settlement against customer orders are held as collateral for customer receivables.

Payables to brokers, dealers and clearing organizations include amounts payable for fails to receive and amounts payable to clearing organizations on unsettled trades.

Payables to customers consist of customer fails to receive.

#### **Allowance for Doubtful Accounts**

The allowance for doubtful accounts is based on the Company's assessment of the collectability of receivables related to securities transactions and other receivables. The Company considers factors such as historical experience, credit quality, age of balances, and current economic conditions that may affect collectability in determining the allowance for doubtful accounts.

## G-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### **2. Significant Accounting Policies (continued)**

##### **Fair Value of Financial Instruments**

The carrying amounts reported on the statement of financial condition for cash and cash equivalents and deposits with clearing organizations and segregated cash approximate fair value based on the on-demand nature of cash and the short-term maturity and the daily repricing mechanisms for these instruments. Other financial assets and liabilities with short and intermediate-term maturities and defined settlement amounts, including receivables, payables, and accrued liabilities, are reported at their contractual amounts, which approximate fair value.

##### **Fixed Assets**

Fixed assets are reported at cost, net of accumulated depreciation and amortization. Furniture and equipment and computer hardware are depreciated on a straight-line basis over estimated useful lives between three and ten years. Purchased software costs are amortized on a straight-line basis over five years. Leasehold improvements are amortized on a straight-line basis over the life of the lease or the improvement, whichever is shorter.

The Company capitalizes certain costs incurred in connection with developing or modifying software for internal use. Qualifying internally developed software costs are capitalized and amortized over the estimated useful life of the software ranging from five to seven years. The Company evaluates internally developed software for impairment whenever changes in circumstances indicate impairment could exist.

##### **Other Assets**

Other assets primarily consist of prepaid expenses, interest and dividend receivables, receivable from affiliates and other miscellaneous receivables.

##### **Accrued Compensation and Other Liabilities**

Accrued compensation and other liabilities primarily consist of accrued employee incentives, other employee benefit expenses, accrued expenses, accounts payable, and other miscellaneous liabilities.

## G-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### **2. Significant Accounting Policies (continued)**

##### **Income Taxes**

The Company is a single member limited liability company for tax purposes and, as such, is disregarded for federal, state and local income tax purposes. The Company has recorded its apportioned share of state and local income taxes, including the New York City unincorporated business tax, pursuant to a tax sharing agreement (“TSA”) between Group and the Company. Group, as the taxpayer of record, is responsible for payment of state and local income taxes to the taxing authorities. The tax provision for the Company has been computed in accordance with the TSA. There is no provision for federal income tax because the Company’s single member, Group, is a partnership for U.S. tax purposes. A partnership is generally not subject to federal, state or local income taxes with the exception of certain unincorporated business taxes and minimum state taxes. For federal and state income tax purposes, the ultimate members of Group are responsible for reporting their allocable share of the Company’s income, gain, losses, deductions and credits on their tax returns. The Company is also subject to other miscellaneous state taxes.

##### **Derivatives**

The Company utilizes foreign exchange forward contracts, from time to time, to reduce its exposure to adverse fluctuations in foreign exchange rates. These instruments are recorded at fair value based on industry standard pricing services. Adjustments are made to change to a trade date basis if unrealized gains and losses are significant. As of December 31, 2012, the changes in value of outstanding foreign exchange forward contracts entered into with third parties were not material.

##### **Foreign Currency Gains and Losses**

The Company uses the U.S. dollar as its functional currency. Monetary assets and liabilities denominated in foreign currencies are converted into U.S. dollars at exchange rates prevailing at the statement of financial condition date.

## G-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### **3. Financial Instruments**

All financial instruments are measured and reported on a fair value basis. The ASC defines fair value and establishes a framework for measuring fair value, as well as a fair value hierarchy based on inputs used to measure fair value.

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value.

#### **Fair Value Hierarchy**

Financial assets and liabilities are classified based on inputs used to establish fair value as follows:

- Level 1: Valuation inputs are unadjusted quoted market prices for identical assets or liabilities in active markets;
- Level 2: Valuation inputs are quoted prices for identical assets or liabilities in markets that are not active, quoted market prices for similar assets and liabilities in active markets and other valuation techniques utilizing observable inputs directly or indirectly related to the asset or liability being measured;
- Level 3: Valuation techniques utilize inputs that are unobservable and significant to the fair value measurement.

