

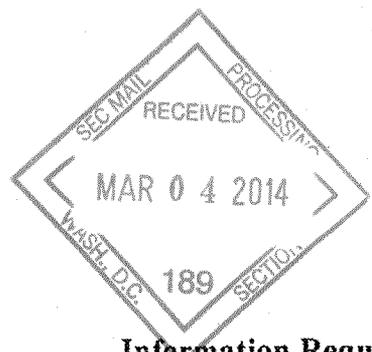
\*AB  
3/19



UNIT 14048577

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

OMB APPROVAL  
OMB Number: 3235-0123  
Expires: March 31, 2016  
Estimated average burden  
hours per response.....12.00



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

SEC FILE NUMBER  
8-37329

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 01/01/13 AND ENDING 12/31/13  
MM/DD/YY MM/DD/YY

## A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: NASDAQ Execution Services, LLC

OFFICIAL USE ONLY  
FIRM I.D. NO.

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

165 Broadway, 51<sup>st</sup> Floor

(No. and Street)

New York  
(City)

NY  
(State)

10006  
(Zip Code)

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

Venu Palaparthi

(212) 401-8780  
(Area Code - Telephone Number)

## B. ACCOUNTANT IDENTIFICATION

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

ERNST & YOUNG LLP

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

5 Times Square  
(Address)

New York  
(City)

NY  
(State)

10036  
(Zip Code)

CHECK ONE:

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

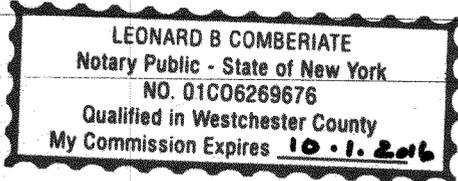
**FOR OFFICIAL USE ONLY**

\*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)

3/25/14

OATH OR AFFIRMATION

I, Venu Palaparthi, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of NASDAQ Execution Services, LLC, as of Dec 31, 2013, 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:



[Handwritten Signature]  
Signature

Chief Executive Officer  
Title

Leonard B. Comberiate  
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 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).

STATEMENT OF FINANCIAL CONDITION

Nasdaq Execution Services, LLC

December 31, 2013

With Report of Independent Registered Public Accounting Firm

Ernst & Young LLP



Building a better  
working world

Nasdaq Execution Services, LLC

Statement of Financial Condition

December 31, 2013

**Contents**

Facing Page and Oath or Affirmation

Report of Independent Registered Public Accounting Firm.....1

Statement of Financial Condition .....3

Notes to Statement of Financial Condition.....4



Building a better  
working world

Ernst & Young LLP  
5 Times Square  
New York, NY 10036-6530

Tel: +1 212 773 3000  
Fax: +1 212 773 6350

## Report of Independent Registered Public Accounting Firm

The Member of  
Nasdaq Execution Services, LLC

We have audited the accompanying statement of financial condition of Nasdaq Execution Services, LLC (the Company) as of December 31, 2013, 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.



Building a better  
working world

## Opinion

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Nasdaq Execution Services, LLC at December 31, 2013, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

February 26, 2014

Nasdaq Execution Services, LLC

Statement of Financial Condition

December 31, 2013

**Assets**

|                                      |                      |
|--------------------------------------|----------------------|
| Cash                                 | \$ 17,718,399        |
| Deposits with clearing organizations | 510,000              |
| Receivables from affiliate, net      | 188,226              |
| Goodwill                             | 5,569,073            |
| Deferred tax assets, net             | 2,464,839            |
| Other assets                         | 63,080               |
| Total assets                         | <u>\$ 26,513,617</u> |

**Liabilities and member's equity**

Liabilities:

|  |                      |
|--|----------------------|
| Accrued routing fees                   | \$ 2,190,769         |
| Accrued compensation and benefit costs | 330,012              |
| Accounts payable                       | 45,704               |
| Total liabilities                      | <u>2,566,485</u>     |
| Member's equity                        | <u>23,947,132</u>    |
| Total liabilities and member's equity  | <u>\$ 26,513,617</u> |

