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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549



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

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Section

FEB 27 2015
Washington DC

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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 January 1, 2014 AND ENDING December 31, 2014
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Diffusion Markets, L.L.C.
(Filed as Confidential Information)
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

OFFICIAL USE ONLY
FIRM I.D. NO.

1166 Avenue of the Americas, Ninth Floor
(No. and Street)

New York NY 10036
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Jeffrey Ahn 212-403-8584
(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 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.

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

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Diffusion Markets, L.L.C.

1166 Avenue of the Americas
Ninth Floor
New York, NY 10036

(212) 478-0000
Fax (212) 478-0100

Oath or Affirmation

I, Stephen Rossi, swear (or affirm) that, to the best of my knowledge and belief the accompanying statement of financial condition pertaining to the firm of Diffusion Markets, L.L.C., as of December 31, 2014, are true and correct. I further swear (or affirm) that neither the Company nor any member, proprietor, principal officer, or director has any proprietary interest in any account classified solely as that of a customer.

Diffusion Markets, L.L.C.

By: Stephen Rossi
Stephen Rossi
Authorized Signatory

Subscribed and sworn to before
me this 25th day of February, 2015

By: Jake A. Lipman
Notary Public

JAKE A. LIPMAN
Notary Public, State of New York
Registration #01LI6173955
Qualified in New York County
Commission Expires September 10, 2015

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Diffusion Markets, L.L.C.

Statement of Financial Condition

December 31, 2014

CONTENTS OF REPORT

This report** contains (check all applicable boxes):

- (a) Facing page.
- (b) Statement of Financial Condition.
- (c) Statement of Operations.
- (d) Statement of Cash Flows.
- (e) Statement of Changes in Member's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital Pursuant to Uniform Net Capital Rule 15c3-1.
- (h) Computation for Determination of Reserve Requirements for Broker-Dealers 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).

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Building a better
working world

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Report of Independent Registered Public Accounting Firm

To the Manager of
Diffusion Markets, L.L.C.:

We have audited the accompanying statement of financial condition of Diffusion Markets, L.L.C. (the Company) as of December 31, 2014. This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Diffusion Markets, L.L.C. at December 31, 2014, in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

February 25, 2015

Diffusion Markets, L.L.C.

Statement of Financial Condition

December 31, 2014

(Expressed in United States dollars)

(in thousands)

Assets

Cash equivalents	\$	5,065
Financial instruments owned		120,420
Other assets		<u>50</u>
Total Assets	\$	<u>125,535</u>

Liabilities and Member's Capital

Payables		
Affiliates	\$	2,229
Clearing broker		34,784
Financial instruments sold, but not yet purchased		<u>63,731</u>
Total Liabilities		100,744

Commitments, Contingencies and Guarantees

Member's Capital		<u>24,791</u>
Total Liabilities and Member's Capital	\$	<u>125,535</u>

The accompanying notes are an integral part of this statement.

Notes to Statement of Financial Condition

December 31, 2014

1. Organization

Diffusion Markets, L.L.C. (the "Company") is a Delaware limited liability company. Diffusion Markets Holdings, L.L.C. ("Diffusion Holdings") is the manager (in such capacity, the "Manager") and the sole member of the Company. D. E. Shaw Asymptote Portfolios, L.L.C. ("Asymptote Portfolios") is the manager of Diffusion Holdings, and D. E. Shaw & Co., L.P. ("DESCO LP") and Asymptote Portfolios are the members of Diffusion Holdings.

The Company is a broker-dealer registered with the U. S. Securities and Exchange Commission ("SEC") and is an approved market maker on the Chicago Board Options Exchange ("CBOE"), NYSE MKT, LLC, NYSE Arca, Inc., and the NASDAQ Options Market ("NOM"). The Company is also a member of the NYSE Amex Options, LLC ("Amex") and The NASDAQ Stock Market LLC ("NASDAQ"). On January 2, 2014, the Company received approval from Amex for its Market Maker Amex Trading Permit to execute trades via NYSE MKT, LLC. On October 2, 2014, the Company received approval from NASDAQ to engage in market making activity on NOM. On November 17, 2014, the Company received approval to trade as a market maker on CBOE.

