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

SEC FILE NUMBER
8-65866

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 01/01/2018 AND ENDING 12/31/2018  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Compass Point Research & Trading, LLC

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

1055 Thomas Jefferson Street, N.W., Suite 303

(No. and Street)

Washington

DC

20007

(City)

(State)

(Zip Code)

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

Christopher Nealon

(202) 540-7300

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Marcum LLP

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

53 State Street

Boston

MA

02109

(Address)

(City)

SEC Mail Processing

CHECK ONE:

Certified Public Accountant

Public Accountant

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

MAR 01 2019

Washington, DC

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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)

SEC 1410 (11-05)

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OATH OR AFFIRMATION

I, Christopher Nealon, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Compass Point Research & Trading, LLC, as of December 31, 2018, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

*[Handwritten Signature]*

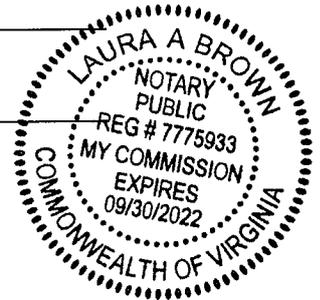
Signature

President & Chief Operating Officer

Title

*[Handwritten Signature]*

Notary Public



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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- (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).

**COMPASS POINT RESEARCH AND TRADING, LLC**

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2018**

# COMPASS POINT RESEARCH AND TRADING, LLC

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# MARCUM

ACCOUNTANTS ▲ ADVISORS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Members  
of Compass Point Research & Trading, LLC

### Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Compass Point Research & Trading, LLC (the "Company") as of December 31, 2018 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 the Company as of December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company'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 the Company 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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.

We have served as the Company's auditor since 2011.

*Marcum LLP*

Boston, MA  
February 27, 2019



# COMPASS POINT RESEARCH AND TRADING, LLC

## STATEMENT OF FINANCIAL CONDITION

DECEMBER 31, 2018

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### Assets

Cash and cash equivalents	\$	5,040,010
Securities owned, at fair value		511,667
Deposit with clearing brokers		500,118
Income tax receivable		454,267
Due from clearing organizations		404,155
Other assets		297,052
Deferred tax asset		221,466
Prepaid expenses		216,915
Accounts receivable		185,458
Property and equipment, net		<u>136,930</u>
<b>Total Assets</b>	<b>\$</b>	<b><u>7,968,038</u></b>

### Commitments and Contingencies (Note 5)

### Liabilities and Members' Equity

#### Liabilities

Accrued syndicate fee payable	\$	3,260,942
Deferred rent		633,460
Accrued commissions		510,906
Accounts payable and accrued expenses		239,626
Other liabilities		<u>70,833</u>
<b>Total Liabilities</b>		<b><u>4,715,767</u></b>
Members' equity		3,489,446
Employee notes receivable for purchase of membership interest		<u>(237,175)</u>
<b>Total Members' Equity</b>		<b><u>3,252,271</u></b>
<b>Total Liabilities and Members' Equity</b>	<b>\$</b>	<b><u>7,968,038</u></b>

*The accompanying notes are an integral part of these financial statements*

# COMPASS POINT RESEARCH AND TRADING, LLC

## NOTES TO FINANCIAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2018

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### NOTE 1 – NATURE OF ORGANIZATION

Compass Point Research & Trading, LLC (the "Company") is a broker-dealer registered with the Securities and Exchange Commission (the "SEC") and is a member of the Financial Industry Regulatory Authority, Inc. ("FINRA"). The Company is a full-service broker-dealer organized under the laws of the State of Delaware. Pursuant to an agreement between the Company and its correspondent clearing brokers, Pershing LLC and INTL FCStone Financial Inc., proprietary and customer securities transactions are introduced and cleared on a fully disclosed basis.

### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### *RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS*

The Company adopted Accounting Standards Update (ASU) 2016-02, for lease accounting as codified in FASB ASC 842, Leases, effective January 1, 2019 ("the new lease standard"). Under the new lease standard, the Company will recognize a right-of-use (ROU) asset and liability on its statement of financial condition. The liability will be equal to the present value (PV) of future lease payments, and the asset will be based on the liability, subject to any necessary adjustments, if any, such as initial direct costs. The Company has determined that there will not be a cumulative-effect adjustment to opening members' equity upon adoption.