*See accompanying notes to the statement of financial condition.*

# Nasdaq Execution Services, LLC

## Notes to Statement of Financial Condition

December 31, 2013

### 1. Organization and Description of the Business

Nasdaq Execution Services, LLC (the "Company") is a wholly owned subsidiary of Norway Acquisition, LLC ("Norway Acquisition"), which is a wholly owned subsidiary of The NASDAQ Stock Market LLC (the "Exchange"). The NASDAQ OMX Group, Inc. ("NASDAQ OMX") is a holding company that operates the Exchange as its wholly owned subsidiary. The Exchange provides NASDAQ OMX's market participants with the ability to access, process, display and integrate orders and quotes on the Exchange and other national stock exchanges. The Company has no customers but accepts orders from related party entities as part of its core routing brokerage business.

#### *Activity and Regulation of Nasdaq Execution Services, LLC*

The Company currently operates as the routing broker-dealer for affiliate exchanges for sending orders from the affiliate exchanges to other venues for execution in accordance with member order instructions and requirements. Affiliate exchanges include the Exchange, NASDAQ OMX BX, Inc. ("BX") and NASDAQ OMX PHLX, LLC ("PHLX"), collectively. The Company had previously cleared all trading activity directly with the National Securities Clearing Corporation ("NSCC"), either as a Qualified Special Representative ("QSR") or under an Automated Give Up ("AGU") agreement, through the Automated Confirmation Trades system ("ACT"), except for institutional trades and Designated Order Turnaround ("DOT") processed listed securities. Since July 11, 2008, however, the Company has been replaced by The NASDAQ Stock Market Omnibus Account ("Omnibus Account") as the central facilitating account on the Exchange. This Omnibus Account is granted by the NSCC to NASDAQ under the Exchange's membership at the NSCC. The Omnibus Account exists strictly to facilitate anonymity and the two legged off-setting clearing transactions comprising trades on the Exchange. The Omnibus Account is different from the broker-dealer in two primary regards, the Omnibus Account is submitted locked-in under the auspices of the Exchange rather than QSR or AGU, and the Omnibus Account is not legally a party to the trade, as it only exists as a facilitator, as stated.

The Company maintains its QSR status and relationships, and its AGU relationships, but is no longer a broker-dealer operating an electronic trading venue, or facilitating for one as was the case. The broker-dealer is now strictly a routing broker, relying on the executing party or venue; another broker operating an electronic communications network, alternative trading system ("ATS"), or agency book, or registered stock exchange, to submit clearing records against the Company to the NSCC, as applicable. Certain transactions, primarily in the trade support role,

# Nasdaq Execution Services, LLC

## Notes to Statement of Financial Condition (continued)

### 1. Organization and Description of the Business (continued)

may still be handled manually via ACT. The QSR relationship is an agreement between the Company, the clearing broker and a contra-clearing broker, whereby the contra-clearing broker agrees to honor all trades sent directly to the NSCC by the Company. In the AGU relationship, the Company will send the trade to ACT initially and then ACT will send the trade to the NSCC for clearing. The Company, as a broker-dealer, can also receive non-electronic executions from markets that experienced technical issues hindering the receipt of electronic executions on trade date. These executions not received electronically on trade date (T) could be received in clearing on T+1, where the Company could potentially need to trade out of these executions on a principal capacity basis.

The Company is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") as well as in all 50 states, the District of Columbia and Puerto Rico. The Company is also a member of the Exchange, BX, PHLX, New York Stock Exchange ("NYSE"), NYSE ARCA, Financial Industry Regulatory Authority ("FINRA"), NYSE Amex, Chicago Stock Exchange, International Securities Exchange, Chicago Board Options Exchange, the National Stock Exchange and the BATS Exchange, Inc. The Company is distinguished from most broker-dealers in that it is a facility of the Exchange, which functions as both an exchange and a Self Regulatory Organization ("SRO").

The Company is subject to regulation by the SEC, FINRA, the SROs and the various state securities regulators. The Company is a member of the Securities Investor Protection Corporation.