The principal investment objective of the Company is to achieve positive returns from capital appreciation and income generation. The primary purpose of the Company is to purchase, sell, hold, trade, structure, and restructure securities, commodities, other financial instruments, other interests, and any other real or personal property of any kind (including cash and cash equivalents). While the Company may pursue a variety of strategies and any other business or other activities which may or may not be related to each other, it focused predominantly on certain options-related strategies, including market making, during the year.

Nothing in this statement of financial condition or notes shall (a) create or imply any limit on the discretion of the Manager or (b) be deemed to modify any provisions of the Company's limited liability company agreement.

2. Significant Accounting Policies

The Company's statement of financial condition is prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP"), which may require management to use its judgment in making certain estimates. Such estimates relate primarily to the valuation of financial instruments when quoted market prices are not available, as discussed further below. It is expected that such estimates may differ from

Notes to Statement of Financial Condition (Continued)

December 31, 2014

2. Significant Accounting Policies (Continued)

the amounts ultimately realized due to the uncertainties inherent in any such estimation process, and the differences may be material.

The statement of financial condition of the Company is expressed in United States dollars.

The Company considers short-term, highly liquid investments that are readily convertible to known amounts of cash and having original maturities of three months or less, at the time of purchase, to be cash equivalents. This may include certain government securities and money market investments. Money market investments, if any, are carried at net asset value which approximates fair value. As of year-end, the Company's liquidity is maintained in cash equivalents and held by HSBC Bank USA N.A.

Receivables and payables (including those resulting from contractual commitments and cash or other collateral) are reported net by counterparty, provided that there is a legally enforceable netting agreement and the other requirements of U.S. GAAP have been satisfied.

Dividends are recorded on the ex-dividend date, and operating and other expenses, as well as interest income and interest expense, are recorded on an accrual basis.

Principal transactions in financial instruments are recorded on a trade date basis. It should be noted that "trade date" is the date when the Company believes that all material financial and other contractual terms and conditions are determined.

Substantially all of the Company's assets and liabilities are carried at fair value or recorded at contracted amounts that approximate fair value.

- a. Fair value is the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date ("Fair Value Measurement").

The Company determines the fair value of its assets and liabilities based on the fair value hierarchy established in Fair Value Measurement, which requires the Company to maximize the use of relevant observable inputs and minimize the use

Notes to Statement of Financial Condition (Continued)

December 31, 2014

2. Significant Accounting Policies (Continued)

a. (Continued)

of unobservable inputs when measuring the fair value of its assets and liabilities. Observable inputs are inputs that are developed using market data, such as publicly available information about actual events or transactions, and reflect the assumptions market participants would use when pricing an asset or liability. Unobservable inputs are inputs for which market data are not available and that are developed using the best information available about the assumptions market participants would use when pricing an asset or liability. The hierarchy gives the highest priority to observable inputs (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below.

i. Level 1: Financial instruments with unadjusted quoted market prices in active markets for identical assets or liabilities. Active markets may be, but are not limited to, recognized, established securities exchanges. Equities that are principally traded on a particular recognized, established securities exchange are generally valued at their "official closing" prices as determined by such exchange. Derivative financial instruments principally traded on a particular recognized, established securities exchange are generally valued at the last "bid" or "ask" price or at the mean between such prices, as such prices are reported by the established quotation system for that financial instrument or any other reputable source selected by the Company. Examples of Level 1 assets and liabilities include debt and equity securities and derivative financial instruments that are principally traded in active markets, as well as certain other financial instruments that are highly liquid and are actively traded in over-the-counter markets;

ii. Level 2: Financial instruments with valuations that have observable inputs other than Level 1 prices, such as quoted market prices for similar assets or liabilities; quoted market prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The fair value of financial instruments for which quoted market prices are not readily available may be determined based on other relevant factors, including dealer price quotations, the price activity of similar instruments, and valuation pricing models. Examples of Level 2 assets and liabilities include debt and equity securities with quoted market prices that are traded less frequently than exchange-traded securities or instruments cleared by a clearinghouse and derivative financial instruments whose values are determined