#### *CASH AND CASH EQUIVALENTS*

The Company considers all cash and money market instruments with a maturity of ninety days or less to be cash equivalents. The Company maintains its demand deposits in what management believes to be high credit quality financial institutions. Balances at times may exceed federally insured limits.

#### *PROPERTY AND EQUIPMENT*

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the lesser of economic useful life or the term of the lease. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in the results of operations.

# COMPASS POINT RESEARCH AND TRADING, LLC

## NOTES TO FINANCIAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2018

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### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### *INCOME TAXES*

The Company is organized as a limited liability company, however, is treated as a corporation for federal and state tax purposes. The Company files a U.S. federal income tax return and is subject to income tax in various states in which it operates. The Company's annual tax provision is determined pursuant to Accounting Standards Codification 740, "Income Taxes" ("ASC 740"). Income taxes are calculated using the asset and liability method. Deferred tax assets and liabilities represent the differences between the financial statement and income tax bases of assets and liabilities.

For all open tax years and for all major taxing jurisdictions, the Company has concluded that there are no uncertain tax positions that would require recognition in the financial statements. If the Company were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense and penalties on any income tax liability would be reported as income taxes. The Company's conclusions regarding uncertain tax positions may be subject to review and adjustment later based upon ongoing analyses of tax laws, regulations and interpretations thereof, as well as other factors. Generally, federal, state and local authorities may examine the Company's tax returns for three years from the date of filing and the current and prior three years remain subject to examination as of December 31, 2018.

The Tax Cuts and Jobs Act was enacted on December 22, 2017. Among other things, the new law (i) established a new, flat corporate federal statutory income tax rate of 21%, (ii) eliminates the corporate alternative minimum tax and allows the use of any such carryforwards to offset regular tax liability for any taxable year, (iii) limits the deduction for net interest expense incurred by U.S. corporations, (iv) allows businesses to immediately expense, for tax purposes, the cost of new investments in certain qualified depreciable assets, (v) eliminates or reduces certain deductions related to meals and entertainment expenses, (vi) modifies the limitation on excessive employee remuneration to eliminate the exception for performance-based compensation and clarifies the definition of a covered employee. The Tax Cuts and Jobs Act also significantly changes U.S. tax law related to foreign operations, however, such changes do not impact the Company. Under FASB ASC 740, the effect of income tax law changes on deferred taxes must be recognized as a component of income tax expense related to continuing operations in the period in which the law is enacted.

# COMPASS POINT RESEARCH AND TRADING, LLC

## NOTES TO FINANCIAL STATEMENT

### FOR THE YEAR ENDED DECEMBER 31, 2018

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#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### *DEPOSITS WITH AND RECEIVABLES FROM CLEARING ORGANIZATIONS*

The Company has agreements with two clearing organizations to execute and clear, on a fully disclosed basis, customer accounts of the Company. In accordance with these agreements, the Company is required to maintain a cash deposit of \$250,000 at each of the two clearing firms, resulting in a total clearing deposit of approximately \$500,000 as of December 31, 2018.

The balances shown on the statement of financial condition as a receivable from clearing organizations consists of commissions receivable due in connection with the Company's normal transactions involving the trading of securities. The Company considers all receivables to be collectible, therefore no allowance for doubtful accounts has been provided.

##### *ACCRUED SYNDICATE FEE PAYABLE*

Accrued syndicate payable represents amounts due to syndicate group members relating to an investment banking transaction. The Company settled this liability in full in January 2019.

##### *USE OF ESTIMATES*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Accordingly, actual results could differ from those estimates.

##### *SUBSEQUENT EVENTS*

The Company has evaluated subsequent events through the date the financial statements were issued. All material subsequent events requiring adjustment to or disclosure in the financial statements are reflected therein.