### 2. Summary of Significant Accounting Policies

#### Basis of Presentation

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

## Nasdaq Execution Services, LLC

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

#### 2. Summary of Significant Accounting Policies (continued)

##### Use of Estimates

The preparation of the Company's statement of financial condition in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts and the disclosure of contingent amounts in the statement of financial condition and accompanying notes. Management believes that the estimates utilized in preparing its statement of financial condition are reasonable and prudent. Actual results could differ from those estimates and assumptions.

##### Cash

The Company's cash is held by The Bank of New York Mellon ("BONY") in a non-interest-bearing account.

##### Deposits With Clearing Organizations

The deposits with clearing organizations represent funds held at the NSCC for settlement of trades and funds held at the Depository Trust and Clearing Corporation ("DTCC").

##### Goodwill

Goodwill represents the excess of purchase price and related costs over the value assigned to the net tangible and identifiable intangible assets of a business acquired. Goodwill is allocated to the reporting units based on the assignment of the fair values of each reporting unit of the acquired company. We are required to test goodwill for impairment at the reporting unit level annually, or in interim periods if certain events occur indicating that the carrying value may be impaired. We test for impairment during the fourth quarter of the fiscal year using carrying amounts as of October 1st. In conducting the 2013 annual impairment test for goodwill, we first performed a qualitative assessment to determine whether it was more likely than not that the fair value of a reporting unit was less than the carrying amount as a basis for determining whether it was necessary to perform the two-step quantitative goodwill impairment test described in ASC 350, *Intangibles – Goodwill and Other* ("ASC 350"). The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, we determine that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the two-step quantitative test for goodwill impairment is performed for the appropriate reporting units. Otherwise, we conclude that no impairment is indicated and the two-step quantitative test for goodwill impairment is not performed.

## Nasdaq Execution Services, LLC

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

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

In conducting the initial qualitative assessment, we analyzed actual and projected growth trends, as well as historical performance versus plan and the results of prior quantitative tests performed.

Additionally, we assessed critical areas that may impact the business, including macroeconomic conditions and the related impact, market related exposures, competitive changes, new or discontinued products, changes in key personnel, or any other potential risks to projected financial results.

If required, the quantitative goodwill impairment test is a two-step process performed at the reporting unit level. First, the fair value of each reporting unit is compared to its corresponding carrying amount, including goodwill. The fair value of each reporting unit is estimated using a combination of a discounted cash flow valuation, which incorporates assumptions regarding future growth rates, terminal values, and discount rates, among other factors. The estimates and assumptions used consider historical performance and are consistent with the assumptions used in determining future profit plans for each reporting unit, which are approved by management. If the first step results in the carrying amount exceeding the fair value of the reporting unit, then a second step must be completed in order to determine the amount of goodwill impairment that should be recorded, if any. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill in a manner similar to a purchase price allocation. The implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for any difference.

The Company has concluded that, for purposes of its Goodwill impairment test, it has a single reporting unit. The Company completed the required annual impairment test, which determined that goodwill was not impaired for the year ended December 31, 2013. However, events such as economic weakness and unexpected significant declines in operating results may result in goodwill impairment charges in the future.

#### **Securities Owned and Securities Sold, Not Yet Purchased, At Market Value**

The Company may temporarily have positions in equity securities due to system interruptions. The Company provides brokers and dealers with the option to cancel the difference resulting from position breaks due to an interruption. When market value fluctuations related to these position breaks are unfavorable to the customer, the Company will assume the positions and

## Nasdaq Execution Services, LLC

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

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

liquidate the positions the following trade day, resulting in limited market risk to the Company. Securities owned and securities sold, not yet purchased are carried at market value in other assets and accounts payable, respectively, on the statement of financial condition. There were no positions held related to securities owned and securities sold, not yet purchased at December 31, 2013.

#### **Income Taxes**

The Company's operating results are included in the federal, state and local income tax returns filed by NASDAQ OMX. The Company uses the asset and liability method to provide income taxes on all transactions recorded in the consolidated NASDAQ OMX financial statements. Deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (i.e., temporary differences) and are measured at the enacted rates that will be in effect when these differences are realized. If necessary, a valuation allowance is established to reduce deferred tax assets to the amount that is more likely than not to be realized.