At December 31, 2012, the Company did not own any financial assets or liabilities other than cash and cash equivalents or other assets and liabilities with short and intermediate term maturities and defined settlement amounts. Per the Company's accounting policies (Note 2), the carrying amounts of cash and other assets and liabilities with defined settlement amounts are reported at their contractual amounts, which approximates fair value.

## G-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### 4. Deposits with Clearing Organizations and Segregated Cash

The Company and Group agreed to deposit a total of \$51,113,178 in deposit accounts with clearing agents that could be used as collateral to offset losses incurred by the clearing agents, related to the Company, if such losses occur. The Company's portion of this deposit is \$35,432,214, which is comprised of cash of \$32,232,214 and a U.S. Treasury bill with a market value of \$3,200,000 which is classified as deposits with clearing organizations and segregated cash in the statement of financial condition. Separately, Group maintains a balance with a clearing agent that may fluctuate during the year and was \$15,080,957 at December 31, 2012. Group charges the Company a facilitation fee relating to this deposit, the annualized rate at December 31, 2012 was 5.25%. The Company maintains a segregated bank account to comply with SEC Rule 15c3-3 when holding customer funds for corporate actions that are not immediately distributed and a segregated bank account to maintain Proprietary Accounts of Introducing Brokers ("PAIB") deposits with correspondent clearing organizations. The balances at December 31, 2012 were \$500,007 and \$100,000 respectively and are included in deposits with clearing organizations and segregated cash in the statement of financial condition.

#### 5. Receivables from and Payables to Brokers, Dealers and Clearing Organizations

At December 31, 2012, amounts receivable from and payable to brokers, dealers and clearing organizations include:

Receivables:	
Securities failed to deliver	\$ 16,139,246
Broker-dealers	5,457,839
Clearing organizations	<u>3,070,979</u>
Total receivables	<u>\$ 24,668,064</u>
Payables:	
Securities failed to receive	\$ 8,013,017
Other	<u>103,473</u>
Total payables	<u>\$ 8,116,490</u>

All material fail to deliver and fail to receive transactions settled subsequent to December 31, 2012 without any adverse financial effect.

## G-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### 6. Fixed Assets

At December 31, 2012, fixed assets were comprised of:

	<b>At December 31, 2012</b>		
	<b>Acquisition Value</b>	<b>Accumulated Depreciation</b>	<b>Net Book Value</b>
Internally developed software	\$ 4,141,245	\$ (1,173,374)	\$ 2,967,871
Computer hardware	2,256,727	(1,251,207)	1,005,520
Software	1,246,457	(887,617)	358,840
Furniture and fixtures	120,917	(19,420)	101,497
Other	169,304	(59,688)	109,616
Total	<u>\$ 7,934,650</u>	<u>\$ (3,391,306)</u>	<u>\$ 4,543,344</u>

The Company capitalized \$750,822 of internally developed software costs in 2012. In addition, the Company purchased \$592,216 of internally developed software from Group for development work Group employees performed on behalf of the Company. The Company removed fully depreciated fixed assets totaling \$295,526 during the year.

As of December 31, 2012, there were no assets under capital lease agreements.

#### 7. Related Party Transactions

The Company provides clearing and execution services of non-U.S. electronic trades to ConvergEx Execution Solutions LLC ("CES"), ConvergEx Ltd. ("CL"), ConvergEx Asia Pacific Limited ("CAPL"), and ConvergEx Prime Services LLC ("CPS"), wholly owned subsidiaries of Group.

RealTick LLC ("RealTick"), a wholly owned subsidiary of Group, provides a multi-asset class electronic execution management system ("EMS") platform that delivers integrated analysis, execution and evaluation solutions. The Company provides RealTick terminals to certain customers and the RealTick terminals are used to submit orders and effect transactions to the Company.

## G-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### **7. Related Party Transactions (continued)**

The Company provides and receives certain management, administrative and technical services to and from Group, CES and other affiliates.