Notes to Statement of Financial Condition (Continued)

December 31, 2014

2. Significant Accounting Policies (Continued)

a. (Continued)

using pricing models with inputs that are observable in the market or can be derived principally from or corroborated by observable market data;

iii. Level 3: Financial instruments with valuations that have unobservable inputs that are significant to the determination of the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using certain market standard methodologies and inputs where independent pricing information cannot be obtained for a significant portion of the underlying assets or liabilities.

The pricing group (the "Pricing Group") of DESCO LP, an affiliated entity, determines the fair value of substantially all of the Company's investments. The Pricing Group is a unit of DESCO LP's financial operations department that is independent of DESCO LP's trading and portfolio management functions. The Pricing Group submits periodic analyses and findings to DESCO LP's Valuation Working Group ("VWG"), which comprises several senior managers, including DESCO LP's Chief Financial Officer, who manages the Pricing Group. The VWG meets on a periodic basis (primarily monthly with respect to Level 3 assets and liabilities, and quarterly with respect to any general valuation matters) to review the methodologies and findings of the Pricing Group and may discuss, among other things, significant enhancements or material exceptions to such pricing methodologies and findings. The VWG also reviews from time to time the Pricing Group's written valuation policies and the Pricing Group's assessment of the quality of pricing information obtained from third parties that is used in the valuation process.

- b. Financial instruments owned and financial instruments sold, but not yet purchased may include equity securities and certain derivative financial instruments such as options. All financial instruments are reflected on the statement of financial condition at fair value. The resulting net change in unrealized gains and losses on these equity securities and derivative financial instruments is reflected in member's capital on the statement of financial condition.

In the normal course of business, the Company has entered into certain contracts that provide a variety of indemnities. The Company's maximum exposure under these indemnities is generally unknown. However, no claims have been made under these indemnities in the past, and while there can be no assurances in this regard, the

Notes to Statement of Financial Condition (Continued)

December 31, 2014

2. Significant Accounting Policies (Continued)

Company is not aware of any such claims that may be made in the future. Therefore, the Company does not consider it necessary to record a liability for these indemnities under U.S. GAAP.

The Company accounts for the effect of uncertain tax positions in its statement of financial condition. The Company measures such tax positions against the more-likely-than-not threshold, based on whether those positions would be expected to be sustained if examined by the relevant tax authority. With respect to the tax positions that do not meet the more-likely-than-not threshold, the Company records a corresponding liability in the statement of financial condition, though no liabilities (or expenses), including interest and penalties, were deemed necessary for recording during the year. While there can be no assurances that the taxing authority in any jurisdiction will agree with the tax positions adopted by the Company, the Company does not expect that any assessments would be material to its financial position if a taxing authority did not agree with such positions.

3. Payable To Clearing Broker

The Company enters into transactions in financial instruments with one clearing broker pursuant to clearance agreements and other collateral arrangements that subject the Company to credit and liquidity risk. Clearance agreements permit the Clearing Broker to pledge or otherwise hypothecate the Company's securities and/or other positions, subject to certain limitations, typically based on the Company's margin borrowings. Substantially all financial instruments owned, as well as cash with the Clearing Broker, are held as collateral against various margin obligations and as collateral against financial instruments sold, but not yet purchased. The Clearing Broker may also liquidate such securities and/or other positions where required collateral is not posted on a timely basis.

