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

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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 01/01/2016 AND ENDING 12/31/2016  
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 Floor

(No. and Street)  
New York NY 10006  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
CHRISTOPHER SETARO 212-381-6440  
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

ERNST & YOUNG

(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.

FOR OFFICIAL USE ONLY	

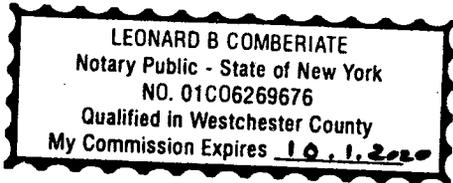
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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**AFFIRMATION**

I, Christopher Setaro, 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 December 31, 2016, are true and correct. I further swear (or affirm) that neither the company or any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:



  
\_\_\_\_\_  
Signature

\_\_\_\_\_  
Chief Compliance Officer  
Title

  
\_\_\_\_\_  
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).**

Nasdaq Execution Services, LLC

Statement of Financial Condition

December 31, 2016

**Contents**

Facing Page and Oath or Affirmation

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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  
ey.com

## 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, 2016. 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 Nasdaq Execution Services, LLC at December 31, 2016, in conformity with U.S. generally accepted accounting principles.

*Ernst & Young LLP*

February 28, 2017

Nasdaq Execution Services, LLC

Statement of Financial Condition

December 31, 2016

**Assets**

Cash	\$ 11,545,028
Deposits with clearing organizations	1,008,280
Receivable from Nasdaq, Inc.	2,098,736
Goodwill	5,569,073
Deferred tax assets	1,113,065
Other assets	297,208
Total assets	<u>\$ 21,631,390</u>

**Liabilities and member's equity**

Liabilities:

Accrued routing fees	\$ 1,948,659
Accrued compensation and benefit costs	182,378
Accounts payable	183,595
Total liabilities	<u>2,314,632</u>
Member's equity	<u>19,316,758</u>
Total liabilities and member's equity	<u>\$ 21,631,390</u>

*See accompanying notes to the Statement of Financial Condition.*

# Nasdaq Execution Services, LLC

## Notes to Statement of Financial Condition

December 31, 2016

### **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”). Nasdaq, Inc. (“NASDAQ”) is a holding company that operates the Exchange as its wholly owned subsidiary. The Exchange provides NASDAQ’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.

The Company currently operates as the routing broker-dealer for affiliate exchanges sending orders to other venues for execution in accordance with member order instructions and requirements. Affiliate exchanges include the Exchange, Nasdaq BX, Inc. (“BX”) and Nasdaq PHLX, LLC (“PHLX”).

The Company clears all equity trading activity through the NASDAQ Stock Market Omnibus Account (“Omnibus Account”) as the central facilitating account on the Exchange. This Omnibus Account is granted by the National Securities Clearing Corporation (“NSCC”) to NASDAQ under the Exchange’s membership at the NSCC. The Omnibus Account exists strictly to facilitate anonymity and to match offsetting trades on the Exchange. The Company also clears all routed trading activity in options listed on the Exchange, PHLX, and BX directly with the Options Clearing Corporation (“OCC”). All routed and executed trades are sent to the OCC by the exchange on which the trade was executed or by the Exchange.

The Company is strictly a routing broker, relying on the executing party or venue, another broker operating an electronic communications network, alternative trading system (“ATS”), 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, may still be handled manually via the Automated Confirmation Transaction Service (“ACT”). 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 basis.

The Company began routing options as of March 24, 2014, and became the sole routing broker for NASDAQ’s equities and options exchanges in the U.S.

# Nasdaq Execution Services, LLC

## Notes to Statement of Financial Condition (continued)

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

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 MKT, Chicago Stock Exchange, the BATS Z-Exchange, Inc., the National Stock Exchange, EDGA Exchange, EDGX Exchange, and the BATS Y-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 (“U.S. GAAP”), as codified in the Accounting Standards Codification (“ASC”) and set forth by the Financial Accounting Standards Board (“FASB”).

