

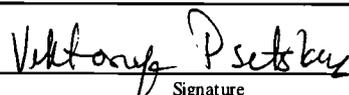


## OATH OR AFFIRMATION

I, Viktoriya Pisetskaya, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Genesis Global Trading, Inc. as of December 31, 2017, 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:

None

  
Notary Public

  
Signature  
Chief Financial Officer  
Title

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (e) Statement of Cash Flows
- (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, or statement, 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) Other

**SIMCHA WURTZEL**  
**NOTARY PUBLIC-STATE OF NEW YORK**  
**No. 01WU6263948**  
**Qualified in Queens County**  
**My Commission Expires June 25, 2020**

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

# FRIEDMAN LLP®

ACCOUNTANTS AND ADVISORS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholder  
of Genesis Global Trading, Inc.

### Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Genesis Global Trading, Inc. as of December 31, 2017, and the related notes (collectively referred to as the financial statement). In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of Genesis Global Trading, Inc. as of December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

This financial statement is the responsibility of Genesis Global Trading, Inc.'s management. Our responsibility is to express an opinion on Genesis Global Trading, Inc.'s financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to Genesis Global Trading, Inc. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

### Emphasis of Matter - Digital Currency Activities

In forming our opinion we have considered the adequacy of the disclosures included in Note 12 to the financial statements concerning among other things the risks and uncertainties related to Genesis Global Trading, Inc.'s digital currency activities. The risks and rewards to be recognized by Genesis Global Trading, Inc. associated with its investments in digital currencies will be dependent on many factors outside of Genesis Global Trading, Inc.'s control. The currently unregulated and immature nature of the digital currency markets, including clearing, settlement, custody and trading mechanisms, the dependency on information technology to sustain digital currency continuity, as well as valuation and volume volatility all subject digital currencies to unique risks of theft, loss, or other misappropriation. Furthermore, these factors also contribute to the significant uncertainty with respect

to the future viability and value of digital currencies. Our opinion is not modified with respect of this matter.

*Friedman LLP*

We have served as Genesis Global Trading, Inc.'s auditor since 2015.

East Hanover, New Jersey  
April 23, 2018

**Genesis Global Trading, Inc.**  
**Statement of Financial Condition**  
**December 31, 2017**

**Assets**

Cash and cash equivalents	\$ 47,740,031
Cash held as collateral	23,276,250
Cash segregated under federal regulation	1,525,005
Receivable from clearing broker	623,023
Receivable from other third parties	9,271,913
Securities owned, at fair value	852,581
Investments in digital currencies, at fair value	128,717,096
Investments in digital currency trusts, at fair value	93,423,843
Digital currency loans, at fair value	56,123,305
Property and equipment at cost, net	42,176
Prepaid expenses and other assets	67,040
<b>Total assets</b>	<u><u>\$361,662,263</u></u>

**Liabilities and stockholder's equity**

Liabilities:

Collateral payable	\$ 23,276,250
Due to customers	1,525,005
Accounts payable and accrued expenses	6,931,006
Accrued bonus	16,835,865
Income taxes payable	20,282,680
Deferred tax liability	76,146,974
	<u>144,997,780</u>

Commitments and contingencies

Stockholder's equity:

Common stock, \$0.01 par value; 100,000 shares authorized, issued and outstanding	1,000
Additional paid-in capital	18,172,385
Retained earnings	198,491,098
Total stockholder's equity	<u>216,664,483</u>
<b>Total liabilities and stockholder's equity</b>	<u><u>\$361,662,263</u></u>

*See notes to the Statement of Financial Condition.*

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition**  
**December 31, 2017**