4. Related Party Transactions

The Manager utilizes DESCO LP and other affiliates to provide (directly and/or indirectly) substantially all personnel, administrative functions, overhead, and other services to the Company. In consideration for providing these services and in accordance with the applicable operating documents, DESCO LP and other affiliates

Notes to Statement of Financial Condition (Continued)

December 31, 2014

4. Related Party Transactions (Continued)

are reimbursed by the Company. As of December 31, 2014, payable to affiliates include net amounts due to DESCO LP and other affiliates with respect to such charged amounts. Any receivables and/or payables resulting from the aforementioned related party transactions are due on demand

5. Regulatory Considerations and Net Capital Requirement

As a registered broker-dealer, the Company is subject to Rule 15c3-1 of the SEC, which specifies uniform net capital requirements for registered broker-dealers. The Company has elected the alternative net capital method permitted and as defined by Rule 15c3-1, which requires that it maintain minimum net capital, equal to the greater of \$250,000 or two percent of aggregate debit items arising from customer transactions.

At December 31, 2014, the Company had net capital, calculated based on SEC Rule 15c3-1 requirements, of approximately \$18.4 million, which exceeded the minimum requirement by approximately \$18.1 million.

Proprietary balances, if any, held at a Clearing Broker ("PAIB Assets") are considered allowable assets for net capital purposes, pursuant to an agreement between the Company and such Clearing Broker, which requires, among other things, that the Clearing Broker perform computations for PAIB Assets and segregate certain balances on behalf of the Company, if applicable.

6. Certain Financial Instruments, Associated Risks and Off-Balance-Sheet Risk

In the normal course of business, the Company enters into transactions in financial instruments sold, but not yet purchased for the purpose of hedging its exposure to market risk, and in connection with its normal investing activities. Risk in these transactions arises from changes in the fair value of the underlying financial instruments.

a. Financial Instruments Sold, But Not Yet Purchased

Financial instruments sold, but not yet purchased represent obligations to deliver specified financial instruments at contracted prices, thereby creating liabilities to purchase such financial instruments at some date in the future at then-prevailing market prices, thus subjecting the Company to market risk.

Notes to Statement of Financial Condition (Continued)

December 31, 2014

6. Certain Financial Instruments, Associated Risks and Off-Balance-Sheet Risk (Continued)

b. Derivative Financial Instruments

Derivative financial instruments contain varying degrees of off-balance-sheet risk, whereby the occurrence of certain credit events, or changes in interest rates, equity indices, or the fair value of the underlying financial instruments may result in losses in excess of any amounts reflected on the statement of financial condition. The specific types of derivative financial instruments traded by the Company are described as follows:

Option contracts written are derivative financial instruments that provide a counterparty with (a) the right, but not the obligation, to purchase or sell financial instruments at a specified price on or before a specified future date, or (b) the right to exchange cash flows based on the changes in the values of the financial instruments underlying the option contract. A premium is received by the option contract writer in exchange for bearing the risk of unfavorable changes in the values of the financial instruments underlying the option contract.

The following table identifies the fair value of the Company's derivative assets, and derivative liabilities, and their average notional amounts (which management believes is an indication of volume), each on a gross basis, categorized by each derivative financial instrument's primary underlying risk, as determined by management. At December 31, 2014, the fair value of the Company's derivative financial instruments was as follows (in thousands):

Notes to Statement of Financial Condition (Continued)

December 31, 2014

6. Certain Financial Instruments, Associated Risks and Off-Balance-Sheet Risk (Continued)**b. Derivative Financial Instruments (Continued)**

<i>Primary Underlying Risk Exposure</i>	<i>Derivative Assets</i>	<i>Derivative Liabilities</i>	<i>Gross Average Notional Amounts</i>
Equity Contracts			
Exchange Traded	\$ <u>65,264</u>	\$ <u>(55,692)</u>	\$ <u>2,435,760</u>
Total Derivatives, Gross			
Counterparty Netting	<u>-</u>	<u>-</u>	
Fair Value	65,264	(55,692)	
Collateral Received/Paid	<u>(40,604)</u>	<u>35,541</u>	
Total Derivatives, Net	<u>24,660</u>	<u>(20,151)</u>	

The fair value amounts in the table above are presented gross on the statement of financial condition as either financial instruments owned or financial instruments sold, but not yet purchased. The derivative financial instruments included in the table above, are subject to netting agreements, however, they are presented gross because management has either (i) made an election not to net, (ii) not yet determined the relevant agreement to be enforceable, or (iii) determined the relevant netting agreement is not enforceable.