During 2012, the Company issued an unsecured promissory note to Group whereby the Company could borrow up to \$50,000,000 repayable on an on-demand basis. Interest on each advance shall be at a rate agreed between the parties from time to time. At December 31, 2012, \$3,000,000 was borrowed and included within payables to related parties on the statement of financial condition. Interest rates ranged between 5% and 5.25% during 2012.

Eze Castle Transaction Services LLC (“ECTS”), a wholly owned subsidiary of Eze Castle Software (“Eze LLC”), provides the Company with financial information exchange (“FIX”) connectivity services from the Eze Order Management System (“EzeOMS”). The EzeOMS is provided to asset management clients by Eze LLC. The EzeOMS terminals are used by the customers to submit orders and effect transactions through the Company.

The Company utilizes commission management tools and payment processing services from Westminster Research Associates LLC (“WRA”), a wholly owned subsidiary of Group. The Company pays a management fee to WRA as part of the agreement.

The Company has a clearing agreement with Pershing Securities Limited (“PSL”), an indirect wholly owned subsidiary of BNY Mellon, in which PSL provides execution and clearing services in the United Kingdom for the Company.

The Company has a clearing agreement with Pershing Securities LLC (“Pershing”), an indirect wholly owned subsidiary of BNY Mellon, pursuant to which Pershing performs clearing services for certain transactions for the Company.

The Company and several related party entities under common control are party to an agreement with CES that permits CES to allocate a portion of its New York City lease commitment, which expires August 2015 to each entity, based on the portion that each entity is permitted to use and occupy as determined by CES. The Company also provides office space in Florida to CES.

The following table sets forth the Company’s related party assets and liabilities as of December 31, 2012:

G-Trade Services LLC

Notes to Statement of Financial Condition (continued)

7. Related Party Transactions (continued)

As of December 31, 2012	CES	CL	WRA	BNY Mellon & Subsidiaries	Other Affiliates	Total
<b>Assets</b>						
Deposits with clearing organizations and segregated cash	\$ -	\$ -	\$ -	\$ 250,000	\$ -	\$ 250,000
Receivables from brokers, dealers and clearing organizations	-	-	-	1,534,927	-	1,534,927
Total assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,784,927</u>	<u>\$ -</u>	<u>\$ 1,784,927</u>
<b>Liabilities</b>						
Payables to related parties	\$ 773,722	\$ -	\$ 688,677	\$ -	\$ 6,171,182	\$ 7,633,581
Total liabilities	<u>\$ 773,722</u>	<u>\$ -</u>	<u>\$ 688,677</u>	<u>\$ -</u>	<u>\$ 6,171,182</u>	<u>\$ 7,633,581</u>

## G-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### **8. Regulatory Requirements**

The Company is subject to the SEC's Uniform Net Capital Rule ("Rule 15c3-1"). The Company computes net capital under the alternative method, which requires the maintenance of net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debits arising from customer transactions, as defined. At December 31, 2012, the Company had net capital of \$29,132,324 and its excess net capital was \$28,882,324. The Company settles its broker and customer transactions through various settlement agents and accordingly, is exempt from SEC Rule 15c3-3 under provision (k)(2)(i) of the Rule.

Advances to affiliates, dividend payments, distributions and other equity withdrawals are subject to certain notification and other requirements of Rule 15c3-1 and other regulatory bodies.

#### **9. Commitments and Contingencies**

In August 2011, certain federal governmental authorities of the United States of America requested information from ConvergEx personnel and served a subpoena on ConvergEx seeking information relating primarily to certain trade execution and related disclosure practices at various broker-dealer subsidiaries of ConvergEx, including the Company. These inquiries are continuing, and ConvergEx has received two additional subpoenas as well as other informal requests for information. ConvergEx and its subsidiaries, including the Company, are cooperating with these inquiries. At this time, the Company is not in a position to determine whether it is probable that it will incur a loss in connection this matter, or to reasonably estimate the amount of such a loss. Group recorded a loss accrual related to this matter and has issued an indemnification to the Company and CES in an amount limited in the aggregate to that loss accrual. The indemnification is limited to this matter and is payable should the Company be a party to any ultimate resolution of this matter or otherwise be held liable. The loss accrual recorded by Group is an estimate, the final liability, if any, could be higher. The costs related to this matter are recorded at Group.

