



DB

S

N

19007542

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	August 31, 2020
Estimated average burden hours per response.....	12.00

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

MAR 07 2019

SEC FILE NUMBER
8-65342

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 01/01/18 AND ENDING 12/31/18  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Brown Advisory Securities, LLC**

OFFICIAL USE ONLY
FIRM I.D. NO.

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

**901 S. Bond Street, Suite 400**

(No. and Street)

**Baltimore**

**Maryland**

**21231**

(City)

(State)

(Zip Code)

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

David M. Churchill CFO/COO (410)-537-5400

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**PricewaterhouseCoopers LLP**

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

**100 East Pratt Street, Suite 1900 Baltimore**

**Maryland**

**21202**

(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)

RMS

OATH OR AFFIRMATION

I, David M. Churchill, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Brown Advisory Securities, LLC, as of December 31, 2018, are true and correct. I 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:

SEC Mail Processing  
MAR 01 2019

Washington, DC

EUNICE J. KIM  
Notary Public-Maryland  
Howard County  
My Commission Expires  
June 17, 2022

David M. Churchill  
Signature

CFO/COO

Title

[Signature]  
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).



# **BROWN ADVISORY SECURITIES, LLC**

## **Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Statement of Financial Condition	3
Statement of Operations	4
Statement of Changes in Member's Equity	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Computation of Net Capital Under SEC Rule 15c3-1	15



## **Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Member of Brown Advisory Securities, LLC

### ***Opinion on the Financial Statements***

We have audited the accompanying statement of financial condition of Brown Advisory Securities, LLC (the "Company") as of December 31, 2018, and the related statements of operations, of changes in member's equity and of cash flows for the year then ended, including the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements 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 of these financial statements 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 statements are 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 statements, 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 statements. 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 statements. We believe that our audit provides a reasonable basis for our opinion.



***Supplemental Information***

The Computation of Net Capital Under SEC Rule 15c3-1 has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934. In our opinion, the Computation of Net Capital Under SEC Rule 15c3-1 is fairly stated, in all material respects, in relation to the financial statements as a whole.

*PricewaterhouseCoopers LLP*

Baltimore, Maryland  
February 28, 2019

We have served as the Company's auditor since 2016.

**BROWN ADVISORY SECURITIES, LLC**

Statement of Financial Condition

Year ended December 31, 2018

(In thousands)

<b>Assets</b>	<b>2018</b>
Cash and cash equivalents	\$ 3,656
Receivable from clearing organization	449
Prepaid expenses and other assets	187
Investment securities at fair value, cost of \$173	168
Receivable from affiliates	36
Deposits with clearing organization	55
Total assets	<u>\$ 4,551</u>
<b>Liabilities and Member's Equity</b>	
Accrued compensation	\$ 175
Payable to clearing organization	113
Payable to affiliates	879
Accrued expenses and other payables	306
Total liabilities	<u>1,473</u>
Commitments and contingencies (Note 11)	
Member's equity	<u>3,078</u>
Total liabilities and member's equity	<u>\$ 4,551</u>

*See accompanying notes to financial statements.*

**BROWN ADVISORY SECURITIES, LLC**

Statement of Operations

Year ended December 31, 2018

(In thousands)

	<u>2018</u>
Revenues:	
Asset based fees	\$ 13,506
Commissions	1,526
Interest	355
Investment income, including unrealized losses of \$4 in 2018	21
Other	<u>9</u>
Total revenues	<u>15,417</u>
Operating expenses:	
Employee compensation and benefits	9,286
Service bureau	679
Professional services	89
Data/News services	147
Occupancy and equipment	99
Other	<u>1,179</u>
Total expenses	<u>11,479</u>
Net income	<u>\$ 3,938</u>

*See accompanying notes to financial statements.*

**BROWN ADVISORY SECURITIES, LLC**

Statement of Changes in Member's Equity

Year ended December 31, 2018

(In thousands)

	<u>Capital contributions</u>	<u>Cumulative surplus</u>	<u>Total member's equity</u>
Balance at December 31, 2017	559	2,081	2,640
Net income	—	3,938	3,938
Dividend to Member	—	(3,500)	(3,500)
Balance at December 31, 2018	<u>\$ 559</u>	<u>2,519</u>	<u>3,078</u>