**1. Nature of Business**

Genesis Global Trading, Inc. (the “Company”) was formed under the laws of the State of Delaware on June 8, 2005. The Company is an introducing broker-dealer, headquartered in New York and is registered with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority, Inc. (“FINRA”). The Company provides a marketplace for transactions in esoteric assets, including auction-rate securities. The Company’s activities also include trading digital currencies, including bitcoin (“BTC”), ethereum (“ETH”), ethereum classic (“ETC”), ripple (“XRP”), litecoin (“LTC”), bitcoin cash (“BCH”), bitcoin gold (“BTG”), and zcash (“ZEC”) on a proprietary basis and serving as an authorized participant for the Bitcoin Investment Trust (“BIT”), the Ethereum Classic Investment Trust (“ECIT”), the Ethereum Investment Trust (“ETHIT”) and the zCash Investment Trust (“ZCIT”), collectively the Trusts. The Trusts are private, open ended-trusts that are invested exclusively in bitcoin, ethereum classic, ethereum, and zcash. The Trusts are sponsored by Grayscale Investments, LLC (“Grayscale”), an affiliate of the Company. The Company is a wholly owned subsidiary of Digital Currency Group, Inc. (the “Parent”). The Company also extends loans of digital currencies to counterparties.

**2. Summary of Significant Accounting Policies**

These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The following is a summary of significant accounting policies followed by the Company:

**Use of Estimates**

Management uses estimates and assumptions in preparing the Statement of Financial Condition. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

**Investments in Digital Currencies**

The Company uses fair value as its method of accounting for digital currencies in accordance with Accounting Standards Codification (“ASC”) 825. The Company considers its investments in digital currencies to be analogous to commodities as the Commodity Futures Trading Commission (“CFTC”) determined that bitcoin and other digital currencies are commodities in September 2015. On March 6, 2018, a United States District Court of New York ruled that the Commodity Futures Trading Commission (“CFTC”) has standing to exercise its enforcement power over fraud related to virtual currencies sold in interstate commerce. This ruling affirmed the CFTC’s position that digital currencies are subject to the anti-fraud and anti-manipulation enforcement authority, thereby asserting jurisdiction over futures, swaps and other CFTC

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

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

regulated derivatives that reference digital currencies. Consistent with the recent ruling, the Company classifies its investment in digital currencies as commodities.

In determining which of the eligible digital currency exchanges is the Company's principal market, the Company reviews these criteria in the following order:

First, the Company prepares a list of eligible digital currency exchanges and determines if any meet all of the following three criteria: (i) the digital currency exchange has digital currency/USD pairing to allow for USD liquidation to U.S. based customers, (ii) the Company has access to the exchange as a U.S. based customer and can legally open an account on the exchange platform, and (iii) the exchange complies with federal and state licensing requirements and practices regarding anti-money laundering procedures that are applicable to the Company. From the list of eligible digital currency exchanges prepared in accordance with the eligibility criteria noted above, the Company selects the exchange with the highest trading volume for digital currency/USD pairing for the trailing twelve months taking into consideration intra-day pricing fluctuations and the degree of variances in price on digital currency exchanges.

Second, if no digital currency exchange meets all of the above criteria, the Company will filter each exchange that has a digital currency/USD pairing, regardless of whether it is accessible to U.S. based customers. From this list, the Company selects the exchange with the highest trading volume for digital currency/USD pairing for the trailing twelve months taking into consideration intra-day pricing fluctuations and the degree of variances in price on digital currency exchanges.

Third, if there are no exchanges with a digital currency/USD pairing, the Company will assess exchanges for compliance with federal and state licensing requirements that are applicable to the Company. The Company also assesses each exchange's practices regarding anti-money laundering procedures. The Company then identifies the pairing with the highest trading volume to the digital currency with the highest market capitalization for the prior twelve months taking into consideration intra-day pricing fluctuations and the degree of variances in price on digital currency exchanges.

The Company determines its principal market annually to determine if (i) there have been recent changes to each digital currency exchange's transaction volume in the prior twelve months, (ii) if any digital currency exchanges have fallen out of, or come into, compliance with applicable regulatory requirements, (iii) if there have been any exchanges that have added a digital currency/USD pairing, and (iv) if recent changes to each digital currency exchange's price stability have occurred that would materially impact the selection of the principal market and necessitate a change in the Company's determination of its principal market.