#### **Use of Estimates**

The preparation of the Company’s Statement of Financial Condition, in conformity with U.S. GAAP, 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. Actual results could differ from those estimates.

#### **Cash**

The Company’s cash is held by two financial institutions in non-interest-bearing accounts which, at times, may exceed federally insured limits.

#### **Deposits with Clearing Organizations**

The deposits with clearing organizations primarily represent cash balances held at the NSCC and OCC for settlement of trades and funds held at the Depository Trust and Clearing Corporation (“DTCC”) to satisfy obligations of the Company or DTCC as provided in DTCC’s rules.

## Nasdaq Execution Services, LLC

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

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

##### Goodwill

Goodwill represents the excess of purchase price over the value assigned to the net assets, including identifiable intangible assets, of a business acquired. Goodwill is assessed for impairment annually in the fourth quarter of our fiscal year using carrying amounts as of October 1, or more frequently if conditions exist that indicate that the asset may be impaired, such as changes in the business climate, poor indicators of operating performance or the sale or disposition of a significant portion of a reporting unit. When assessing goodwill for impairment, first, qualitative factors are assessed to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the results of the qualitative assessment are not conclusive, a quantitative goodwill test is performed. The quantitative goodwill test consists of two steps:

- The first step compares the fair value of each reporting unit with its carrying amount, including goodwill. If the reporting unit's fair value exceeds its carrying amount, goodwill is not impaired.
- If the fair value of a reporting unit is less than its carrying amount, the second step of the goodwill test is performed to measure the amount of impairment, if any. An impairment is equal to the excess of the carrying amount of goodwill over its fair value.

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, 2016. However, events such as economic weakness and unexpected significant declines in operating results may result in goodwill impairment charges in the future.

##### Other Assets

Included within Other assets on the Statement of Financial Condition is an equity investment in the DTCC, which is accounted for at cost, as the Company owns less than 20% of the outstanding voting stock, there is no readily determinable fair value of these securities and we are not able to exercise significant influence over the operating and financial policies of the DTCC.

# Nasdaq Execution Services, LLC

## Notes to Statement of Financial Condition (continued)

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

#### 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 liquidate the positions the following trade day, resulting in limited market risk to the Company. Realized gains and losses are recognized on a trade date basis and are recorded in earnings. At December 31, 2016, the Company owned no securities and there were none sold during the year.

#### Revenues and Clearing, Execution and Exchange Fees

The Company receives fees from the Exchange, BX and PHLX for providing trade routing services. The billing structure for this arrangement is defined by services agreements entered into between the Company and the Exchange, BX and PHLX (collectively, the "Services Agreements"). Fees are billed on a monthly basis and accrued when earned on a trade date basis.

The Company incurs clearing, execution and exchange fees for routed transactions. These fees are accrued when incurred on a trade date basis. These expenses include NSCC fees, OCC fees, DTCC fees, clearing costs, exchange fees, annual membership fees and certain technology related costs. The Company agrees to pay all expenses for routing services provided to the Exchange, BX and PHLX.

#### Income Taxes

The Company's operating results are included in the federal, state and local income tax returns filed by NASDAQ. The Company uses the asset and liability method to provide income taxes on all transactions recorded in the consolidated NASDAQ 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 are expected to 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 earnings.

## Nasdaq Execution Services, LLC

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

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

##### Recently Issued Accounting Pronouncements

For the year ended December 31, 2016, the Company has not adopted any new accounting pronouncements that had a material impact on its Statement of Financial Condition.

In May 2014, FASB released Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers” which supersedes the revenue recognition guidance in ASC “Revenue Recognition”. The new revenue recognition standard sets forth a five-step revenue recognition model to determine when and how revenue is recognized. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration it expects to receive in exchange for those goods or services. The standard also requires more detailed disclosures. The standard provides alternative methods of initial adoption. On July 9, 2015, the FASB approved the deferral of the effective date of the new revenue recognition standard by one year. The effective date is January 1, 2018, with early adoption permitted. The Company does not expect the adoption of this standard to have a material effect on the Statement of Financial Condition.