## G-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### **10. Deferred Compensation**

The Company provides a portion of each executive's and other highly compensated individual's annual bonus as a long-term cash award. Employees vest over 40 months of service, including the year for which the award was granted, and awards are payable at the end of that period. Compensation expense is accrued ratably over that period. As part of the programs, employees can elect to index their deferral to various investment options. Payments to the employees are made on the payment date in the amount of the initial award adjusted by the percentage change in value of any elected investment options. In order to hedge any risk associated with changes in the amounts due to employees upon vesting, Group has purchased investments similar to the elected options.

The plan had no material effect on the Company's financial position in 2012. Based on performance of the employees' elections to date, the Company plans to make payments related to these deferred bonus programs of \$509,158 in 2013, \$700,234 in 2014 and \$828,271 in 2015, respectively.

#### **11. Retirement Savings Plan**

All employees of the Company that meet eligibility requirements have the option of participating in the retirement savings plan of ConvergeEx. This plan has two components, a defined contribution profit sharing plan and a 401(k) match program.

#### **12. Off-Balance Sheet Risks**

##### **Customer Activities and Credit Risk**

In the normal course of business, the Company's customer and correspondent clearance activities involve the execution and settlement of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contractual obligations.

The Company's customer securities activities are transacted on a delivery versus payment basis. In delivery versus payment transactions, the Company is exposed to risk of loss in the event of the customers' or brokers' inability to meet the terms of their contracts.

## G-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### **12. Off-Balance Sheet Risks (continued)**

The Company's exposure to credit risk can be directly impacted by volatile securities markets, which may impair the ability of counterparties to satisfy their contractual obligations. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit limits based upon a review of the customers' and counterparty brokers' financial condition and credit ratings. The Company's credit exposure arising in connection with its executing, settling, and financing security transactions versus its executing brokers is viewed as insignificant due to the nature of the counterparties in question and the Company's policy of requiring receipt of payment prior to the delivery of securities. Additionally, the net exposure arising from the Company's obligations to deliver and receive given security positions from its executing brokers is smaller than its overall gross exposure, as these transactions are collateralized by the underlying security.

In the normal course of business, the Company obtains securities under securities borrowed and resale agreements on terms which permit it to repledge or resell the securities to others. At December 31, 2012, no stock borrows were outstanding.

The Company may maintain cash and cash equivalents at financial institutions in excess of federally insured limits. The Company has not experienced any losses in such accounts and does not believe it is exposed to significant credit risks.

#### **Guarantees**

In the normal course of business, certain activities of the Company's involve the execution of securities transactions for institutional customers and other broker-dealers, which are cleared and settled by PSL in the United Kingdom, Pershing and other large institutions in other international markets. Pursuant to the terms of its clearing agreements with these clearing agents, the Company is required to reimburse the clearing agents for any losses incurred resulting from a counterparty failing to satisfy its contractual obligation. At December 31, 2012, there were no amounts to be indemnified to these clearing agents pursuant to these agreements.

Future events could occur that may require the Company to reimburse its clearing agents for losses arising from a counterparty failing to satisfy its contractual obligation. However, based on history and experience, management feels that the likelihood of such an event is remote. The Company seeks to mitigate this risk by assigning and enforcing counterparty credit limits, performing customer credit evaluations, and monitoring trading activity. At December 31, 2012, there were no amounts guaranteed and no liability was established.

## G-Trade Services LLC

### Notes to Statement of Financial Condition (continued)

#### **12. Off-Balance Sheet Risks (continued)**

At December 31, 2012, Group and Eze Castle had approximately \$706,022,729 of debt outstanding. Group's ownership interest in the Company was pledged as security against the debt.

#### **13. Subsequent Events**

There are no capital withdrawals anticipated within the next six months other than normal monthly distributions to Group based on estimated monthly profits. The Company has evaluated all subsequent events through the date of issuance of the statement of financial condition and has determined that no other subsequent events have occurred that would require disclosure in the statement of financial condition or accompanying notes.

Ernst & Young LLP

Assurance | Tax | Transactions | Advisory

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