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

### **Digital Currency Network Forks and Airdropped Tokens**

When a proposed modification to the digital currency network is not accepted by the vast majority of miners and users but is nonetheless accepted by a substantial population of participants in the network, a “fork” in the blockchain occurs, resulting in two separate digital currency networks. A “hard fork” is a software upgrade that introduces a new rule to the network that is not compatible with the older software, while a “soft fork” is any change that is backward compatible. Holders of digital currency on the original digital currency network, at the time the block is mined and the fork occurs, can then also receive an identical amount of new tokens on the new network. The Company records network forked tokens at the estimated fair value on the date of the fork. The Company measures the fair value of these tokens at the time a liquid market is established.

On occasion, the Company is in receipt of an airdrop campaign. Airdrop is an involuntary event when the creators of the new token sends the token to numerous wallet addresses. The endholders of the new tokens have the option to abandon them or to sell them. The Company does not record receipt of the tokens as a realizable event, until they are disposed of.

### **Digital Currency Loans**

The Company extends loans of digital currency to numerous counterparties. These are contractual agreements where the Company earns interest income, payable in the lent out token, on these loans.

The Company does not recognize its digital currency loans extended as sale transactions defined by ASC 860. Upon the maturity of a digital currency loan, the Company expects to receive back the same amount and type of digital currency it originally extended as a loan. The Company at any time has discretion to call back an outstanding loan to be repaid in the original digital currency extended. The Company segregates digital currency loans from the trading inventory and measures them at fair value each reporting period.

The Company records interest income on digital currency loans in the same token in which in which the loan was issued. The Company uses the 4PM EST rates of the principal market to convert the value to a USD denomination.

The Company holds collateral related to digital currency loans outstanding in segregated, non-interest bearing, bank accounts for the benefit of the borrower. These accounts are not deemed to be accounts related to customer activity and do not fall into the jurisdiction of SEC rules 15c3-3. These funds are segregated at the Company’s discretion. Deposits held as collateral are recorded as Cash held as collateral and Collateral payable on the statement of financial condition.

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

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

The Company evaluates digital currency loans for potential reserves based upon historical repayments from counterparties, as well as ongoing review of counterparty default risk.

The Company claims the rights to all new tokens that result out of a hard fork event. The borrowers of these loans are obligated to return the forked token to the Company.

**Investments in Digital Currency Trusts**

As an authorized participant of the Trusts, the Company may be required to purchase shares so that each transaction rounds to the next 100 shares. Additionally, the Company made certain investments in the ECIT, ZCIT, and ETHIT outside of its role as authorized participant. These shares are subject to a twelve month restriction period and cannot be sold until the restricted period is lifted. As a practical expedient, investments in digital currency trusts are carried at net asset value on the Statement of Financial Condition.

**Securities Owned, at Fair Value**

The Company records securities transactions on trade date basis. Securities owned are held at fair value.

**Cash, Restricted Cash and Cash Equivalents**

Cash and cash equivalents include short-term highly liquid investments with original maturities of three months or less and money market accounts. The Company classifies any cash or investments that collateralize outstanding digital currency loans as restricted cash even though not contractually obligated.

**Concentrations of Credit Risk for Cash**

The Company maintains its cash balances at various financial institutions. These balances are insured by the FDIC subject to certain limitations. The Company routinely maintains balances in excess of these limits.

**Cash Segregated Under Federal Regulations**

Pursuant to the exemptive provisions of sub-paragraph (k)(2)(i) of SEC Rule 15c3-3, the Company is permitted to hold customer funds received in connection with privately negotiated securities transactions. At December 31, 2017, the Company held \$1,525,005 of customer funds which were segregated in a special account for the exclusive benefit of customers of the Company.

The Company holds collateral related to digital currency loans outstanding in segregated, non-interest bearing, bank accounts for the benefit of the borrower.

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

These accounts are not deemed to be accounts related to customer activity and do not fall into the jurisdiction of SEC rules 15c3-3. These funds are segregated at the Company's discretion. Deposits held as collateral is recorded as cash held as collateral with an offsetting liability on the Statement of Financial Condition.