# COMPASS POINT RESEARCH AND TRADING, LLC

## NOTES TO FINANCIAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2018

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### NOTE 3 – FINANCIAL INSTRUMENTS

#### *FAIR VALUE MEASUREMENT*

The Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 820 “Fair Value Measurement” (“ASC 820”) defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of the principal market, the most advantageous market.

Valuation techniques that are consistent with market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company can access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management’s own assumption about the assumptions that market participants would use in pricing the asset or liability.

The Company determines fair values for the following assets and liabilities:

*Marketable equity securities* —The Company classifies marketable equity securities within Level 1 of the fair value hierarchy because quoted market prices from an exchange are used to value these securities.

# COMPASS POINT RESEARCH AND TRADING, LLC

## NOTES TO FINANCIAL STATEMENT

### FOR THE YEAR ENDED DECEMBER 31, 2018

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#### NOTE 3 – FINANCIAL INSTRUMENTS (CONTINUED)

##### *FAIR VALUE MEASUREMENT (CONTINUED)*

##### **Assets at Fair Value at December 31, 2018**

The following table presents the Company's fair value hierarchy for those assets measured at fair value on a recurring basis as of December 31, 2018:

Assets:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Securities owned, at fair value:				
Marketable equity securities	<u>511,667</u>	<u>-</u>	<u>-</u>	<u>511,667</u>
Total fair value of securities owned	<u>\$ 511,667</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 511,667</u>

The Company's policy is to recognize transfers in and transfer out as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between levels 1, 2 or 3 during the year ended December 31, 2018.

The table below sets forth a summary of changes in fair value, and final distribution for the Company's Level 3 financial asset for the year ended December 31, 2018:

	<u>Investment Fund</u>
Beginning balance as of January 1, 2018	\$ 246,661
Liquidation	(239,886)
Investment losses	<u>(6,775)</u>
Ending balance as of December 31, 2018	<u>\$ -</u>

# COMPASS POINT RESEARCH AND TRADING, LLC

## NOTES TO FINANCIAL STATEMENT

### FOR THE YEAR ENDED DECEMBER 31, 2018

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#### NOTE 4 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31, 2018:

	<u>2018</u>
Furniture and fixtures	\$ 203,160
Leasehold improvements	133,815
Phone system	42,442
Computer equipment	35,195
Computer software	5,871
Office equipment	<u>2,568</u>
	423,051
Less: accumulated depreciation	<u>(286,121)</u>
	<u>\$ 136,930</u>

#### NOTE 5 – COMMITMENTS AND CONTINGENCIES

##### *OPERATING LEASES*

The Company entered into a new lease (the “Lease Agreement”) for office space in Washington, D.C in 2015. The lease term of eleven years will expire on May 01, 2026. As part of the lessor’s requirement for leasing the office space, the Company is required to maintain a security deposit of approximately \$37,000 with the landlord, which is included in other assets in the statement of financial condition.

Additionally, per the terms of the Lease Agreement, the Company received lease incentives and a rent abatement. The Company accounts for the lease on a straight-line basis over the term of the lease and amortizes lease incentives on a straight-line basis as a reduction of rent expense over the term of the lease. The difference between rent expense recorded, and the amount paid, is credited or charged to deferred rent. Deferred rent is included as a separate line item in the accompanying statement of financial condition.

The Company also currently leases office space in New York and Boston. On September 9, 2016, the Company entered into a new Lease Agreement for office space in New York. The lease term of three years started January 1, 2017 and will expire December 31, 2019. Per the terms of the Lease Agreement, the Company received two months of rent abatement. The Company accounted for the abatement and lease on a straight-line basis over the term of the lease.

# COMPASS POINT RESEARCH AND TRADING, LLC

## NOTES TO FINANCIAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2018

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### NOTE 5 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### *OPERATING LEASES (CONTINUED)*

As of December 31, 2018, the Company maintains a deposit of approximately \$25,000 for the New York space it leased in 2017. All security deposits are included in other assets in the statement of financial condition. The Boston lease scheduled to end February 2018 was renewed at the same terms, other than an immaterial increase in rent, and extended to February 2019. The Company maintains a deposit of approximately \$5,700 deposit for its Boston office.