Due to the fact that the Company receives or posts cash collateral pursuant to cross margining arrangements under its agreements with its clearing broker, the cash collateral received/paid amount presented in the table above is an amount calculated to represent the amount of collateral associated with each derivative financial instrument, limited to the fair value of the instrument in accordance with U.S. GAAP (and thus does not represent the total aggregate cash collateral received/paid that is associated with the instrument).

Notes to Statement of Financial Condition (Continued)

December 31, 2014

6. Certain Financial Instruments, Associated Risks and Off-Balance-Sheet Risk (Continued)

b. Derivative Financial Instruments (Continued)

While, individually, these derivative financial instruments carry the risks referred to above, the measurement of risk associated with these instruments is meaningful only when all related and offsetting transactions used to limit (though not eliminate) certain risks to the Company are identified. In any case, it should be noted that the Company's exposure to credit risks associated with counterparty nonperformance on these instruments is limited to the fair value of such contracts (as well as any cash or other collateral on such contracts). It is the Company's policy to monitor its exposure to credit risks, to pledge collateral where deemed necessary, and to obtain collateral where permitted and deemed necessary.

7. Fair Value Measurements

Based upon the fair value hierarchy established in Fair Value Measurements, the Company's assets and liabilities that are recorded at fair value have been categorized, as discussed further in Note 2.

Notes to Statement of Financial Condition (Continued)

December 31, 2014

7. Fair Value Measurements (Continued)

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value as of year-end.

	<i>(in thousands)</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	
<i>Assets</i>					
Cash Equivalents	\$ 5,065	\$ -	\$ -	\$ 5,065	
<i>Financial Instruments Owned</i>					
Common Stock	55,156	-	-	55,156	
Options	<u>53,411</u>	<u>11,853</u>	<u>-</u>	<u>65,264</u>	
Assets, at Fair Value	<u>\$ 113,632</u>	<u>\$ 11,853</u>	<u>\$ -</u>	<u>\$ 125,485</u>	
<i>Liabilities</i>					
<i>Financial Instruments Sold, but Not Yet Purchased</i>					
Common Stock	\$ 8,039	\$ -	\$ -	\$ 8,039	
Options	<u>46,884</u>	<u>8,808</u>	<u>-</u>	<u>55,692</u>	
Liabilities, at Fair Value	<u>\$ 54,923</u>	<u>\$ 8,808</u>	<u>\$ -</u>	<u>\$ 63,731</u>	

8. Commitments, Contingencies and Guarantees

In the normal course of business, the Company may trade and hold certain derivative financial instruments, such as written put options which may constitute guarantees. As of year-end, the Company holds written put option contracts with expiration dates ranging from January 2015 to January 2017. The Company's maximum payout for each written put option is limited to the notional amount of the relevant option, which in the aggregate was \$449.9 million. Maximum payouts may be offset by the subsequent sale, of assets received by the Company in the settlement of the relevant written put option. The aggregate fair value of the Company's written put options amounted to \$24.2 million.

Notes to Statement of Financial Condition (Continued)

December 31, 2014

8. Commitments, Contingencies and Guarantees (Continued)

While individually written put options carry the risks referred to above, the measurement of risk associated with these instruments is meaningful only when all related and offsetting transactions used to limit (though not eliminate) certain risks to the Company are identified.

9. Subsequent Events

The Company has evaluated events subsequent to December 31, 2014 through February 25, 2015, the date the statement of financial condition was available to be issued, and there is nothing material to disclose.