*See accompanying notes to financial statements.*

**BROWN ADVISORY SECURITIES, LLC**

Statement of Cash Flows

Year ended December 31, 2018

(In thousands)

	<u>2018</u>
Cash flows from operating activities:	
Net income	\$ 3,938
Adjustments to reconcile net income to net cash used in operating activities:	
Change in unrealized gains on investments	(1)
Stock-based compensation and compensation amortization	296
Changes in operating assets and liabilities:	
Receivable from/payable to clearing organization	67
Prepaid expenses and other assets	141
Accrued compensation	(36)
Due to/from affiliates	(147)
Accrued expenses and other payables	(33)
Net cash provided by operating activities	<u>4,225</u>
Cash flows (used by) financing activity:	
Dividend to Member	<u>(3,500)</u>
Net increase in cash and cash equivalents	725
Cash, cash equivalents, and restricted cash at beginning of year	<u>2,986</u>
Cash, cash equivalents, and restricted cash at end of year	\$ <u>3,711</u>
Less: Restricted Cash	<u>55</u>
Cash and cash equivalents at end of year	\$ <u>3,656</u>

*See accompanying notes to financial statements.*

# BROWN ADVISORY SECURITIES, LLC

## Notes to Financial Statements

December 31, 2018

### (1) Organization and Nature of Business

Brown Advisory Securities, LLC (the Company) is a broker dealer registered with the Securities and Exchange Commission (SEC). The Company's sole member is Brown Advisory Management, LLC (BAM). The managing member of BAM is Brown Advisory Incorporated (BAI). On January 1, 2016, BAI became wholly owned by a new holding company, Brown Advisory Group Holdings, LLC (BAGH or Parent), thus making BAGH the ultimate parent of the Company. The Company is a member of the Financial Industry Regulatory Authority and the Securities Investor Protection Corporation.

The Company introduces and forwards securities transactions on a fully disclosed basis to a carrying broker-dealer. The Company may be required to indemnify the carrying broker-dealer for losses resulting from the failure of the Company's customers to meet their obligations to pay for or deliver securities.

### (2) Summary of Significant Accounting Policies

#### (a) Revenue from Contracts with Customers

Effective January 1, 2018, the Company adopted ASC 606 – Revenue from Contracts with Customers. Under this guidance, the Company reviewed its revenue streams and determined that it did not result in significant changes to the Company's prior revenue recognition practices.

#### (b) Cash and Cash Equivalents

The Company considers all investments in highly liquid debt instruments with maturities of three months or less to be cash equivalents. Cash equivalents are carried at amortized cost, which approximates fair value. Effective January 1, 2018, the Company adopted ASU 2016-18 – Statement of Cash Flows: Restricted Cash. Under this guidance, the Company is required to explain in the statement of cash flows the change during the period in the total of cash, cash equivalents, and amounts considered restricted cash or restricted cash equivalents.

#### (c) Income Taxes

BAM, a multi-member LLC, is treated as a partnership for tax purposes and is the sole member of the Company. As a partnership, BAM is not subject to federal or state income taxes since such taxes are the responsibility of the BAM members. The Company is treated as a disregarded entity for tax purposes and is included in the partnership federal and state returns filed by BAM.

#### (d) Investments

Investment securities are classified as trading. Trading securities are those securities which are purchased and held principally for the purpose of selling them in the near term. Trading securities are recorded at fair value. Fair values are generally based on quoted market prices. If quoted market prices are not available, fair values are determined based on other relevant factors, including quoted market prices of similar securities. Unrealized gains and losses on trading securities are included in results of operations. Dividends and interest income are recognized when earned.

# BROWN ADVISORY SECURITIES, LLC

## Notes to Financial Statements

December 31, 2018

**(e) *Equity Unit-Based Compensation***

The cost of employee services received in exchange for equity compensation is measured based on the grant-date fair value of the employee equity unit options. Equity units are issued by BAGH to employees of the Company. Equity unit-based compensation costs are allocated to the Company by BAGH and settled in cash monthly through intercompany transactions, which amounted to \$50,000 for the year ended December 31, 2018. These costs are classified in *Employee compensation and benefits* on the Statement of Operations.