### **Receivable from Other Third Parties**

Receivable from other third parties consists primarily of cash balances held at digital currency exchanges as well as funds receivable for unsettled trades of digital currencies at December 31, 2017. For the purpose of computing the Company's net capital calculation in accordance with SEC Rule 15c3-1, the Company considers receivables from other third parties to be a non-allowable asset. Receivables are recorded at their contractual amount, subject to an allowance for uncollectible amounts, if collection is not deemed probable. Management has determined that no allowance is required at December 31, 2017.

### **Fair Value**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date.

In determining fair value, the Company uses various valuation methods. The accounting standards establish a fair value hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are those that market participants would use in pricing the asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's assumptions about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The fair value hierarchy is categorized into three levels based on the inputs as follows:

- Level 1 – Valuations based on unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.
- Level 2 – Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

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

The availability of valuation techniques and observable inputs can vary from investment to investment and is affected by a wide variety of factors including, the type of investment, whether the investment is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Those estimated values do not necessarily represent the amounts that may be ultimately realized due to the occurrence of future circumstances that cannot be reasonably determined.

Because of the inherent uncertainty of valuation, estimated values may be materially higher or lower than the values that would have been used had a ready market for the securities existed. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for securities categorized in Level 3. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls, is determined based on the lowest level input that is significant to the fair value measurement.

**Property and Equipment, Net**

Property and equipment is stated at cost less accumulated depreciation. The Company provides for depreciation as follows:

	<b>Estimated Useful Life</b>	<b>Principal Method</b>
<b>Asset</b>		
Computer hardware and software	3 years	Straight Line
Communication systems	5 years	Straight Line
Furniture and fixtures	5 years	Straight Line

**Prepaid Expenses and Other Assets**

Prepaid expenses and other assets primarily include prepaid amounts relating to various dues and subscriptions, as well as amounts paid to regulators.

**Income Taxes**

The Company is included in the consolidated federal income tax return with its Parent, as well as various combined state and local income tax returns with its Parent and DCG Holdco Inc. ("Holdco"). Income taxes are calculated on a separate return basis in accordance with a tax sharing agreement between the Company and its Parent.

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

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

The Company recognizes deferred income tax assets and liabilities for the expected future tax consequences of events on the financial statements in accordance with ASC 740, *“Income Taxes”*. Under this accounting standard, deferred income tax assets and liabilities are based on the differences between book value of assets and liabilities on the balance sheet and tax bases of assets and liabilities, by applying the enacted statutory tax rates in effect for the years when the differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that, in the opinion of Management, is “more-likely-than-not” to be realized.

Under ASC 740-10-25, guidance on accounting for uncertainty in income tax positions describes how uncertain tax positions should be recognized, measured, presented and disclosed in the financial statements. The guidance requires the Company to determine whether a tax position is “more-likely-than-not” to be sustained upon examination, including resolution of any related appeals or litigation process, based on the technical merits of the position. For tax positions meeting the “more-likely-than-not” threshold, the tax benefit recognized in the financial statements is the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement with the relevant taxing authorities.

The Company’s policy is to accrue interest and penalties associated with unrecognized tax benefits, if applicable, in Income taxes payable in the Statement of Financial Condition.

**Recently Issued Accounting Pronouncements**

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments, which addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The standard requires equity investments that are not accounted for under the equity method of accounting to be measured at fair value with changes recognized in net income and also updates certain presentation and disclosure requirements. The amendments in this update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of this ASU is not expected to have a material impact on the Company’s results of operations or the Company’s financial position.

In February 2016, the FASB issued ASU No. 2016-02, Leases, which creates ASC 842, Leases. This guidance requires a lessee to account for leases as finance or operating leases. Both types of leases will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its statement of financial condition. The new guidance will be effective for the Company beginning January 1, 2019, with early adoption permitted. The Company expects to record a right-of-use asset and related lease liability upon the adoption of ASU 2016-02.

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

**3. Investments, at Fair Value**

Investments owned primarily consist of digital currencies, shares of the various digital currency trusts, and digital currency loans. Securities owned consists of equities and auction rate securities. As of December 31, 2017, shares of the Trusts are not redeemable.