In order to recognize and measure our unrecognized tax benefits, management determines whether a tax position is more likely than not to be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits of the position. Once it is determined that a position meets the recognition thresholds, the position is measured to determine the amount of benefit to be recognized in the statement of financial condition. Interest and penalties related to income tax matters are recognized in income tax expense.

#### **3. Related-Party Transactions**

As discussed in Note 1, *Organization and Description of the Business*, the Company operates solely as the routing broker-dealer for the Exchange, BX and PHLX. Under intercompany Service Agreements with each affiliate, the Exchange, BX and PHLX agree to pay the Company pass through costs incurred in routing orders to external destinations for the Exchange, PHLX and BX. The Exchange also agrees to pay for expenses, including NSCC fees, clearing costs, exchange fees, annual membership fees and certain technology related costs.

The Exchange, PHLX and BX also each pay the Company an additional monthly fee for support related to the Company's routing transactions. Revenue is recognized as earned, and is allocated to the Company through an intercompany charge.

## Nasdaq Execution Services, LLC

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

#### **3. Related-Party Transactions (continued)**

The Exchange agrees to provide the Company with support services, including, but not limited to, direct financial and business management support.

For the year ended December 31, 2013, the Company was also charged by NASDAQ OMX for additional support services under the Intra-group Services Agreement. This agreement covers additional costs for personnel support.

Certain other expenses of the Company are settled on the Company's behalf by NASDAQ OMX and the Exchange and are allocated through an intercompany charge.

At December 31, 2013 \$188,226 remained as a net receivable from affiliate. All affiliates are ultimately wholly-owned by NASDAQ OMX. It is the intent and ability of management to settle all intercompany balances between NASDAQ OMX, its wholly-owned subsidiaries, such as the Company and the Exchange, on a net basis, as NASDAQ OMX serves as the master financing entity for all wholly-owned subsidiaries. In addition, all intercompany transactions are expected to be cash settled on a periodic basis. The Company records all transactions to and from affiliates subject to the netting arrangement (Services Agreement) into a single account. Although there may be many individual accounts to preserve transaction detail, the reporting will reflect a single receivable or payable to NASDAQ OMX.

#### **4. Income Taxes**

The Company's operating results are included in the federal, state and local income tax returns filed by NASDAQ OMX. For income tax purposes, the Company is disregarded as an entity separate from its owner, NASDAQ OMX, pursuant to U.S. Income Tax Regulations Sec. 301.7701-3(b)(1)(ii). With respect to each taxable period for which a consolidated or unitary return is filed by NASDAQ OMX, which includes the Company, NASDAQ OMX shall pay to and has the right to receive from the Company an amount based on the Company's stand-alone operating results using the tax rate applicable to NASDAQ OMX.

As of December 31, 2013, the net deferred tax asset balance is \$2,464,839. This amount primarily relates to the amortization of intangible assets. As it is more likely than not that the deferred tax asset will be utilized in later years, no valuation allowance is required.

## Nasdaq Execution Services, LLC

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

#### 4. Income Taxes (continued)

A reconciliation of the beginning and ending amount of unrecognized tax benefits, as of December 31, 2013, is as follows:

|  |                 |
|--|-----------------|
| Beginning balance  | \$ 13,161       |
| Reductions as a result of tax positions taken in prior periods | <u>(13,161)</u> |
| Ending balance   | <u>\$ —</u>     |

At December 31, 2013, the Company had no accrued interest or penalties, as defined within ASC 740, *Income Taxes*.

For periods through December 22, 2008, the Company was treated as a partnership for U.S. income tax purposes, and as a result, filed its federal, state and local tax returns, including a New York City Unincorporated Business Tax return. For periods after December 22, 2008, the Company's operating results are included in the federal, state and local income tax returns filed by NASDAQ OMX. Federal income tax returns for the years 2008 and 2010 are currently under audit by the Internal Revenue Service and we are subject to examination for 2011 and 2012. Several state tax returns are currently under examination by the respective tax authorities for the years 2006 through 2010, and the Company is subject to examination for 2011 and 2012.