**(f) *Fair Value Measurements***

Fair value is defined as 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. U.S. GAAP also establishes a framework for measuring fair value and expands disclosures about fair value measurements (Note 5).

**(g) *Use of Estimates***

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires the Company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the statement of financial condition and the amounts of revenues and expenses for the reporting period. Actual results may differ from those estimates and could have a material impact to the financial statements.

**(3) *Revenue Recognition***

Effective January 1, 2018, the Company adopted updated accounting guidance on revenue recognition which provides a single, comprehensive revenue recognition model for all contracts with customers. The adoption of the updated guidance did not result in significant changes to the Company's prior revenue recognition practices.

The Company primarily earns revenue from contracts with customers in the form of brokerage commissions, distribution fees, and investment advisory fees. Interest, investment, and other income including that from intercompany arrangements is not considered revenue from contracts with customers under the new guidance. A description of each of these types of revenue streams follows:

**(a) *Brokerage Commissions***

The Company buys and sells securities on behalf of its customers. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on the trade date (the date that the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date because that is when the underlying financial instrument or purchaser is identified, the pricing is agreed upon and the risks and rewards of ownership have been transferred to/from the customer. Related expenses include, but are not limited to, commissions paid to brokers and clearance/supervision fees charged by Wells Fargo Clearing Services.

# BROWN ADVISORY SECURITIES, LLC

## Notes to Financial Statements

December 31, 2018

**(b) Distribution Fees**

The Company enters into arrangements with managed accounts or other pooled investment vehicles (funds) to distribute shares to investors. The Company may receive distribution fees paid by the funds up front, over time, or as a combination thereof. The Company believes that its performance obligation is the sale of securities to investors and as such this is fulfilled on the trade date. While fund distribution services are largely satisfied at the point in time when an investor makes an investment in a fund, the ultimate amounts of revenue are subject to the variable consideration constraint. Therefore, a portion of distribution and related service revenue will be recognized in periods subsequent to the satisfaction of the performance obligation. In the table below, trailing fees are included in asset based fees while sales-loads are included in commissions.

**(c) Investment Advisory Fees**

The Company provides investment advisory services on a daily basis. The Company believes the performance obligation for providing ongoing advisory services is satisfied over time because the customer is receiving and consuming the benefits as they are provided by the Company. Fee arrangements are based on a percentage applied to the customer's assets under management. Fees are received quarterly either in advance or arrears and are recognized as revenue at that time as they relate specifically to the services provided in that period, which are distinct from the services provided in other periods. Investment advisory fees are considered constrained until the end of the month or quarter until the actual market value of these assets under management are known or a significant revenue reversal is no longer probable.

The following table presents revenue by major source.

**Disaggregated Revenue from Contracts with Customers**

Revenue from contracts with customers	
Asset based fees	
Investment advisory fees	\$ 12,054,000
Distribution fees	<u>1,081,000</u>
Total asset management fee revenue*	13,135,000
Commissions	
Brokerage commissions	1,417,000
Distribution fees	<u>109,000</u>
Total commissions revenue	1,526,000
<b>Total revenue from contracts with customers*</b>	<b><u>\$ 14,661,000</u></b>

\*Excludes interest, investment, and other income as noted above.

**(4) Investment**

Investment security at fair value of \$168,000 as of December 31, 2018 consisted of a Brown Advisory sponsored mutual fund.

# BROWN ADVISORY SECURITIES, LLC

## Notes to Financial Statements

December 31, 2018

### (5) Fair Value Measurements

The Company uses a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 – inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.
- 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 – inputs are unobservable inputs for the asset or liability.

Each financial instrument's level assignment within the valuation hierarchy is based on the lowest level input that is significant to the fair value measurement for that particular category.

The Company's investment is valued based on quoted market prices in an active market (Level 1 inputs). There were no transfers between levels related to the Company's investments in 2018.

### (6) Deposits with Clearing Organization

Deposits with clearing organization of \$55,000 at December 31, 2018 consisted primarily of money market funds.

### (7) Regulatory Requirements

The Company is subject to the SEC Uniform Net Capital Rule (SEC 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 \$2,566,000 which was \$2,316,000 in excess of its required net capital of \$250,000. The Company's aggregate indebtedness to net capital ratio was .57 to 1 as of December 31, 2018.