The following table presents information about the Company's assets and liabilities measured at fair value as of December 31, 2017:

	Quoted Prices in Active Markets Identical Assets (Level 1)	Significant Observable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value Amount	Balance as of December 31, 2017
Equities	\$ -	\$ -	\$ 4,680	\$ -	\$ 4,680
Auction rate securities	-	-	847,901	-	847,901
Investments in digital currencies	-	128,717,096	-	-	128,717,096
Digital currency loans	-	56,123,305	-	-	56,123,305
Digital currency trusts	-	-	-	93,423,843	93,423,843
	<u>\$ -</u>	<u>\$ 184,840,401</u>	<u>\$ 852,581</u>	<u>\$ 93,423,843</u>	<u>\$ 279,116,825</u>

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**

	Auction Rate		
	Equities	Securities	Total
Balance at January 1, 2017	\$ 4,680	\$ 229,000	\$ 233,680
Purchases	-	23,757,408	23,757,408
Sales	-	(23,138,507)	(23,138,507)
Balance at December 31, 2017	<u>\$ 4,680</u>	<u>\$ 847,901</u>	<u>\$ 852,581</u>

The following table summarizes the quantitative inputs and assumptions used for items categorized in Level 3 of the fair value hierarchy as of December 31, 2017.

Asset	Fair Value 12/31/2017	Valuation Methodology	Unobservable Inputs
Auction rate securities	\$ 847,901	Market Comparables	Discount rate of 3% - 9%

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

**4. Digital Currency Activities**

As of December 31, 2017, the Company held the following digital currencies:

Digital Currency	Principal Market	As of December 31, 2017			As of April 19, 2018	
		Tokens Held	Cost	Value per Token	Fair Value	Fair Value per Token
BTC	GDAX	3,986.13	\$ 576,395	\$ 14,168.54	\$ 56,477,675	\$ 8,248.80
ETH	GDAX	161.98	258,569	\$ 750.11	121,502	\$ 557.11
LTC	GDAX	2,592.10	646,542	\$ 234.40	607,588	\$ 145.50
XRP	Bitstamp	29,232.14	11,481	\$ 1.98	57,880	\$ 0.74
BCH	Bitstamp	8,900.70	1,043	\$ 2,430.46	21,632,802	\$ 965.88
ETC	Bitfinex	1,838,766.65	8,298,981	\$ 26.52	48,631,492	\$ 18.11
BTG	Bitfinex	1,662.75	113,127	\$ 235.96	392,342	\$ 58.42
ZEC	Bitfinex	1,635.06	929,480	\$ 486.72	795,815	\$ 258.74
			<u>\$ 10,835,618</u>		<u>\$128,717,096</u>	

For the purposes of computing net capital with the Uniform Net Capital Rule 15c3-1, the Company treats investments in digital currencies as non-allowable assets.

On August 1, 2017 and October 24, 2017, hard forks in the Bitcoin Blockchain occurred and the Company came into possession of rights to acquire Bitcoin Cash and Bitcoin Gold, respectively.

**5. Digital Currency Loans**

The Company entered into multiple loan agreements with counterparties. The agreements provide for the Company to extend interest bearing loans of digital currencies, at its discretion, with various maturity dates. The Company receives the payment of loan interest monthly, in arrears, in the respective digital currency.

As of December 31, 2017 the Company determined that no reserve for default was necessary based on historical activity and management's assessment. To mitigate operational risk, the Company requires certain counterparties to post collateral in excess of the fair value of loans. The Company monitors the fair value of digital currencies and requests additional or repays excess collateral based on the value of the underlying digital currencies loaned on a regular basis.