Future minimum lease payments under all operating leases are as follows:

	Office Space	Office Equipment
2019	592,310	6,996
2020	491,853	6,345
2021	505,201	1,960
2022	517,827	-
2023	530,745	-
Thereafter	1,336,342	-
Total	<u>\$ 3,974,278</u>	<u>\$ 15,301</u>

#### *LITIGATION AND CLAIMS*

The Company may be subject to claims and litigation during the normal course of business. The Company is not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that would have a material adverse effect on the Company's statement of financial condition.

### NOTE 6 – MEMBERS' EQUITY

The Company is organized as a limited liability company in accordance with the terms of the Company's amended and restated operating agreement (the "Agreement"). The Agreement provides for perpetual existence unless dissolved by the written consent of a majority of the percentages held by the Company's Members. As of December 31, 2018, the Company had one Managing Member and fourteen Non-Managing Members with ownership interest determined by the number of units owned.

# COMPASS POINT RESEARCH AND TRADING, LLC

## NOTES TO FINANCIAL STATEMENT

FOR THE YEAR ENDED DECEMBER 31, 2018

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### NOTE 6 – MEMBERS' EQUITY (CONTINUED)

In 2018, there were no redemptions, reallocation of interests or units issued. However, the Company did book \$6,167 of interest on the outstanding employee notes receivable balance classified as contra-equity in the Company's statement of members' equity.

As of December 31, 2018, the Managing Member's units totaled 612 units or 61.20% of members' equity, and Non-Managing Members units totaled 388 units or 38.80% of members' equity.

### NOTE 7 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

In the normal course of business, the Company's customers execute securities transactions through the Company. These activities may expose the Company to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company must purchase or sell the financial instrument underlying the contract at a loss.

The Company introduces all customer transactions to another firm on a fully disclosed basis. The agreement between the Company and its clearing brokers provides that the Company is obligated to assume any exposure related to non-performance by customers or counter parties. The Company monitors clearance and settlement of all customer transactions daily.

The Company's exposure to credit risk associated with the non-performance of customers and counter parties in fulfilling their contractual obligations pursuant to these securities transactions can be directly impacted by volatile trading markets which may impair the customer's or counter party's ability to satisfy their obligations to the Company. In the event of non-performance, the Company may be required to purchase or sell financial instruments at unfavorable market prices resulting in a loss to the Company. The Company does not anticipate non-performance by customers and counter parties in the above situations.

The Company seeks to control the aforementioned risks by requiring customers or counter parties to maintain collateral in compliance with regulatory requirements, clearing broker's guidelines, and industry standards.

# COMPASS POINT RESEARCH AND TRADING, LLC

## NOTES TO FINANCIAL STATEMENT

### FOR THE YEAR ENDED DECEMBER 31, 2018

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#### NOTE 8 – INCOME TAX

The Company adopted the enactment of the Tax Cuts and Jobs Act (the “Act”). The Act reduced the Federal tax rate from 34% to 21% effective January 1, 2018. In accordance with the Act, the Company has a \$42,661 federal tax liability for 2018.

Losses incurred in 2017 were carried back to the prior two tax years and any taxable income generated in those years were offset by the loss. The company filed a federal tax refund claim by carrying back the loss to years 2015 and 2016. As a result, an income tax receivable in the amount of \$454,267 has been recorded in the Company’s statement of financial condition.

For the period ended December 31, 2018, deferred tax assets were derived from capital loss carryovers in the amount of \$100,168 for federal and \$39,352 for state. The Company has a deferred state tax asset as of December 31, 2018 that results from prior year’s net operating losses. These deferred taxes were included in the Company’s income tax provision.

#### NOTE 9 – NET CAPITAL REQUIREMENTS

As a registered broker dealer, the Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At December 31, 2018, the Company had net capital of \$1,662,593 which was \$1,309,770 in excess of its required net capital of \$352,823 and its ratio of aggregate indebtedness to net capital was 3.1832 to 1.