The Company is not required to file a Computation for Determination of Reserve Requirements and Information Relating to Possession or Control Requirements schedules as it claims exemption from Rule 15c3-3 under Paragraph (k)(2)(ii) of the Rule.

### (8) Risks

The following is a description of the significant risks facing the Company:

#### (a) Off-Balance Sheet Risk

In the normal course of business, the Company executes and enters into securities transactions that are carried and cleared by another broker-dealer on a fully disclosed basis. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. Amounts due from broker-dealer represent a concentration of credit risk. The risk of default depends on the creditworthiness of the counterparty. In addition, the Company has a policy of reviewing, as necessary, the credit standing of each counterparty with which it conducts business.

# BROWN ADVISORY SECURITIES, LLC

## Notes to Financial Statements

December 31, 2018

The agreement between the Company and its clearing agent provides that the Company is obligated to assume any exposure related to nonperformance by its customers. The Company seeks to minimize the risk of loss through procedures designed to monitor the creditworthiness of its customers and that transactions are executed properly by clearing agents.

**(b) Credit Risk**

Certain financial instruments, consisting of cash and cash equivalents and investments, potentially subject the Company to concentration of credit risk. The Company places its cash and cash equivalents in high quality financial institutions which, at times may exceed the Federal Deposit Insurance Company (FDIC) insurance limits. The Company has not experienced any losses in such accounts for the year-ended December 31, 2018. The Company's investment is a mutual fund. The Company minimizes its concentration of credit risk on investments by ensuring that transactions are indirectly undertaken with a large number of counterparties and on a recognized exchange.

**(c) Legal/Regulatory Risk**

The risk that changes in the legal or regulatory environment in which the Company operates could result in increased competition, reduced demand for the Company's products or services, or additional anticipated expenses incurred. The Company employs compliance and operating practices that identify and minimize the adverse impact of this risk. The Company additionally attempts to minimize adverse impact of this risk through a varied offering of products and services.

**(d) Market Risk**

Market risk is a risk related to economic losses due to adverse changes in the fair value of a financial instrument. While market risk embodies several elements, including liquidity, basis risk, and price risk, The Company faces changes in the level of prices due to changes in (a) interest rates, (b) foreign exchange rates or (c) other factors that relate to market volatilities of the rate, index or price underlying the financial instrument. The Company earns revenue based on a percentage of the period-end fair value of the assets under management. The Company attempts to minimize the adverse impact of this risk through a varied offering of products and services.

**(9) Related Party Transactions**

Pursuant to intercompany services agreements (Service Agreements) with Brown Advisory, LLC (BALLC), a subsidiary of BAM, BALLC allocates to the Company certain operating expenses, including occupancy, communications and data processing, advertising, and employee compensation and benefits. As such, in 2018, \$967,000 was allocated for services provided by infrastructure teams to the Company during the year.

In 2014, certain employees transitioned from the Company to BALLC under a dual employment agreement. As these individuals continue to support the Company's clients, a portion of their compensation and administrative expenses are allocated to the Company from BALLC pursuant to a Service Agreement. In 2018, \$4,223,000 was allocated under this Service Agreement. Management believes that the Service Agreement results in the Company recognizing costs as incurred and in amounts related to the Company's economic obligations. The Company reimburses certain other

# BROWN ADVISORY SECURITIES, LLC

## Notes to Financial Statements

December 31, 2018

affiliates for disbursements made on its behalf and for employee compensation costs related to certain compensation plans, including stock-based compensation plans.

In addition, as compensation for referring clients, the Company is allocated a portion of fees earned by BALLC and Brown Investment Advisory & Trust Company, a subsidiary of BAI. Revenues from asset based fees included \$371,000 in 2018, related to these revenue sharing arrangements. The Company had a payable to affiliates in the amount of \$879,000 at December 31, 2018 which represents amounts paid on operating expenses in the normal course of business.

As of December 31, 2018, the company had the following Statement of Operations related party balances:

<b>Statement of Operations</b>	<b>Revenue</b>	<b>Expense</b>
Asset based fees	\$ 371,000	-
Employee Compensation and benefits	-	6,213,000
Other	-	967,000
	<u>\$ 371,000</u>	<u>\$ 7,180,000</u>

### (10) Compensation Plans

The Board of Directors of BAI has approved the issuance of options to purchase BAGH common units and the issuance of units of common equity to certain key employees of the Company. BAGH made loans to the employees to fund the purchase of the common units and made loans to certain employees pursuant to promissory notes upon the employees joining the Company.