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

**5. Digital Currency Loans (continued)**

As of December 31, 2017, the Company held digital currency loans at fair value as detailed below:

<u>Type of Digital Currency</u>	<u>Tokens loaned</u>	<u>Fair Value of Loan</u>
BTC	3,926.33	\$ 55,630,364
ETH	300.00	225,033
ZEC	278.00	135,308
ETC	5,000.00	132,600
		<u>\$ 56,123,305</u>

**6. Net Capital Requirements and Exemption from SEC Rule 15c3-3**

The Company is subject to the SEC's Uniform Net Capital Rule 15c3-1. This rule requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$250,000 or two percent of aggregate debit balances arising from customer transactions, as defined. This rule also provides that equity capital may not be withdrawn, or cash dividends paid if the resulting net capital would be less than five percent of aggregate debits. At December 31, 2017, the Company had net capital of \$16,856,605 which was \$16,606,605 in excess of its minimum requirement of \$250,000.

The Company claims exemptions from SEC Rule 15c3-3 pursuant to the exemptive provisions under sub-paragraph (k)(2)(i) and (k)(2)(ii). Pursuant to the exemptive provisions of sub-paragraph (k)(2)(i), the Company is permitted to hold customer funds received in connection with privately negotiated securities transactions. The Company maintains a "Special Account for the Exclusive Benefit of Customers of Genesis Global Trading, Inc." for such customer funds received.

The Company also claims exemptions from the provisions of sub-paragraph (k)(2)(ii) as an introducing broker or dealer that carries no customer accounts, promptly transmits any customer funds and securities to the clearing broker or dealer, and does not otherwise hold funds or securities of customers. Cash held as collateral is not restricted or deemed to be customer assets.

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

**7. Income Taxes**

Temporary differences accumulate in deferred income tax balances and are recorded as deferred tax assets and deferred tax liabilities. At December 31, 2017, the components of deferred tax assets and liabilities were as follows:

<b>Deferred tax assets</b>	
Compensation and benefits	\$ 2,360,564
Depreciation and amortization	33,451
	<u>2,394,015</u>
<b>Deferred tax liabilities</b>	
Unrealized gains	(78,520,325)
Prepaid expenses	(20,664)
	<u>(78,540,989)</u>
Net deferred tax liability	<u>\$ (76,146,974)</u>

Deferred tax assets at December 31, 2017, were not reduced by a valuation allowance due to the Company's determination that, based on the weight of available evidence, it is "more-likely-than-not" that the Company will utilize all of its deferred tax assets in the future.

ASC 740 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold of "more-likely-than-not" to be sustained upon examination. The Company has not identified any uncertain tax positions that warrant tax reserves based on the "more-likely-than-not" threshold.

The Company is subject to U.S. federal income tax and state and local income tax in multiple jurisdictions. As of December 31, 2017, the earliest year the Company remains subject to examination by the Internal Revenue Service is for tax year December 31, 2014. The earliest year the Company remains subject to examination by state and local tax authorities is December 31, 2014.

**US Tax Reform**

On December 22, 2017, the President signed Public Law Number 115-97, commonly referred as the Tax Cuts and Jobs Act of 2017 (the "Act"). The Act enacted comprehensive U.S. tax legislation, making broad and complex changes to the U.S. tax code, including, but not limited to: (1) a reduction in the U.S. federal corporate tax rate from a maximum rate of 35% to a flat rate of 21%; (2) eliminating the corporate alternative minimum tax (commonly referred to as "AMT"); (3) full expensing of certain capital expenditures in the first year of acquisition; and (4) creating new limitations on the deductibility of certain items, such as interest expense, meals and entertainment, and officer compensation. Most of the provisions in the Act go into effect for tax years beginning after January 1, 2018.

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

**7. Income Taxes (continued)**

While most of these provisions came into effect on January 1, 2018, deferred tax assets and deferred tax liabilities that existed as of the enactment date are expected to reverse after the effective date (January 1, 2018) of the Act's provisions. Therefore, these deferred tax assets and deferred tax liabilities have been adjusted using the new statutory tax rate of 21% resulting in a provisional decrease in the Company's net deferred tax liability at December 31, 2017, in the amount of \$30,347,000.

Other changes made by the Tax Act may impact the Company's tax provision in future years.