#### 5. Regulatory Requirements

The Company is a registered broker-dealer with the SEC and, accordingly, is subject to the SEC's Uniform Net Capital Rule ("SEC Rule 15c3-1"), which requires the maintenance of minimum net capital. The Company computes its net capital requirements under the alternative method provided by SEC Rule 15c3-1. At December 31, 2013, the Company had net capital of \$15,651,914, which was 15,401,914 in excess of its required minimum net capital of \$250,000.

Advances to affiliates, dividend payments and other equity withdrawals are subject to certain notification and other requirements of SEC Rule 15c3-1 and other regulatory bodies. The Company is exempt from the provisions of Rule 15c3-3 pursuant to paragraph (k)(2)(ii) under the Securities Exchange Act of 1934.

## Nasdaq Execution Services, LLC

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

#### **6. Commitments and Contingent Liabilities**

##### **Brokerage Activities**

The Company provides guarantees to securities clearinghouses and exchanges under their standard membership agreements, which require members to guarantee the performance of other members. If a member becomes unable to satisfy its obligations to the clearinghouses, other members would be required to meet its shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral as well as meet certain minimum financial standards.

The Company's maximum potential liability under these arrangements cannot be quantified. However, management believes that the potential for the Company to be required to make payments under these arrangements is not probable. Accordingly, no contingent liability is recorded on the statement of financial condition for these arrangements.

##### **General Litigation and Regulatory Matters**

The Company may be subject to claims as well as reviews by self-regulatory agencies arising out of the conduct of its business.

Management is not aware of any unasserted claims or assessments that would have a material adverse effect on the financial position and the results of operations of the Company.

The SEC and FINRA adopt rules and examine broker-dealers and require strict compliance with their rules and regulations. The SEC, SROs and state securities commissions may conduct administrative proceedings, which can result in censures, fines, the issuance of cease-and-desist orders or the suspension or expulsion of a broker-dealer, its officers or employees. The SEC and state regulators may also institute proceedings against broker-dealers seeking an injunction or other sanction. The SEC and SRO rules cover many aspects of a broker-dealer's business, including capital structure and withdrawals, sales methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, record-keeping, the financing of customers' purchases, broker-dealer and employee registration and the conduct of directors, officers and employees. All broker-dealers have an SRO that is assigned by the SEC as the broker-dealer's designated examining authority, or DEA. The DEA is responsible for examining a broker-dealer for compliance with the SEC's financial responsibility rules. FINRA is the Company's current DEA. A failure to comply with the SEC's request in a satisfactory manner may have adverse consequences, and changing the Company's DEA may entail additional regulatory costs.

## Nasdaq Execution Services, LLC

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

#### **6. Commitments and Contingent Liabilities (continued)**

##### **Risks and Uncertainties**

As discussed above, the Company, as a routing broker-dealer, is exposed to clearance and settlement risks, as well as limited market risk.

Cash is held by one financial institution, BONY. In the event that the financial institution is unable to fulfill its obligations, the Company would be subject to credit risk. Bankruptcy or insolvency may cause the Company's rights with respect to the cash held by BONY to be delayed or limited. The Company monitors its risk by monitoring the credit quality of BONY and its subsidiaries.

#### **7. Fair Value of Financial Instruments**

The Company's assets and liabilities are recorded at fair value or at amounts that approximate fair value. The carrying amounts reported on the statement of financial condition for cash, deposits with clearing organizations, and receivables from affiliate, net, approximate fair value due to the short term nature of these assets. The Company's liabilities, which include accrued compensation and benefit costs, accrued routing fees and accounts payable, net, are reported at their contractual amounts, which approximate fair value.

#### **8. Subsequent Events**

The Company has evaluated all subsequent events through the date of issuance of the statement of financial condition, and has determined that no subsequent events have occurred that would require disclosure in the statement of financial condition or accompanying notes.