#### 3. Related-Party Transactions

As discussed in Note 1, the Company operates solely as the routing broker-dealer for the Exchange, BX and PHLX. Under intercompany services 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, OCC fees, clearing costs, exchange fees, annual membership fees and certain technology related costs.

The Exchange, PHLX and BX also each paid the Company an additional 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.

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, 2016, the Company was also charged by NASDAQ for additional support services under the Intra-group services agreement. This agreement covers additional costs for personnel support.

Substantially all expenses of the Company are settled on the Company’s behalf by NASDAQ and the Exchange and are charged to the Company, at cost, through intercompany charges. The Company routes trades between the Exchange BX and PHLX.

## Nasdaq Execution Services, LLC

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

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

At December 31, 2016, \$2,098,736 remained in Receivables from Nasdaq, Inc. All affiliates are ultimately wholly-owned by NASDAQ. It is the intent and ability of management to settle all intercompany balances between NASDAQ and its wholly-owned subsidiaries, such as the Company and the Exchange, on a net basis, as NASDAQ serves as the master financing entity for all wholly-owned subsidiaries. In addition, all intercompany transactions are guaranteed by NASDAQ and are settled on a periodic basis. The Company records all transactions to and from affiliates, including tax, 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.

#### 4. Income Taxes

The Company's operating results are included in the federal, state and local income tax returns filed by NASDAQ. For income tax purposes, the Company is disregarded as an entity separate from its owner, NASDAQ, pursuant to U.S. Income Tax Regulations Sec. 301.7701-3(b)(1)(ii). As a single-member LLC, the Company records taxes on a separate company basis as if it were a separate taxpayer. With respect to each taxable period for which a consolidated or unitary return is filed by NASDAQ, which includes the Company, NASDAQ 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.

As of December 31, 2016, the net deferred tax asset balance is \$1,113,065. This amount primarily relates to the amortization of taxable 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.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, as of December 31, 2016, is as follows:

Beginning balance	\$ 34,731
Additions (reductions) as a result of tax positions taken in prior periods	8,387
Additions as a result of tax positions taken in the current period	14,569
Ending balance	<u>\$ 57,687</u>

The Company recognized \$906 in interest related to income taxes for the year ended December 31, 2016. The Company accrued \$1,650 as of December 31, 2016 for interest, net of tax effect.

## Nasdaq Execution Services, LLC

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

#### **4. Income Taxes (continued)**

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. Federal income tax returns for the years 2011 through 2015 are subject to examination by the Internal Revenue Service. Several state tax returns are currently under examination by the respective tax authorities for the years 2005 through 2014, and the Company is subject to examination for 2015.

#### **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, 2016, the Company had net capital of \$10,231,176, which was \$9,981,176 in excess of its required minimum net capital of \$250,000.

The Company is also subject to The Options Clearing Corporation Rule 302 which requires maintenance of net capital equal to the greater of \$2,000,000 or 6 2/3 percent of aggregate indebtedness. At December 31, 2016, the Company had \$8,231,176 of net capital in excess of this minimum requirement.

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 Rule 15c3-3 under the Securities Exchange Act of 1934 pursuant to paragraph (k)(2)(ii) because the Company is self-clearing all transactions and does not hold customer funds or safekeeping customer securities.

#### **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.

## Nasdaq Execution Services, LLC

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

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

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.

#### **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. Management is not aware of any material adverse effect on the financial position and the results of operations of the Company resulting from these risks.

Cash is held by two financial institutions. In the event that either of the financial institutions 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 financial institutions to be delayed or limited.

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

The Company's financial assets and financial 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 affiliates, 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.