**SAB 118**

Additionally, on December 22, 2017, the U.S. Securities and Exchange Commission ("SEC") released Staff Accounting Bulletin No. 118 ("SAB 118"). The purpose of SAB 118 is to address any uncertainty or diversity in views of accounting for the income tax effects of the Act in situations where a registrant does not have the necessary information available, prepared, or analyzed in reasonable detail to complete the accounting in the reporting period that includes the enactment date. SAB 118 allows for a measurement period, not to extend beyond one year from the Act's enactment date, to complete the necessary accounting. The Financial Accounting Standards Board ("FASB") indicated it would not object to private companies applying the provisions of SAB 118.

The Company recorded provisional amounts using reasonable estimates where the information necessary to determine the final impact of the Act was either not available, not prepared, or not sufficiently analyzed as of the report filing date. Management will continue to ensure full understanding of how to interpret the tax law changes, as there will likely be clarifications in applications of the Act.

The Company will complete and record the income tax effects of these provisional items during the period the necessary information becomes available. This measurement period will not extend beyond December 22, 2018.

**8. Off Balance Sheet Risk and Concentrations of Operational Risk**

Certain of the Company's customers' securities transactions are introduced on a fully-disclosed basis to its clearing broker. The clearing broker carries all such customer accounts and is responsible for execution, collection and payment of funds and receipt and delivery of securities relative to customer transactions. These transactions may expose the Company to off-balance-sheet risk, wherein the clearing broker may charge the Company for any losses it incurs in the event that customers may be unable to fulfill their contractual commitments and margin requirements are not sufficient to fully cover losses. As the right to charge the Company has no

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

**8. Off Balance Sheet Risk and Concentrations of Operational Risk (continued)**

maximum amount and applies to all trades executed through the clearing broker, the Company believes there is no maximum amount assignable to this right.

The Company has the right to pursue collection or performance from the customers who do not perform under their contractual obligations. The Company seeks to minimize this risk through procedures designed to monitor the creditworthiness of its customers and ensure that customer transactions are executed properly by the clearing broker. The receivable from clearing broker of \$623,023 includes a \$250,000 deposit that the Company is required to maintain with its clearing broker.

At December 31, 2017, the Company's cash accounts were held primarily with three financial institutions, each with balances that exceeded the federally insured limit.

**9. Related-Party Transactions**

The Company has entered into a service agreement with the Parent whereby the Parent provides services to the facilities and other assets.

As of December 31, 2017, the Company owed \$126,000 to the Parent for occupancy expenses and \$40,000 to Grayscale. The Company has a tax sharing agreement with the Parent. During 2017, the Company reimbursed the parent for \$2,263,000 of tax expense.

Pursuant to stock incentive plans of the Parent (collectively, the Plan), share-based payment awards are periodically granted as compensation to employees of the Parent. A portion of the costs associated with these awards is allocated to the Company in accordance with a service agreement with the Parent. The Parent accounts for certain awards as a liability plan which requires those awards to be remeasured at fair value at each reporting period until settlement. The Parent also accounts for certain awards as equity awards that are expensed based on their grant date fair value.

During 2017 the Parent made non-cash capital contributions to the Company; the Parent contributed \$81,407 related to employee compensation and benefits, \$2,234,436 in cash and forgave \$555,753 in income tax liabilities.

The Company allows its employees and the employees of the Parent to purchase and sell digital currencies from and to the Company.

The Parent has executed an indemnification agreement with the Company which indemnifies the Company with respect to its allocation related to share-based payment awards.

During the year ended December 31, 2017, the Company purchased digital currency tokens from its affiliate in the amount of \$233,777,687.

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

**9. Related-Party Transactions (continued)**

As of December 31, 2017, the Company had a receivable in the amount of \$289,054 of subscription fees receivable, and was owed 14.87 ETH, 35,345.47 ETC and 297.11 ZEC from Grayscale.

As of December 31, 2017, the Company invested in Trust shares as follows:

<b>Name</b>	<b>Total outstanding shares</b>	<b>Genesis shares</b>	<b>Genesis % Ownership</b>
Bitcoin Investment Trust*	1,915,200	1,473	0.08%
Ethereum Classic Investment Trust	3,646,400	2,355,847	64.61%
Zcash Investment Trust	698,100	466,880	66.88%
Ethereum Investment Trust	175,300	102,800	58.64%

\* BIT shares reflected above have not been adjusted for the 91-for-1 stock split effected in January 2018.

**10. Commitments and Contingencies**

In the normal course of business, the Company enters into contracts that contain a variety of representation and warranties and which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, the Company expects risk of loss to be remote.

Pursuant to the Company's service agreement with the Parent, the Company has no contractual obligations for expenses incurred by the Parent. However, the Parent does have a lease obligation of which a certain portion is allocated to the Company.

**11. Guarantees**

FASB ASC 460, Guarantees, requires the Company to disclose information about its obligations under certain guarantee arrangements. FASB ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying transaction (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

**11. Guarantees (continued)**

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company or its affiliates. The Company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub custodians and third-party brokers, improperly executed transactions. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

**12. Risk Factors**

The Company is subject to various risks including market risk, liquidity risk, and other risks related to its investment in digital currencies. Investing in digital currencies is currently unregulated, highly speculative, and volatile. The price of digital currencies has a limited history. During such history, digital currency prices have been volatile and subject to influence by many factors including the levels of liquidity. If bitcoin markets continue to experience significant price fluctuations, the Company may experience losses. Several factors may affect the price of digital currencies, including, but not limited to, global supply and demand, and competition from other forms of digital currency or payment services. There is currently no clearing house for digital currencies, nor is there a central or major depository for the custody of digital currencies.

There is a risk that some or all of the Company's digital currencies could be lost or stolen. The Company does not have insurance protection on its digital currencies which exposes the Company to the risk of loss of the Company's digital currencies. Further, digital currency transactions are irrevocable and stolen or incorrectly transferred digital currencies may be irretrievable. To the extent private keys for digital currency addresses are lost, destroyed or otherwise compromised and no backup of the private keys are accessible, the Company may be unable to access the digital currencies held in the associated address and the private key will not be capable of being restored by the digital currency networks. The processes by which digital currency transactions are settled are dependent on the digital currencies peer-to-peer networks, and as such, the Company is subject to operational risk. A risk also exists with respect to previously unknown technical vulnerabilities, which may adversely affect the security of the assets or the value of digital currencies.

Investments in the Trusts are restricted to a 12-month lock-up period. Thus, there is inherent risk in the valuation of those shares based on the market movement of the underlying digital currency.

**Genesis Global Trading, Inc.**  
**Notes to the Statement of Financial Condition (continued)**  
**December 31, 2017**

**12. Risk Factors (continued)**

Loans denominated in digital currencies, forks, and airdrops also carry risks similar to investments in digital currencies. Digital currency loans are also subject to the risk of counterparty default. These loans are receivable in the same digital currency originally lent, and there is a risk that digital currencies held by the counterparty could be lost or stolen. The Company is also exposed to risk of loss on the digital currency loans in the event that a counterparty could be required to purchase digital currencies at the prevailing market prices to fulfill the terms of their loan agreements.

As of December 31, 2017, the Company did not have any counterparty default on digital currency loans or on the obligation to advance to the Company the tokens that resulted in a hard fork event.

**13. Subsequent Events**

During 2018, the Company entered into agreements to become the authorized participant for the Digital Large Cap Fund, the Ripple Investment Trust, the Bitcoin Cash Investment Trust and the Litecoin Investment Trust.

In March 2018, the Company distributed approximately \$9,800,000 to its Parent in the form of dividends. The Company paid approximately \$13,700,000 to the Parent in connection with the 2017 tax liability. The Company also distributed 3,000 BTC, 7,000 BCH and 750,000 ETC to its Parent.

Subsequent to year end, the Company's Parent formed a new entity, Genesis Global Capital LLC ("GGC"). Of the digital currency loans outstanding at year end, \$15,072,739 were transferred to GGC in addition to any collateral subsequent to year end