BAI has a deferred compensation plan for certain of its key executives and employees. Compensation expense allocated to the Company by BAI was \$246,000 in 2018.

Options to purchase equity units of BAGH have a 10-year term and generally vest over a graded schedule of up to 5 years from the grant date. The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The Company uses historical data to estimate the expected term of the option, such as option exercise and post-vesting departure behavior. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The Company estimates its stock volatility by taking the average of the stock volatilities of a selected peer group of public asset management companies.

No options were granted in 2018. The total intrinsic value of options exercised during the year ended December 31, 2018 was \$500,000 and intrinsic value of options outstanding is \$500,000.

**BROWN ADVISORY SECURITIES, LLC**

## Notes to Financial Statements

December 31, 2018

Equity unit option activity during the period indicated is as follows:

	<u>Number of options</u>	<u>Weighted average exercise price</u>
Balance at December 31, 2017	50,700	\$17.36
Granted	—	—
Exercised	(27,270)	15.69
Cancelled/forfeited	—	—
Balance at December 31, 2018	<u>23,430</u>	\$19.31
Exercisable at December 31, 2018	20,565	\$18.05

The following information summarizes unvested options under the Company's equity incentive plans for the year ended December 31, 2018:

	<u>Number of options</u>	<u>Weighted average exercise price</u>
Unvested options at December 31, 2017	12,150	\$ 11.21
Granted	—	—
Vested	(9,285)	11.06
Cancelled/forfeited	—	—
Unvested options at December 31, 2018	<u>2,865</u>	\$ 11.72

The weighted average remaining contractual term of options outstanding and options currently exercisable is 3.71 years.

The total compensation cost for options recognized was \$50,000 in 2018. At December 31, 2018, there was \$6,500 of total unrecognized compensation cost related to non-vested option awards. That cost is expected to be recognized over a weighted average period of 0.63 years.

**(11) Commitments and Contingencies**

The Company is involved in legal actions arising in the normal course of its business. Management is of the opinion, after consultation with legal counsel, that there are no legal actions pending that could have a material adverse effect on the Company's financial condition or results of operations.

**BROWN ADVISORY SECURITIES, LLC**

Notes to Financial Statements

December 31, 2018

**(12) Subsequent Events**

On January 25, 2019, colleagues on the portfolio management team affiliated with the Company left the firm. There is material effect on the business as a result of this departure but the Company is expected to remain profitable going forward. In addition, the Parent has agreed to support the Company in order for it to satisfy its liabilities and obligations if the Company is unable to satisfy them when due. The Parent also has the ability to provide necessary financial support to the Company and there are no restrictions on such support.

Aside from the previously mentioned event, The Company has evaluated subsequent events from the date of the statement of financial condition through February 28, 2019, the date at which the financial statements were available to be issued, and determined there no other items to disclose.

**BROWN ADVISORY SECURITIES, LLC**  
 Computation of Net Capital Under SEC Rule 15c3-1  
 December 31, 2018  
 (In thousands)

Aggregate indebtedness	\$	1,473
Net capital:		
Total member's equity	\$	3,078
Deductions/charges:		
Nonallowable assets:		
Receivable from clearing company		(240)
Prepaid expenses and other assets, and other receivables		(187)
Receivable from affiliates		(36)
Other deductions:		
Haircuts		(49)
Net capital		2,566
Minimum required net capital (the greater of \$250,000 or 6.67% of aggregate indebtedness)		250
Excess net capital	\$	2,316
Ratio of aggregate indebtedness to net capital		
	or	.57 to 1

See accompanying independent registered public accounting firm report.

Statement Pursuant to Paragraph (d)(4) of SEC Rule 17a-5

There are no material differences between this computation of net capital and the corresponding computation prepared by the Company and included in the unaudited Part IIA Focus filing on January 25, 2019.

*See accompanying notes to financial statements.*



## Report of Independent Registered Public Accounting Firm

To the Board of Directors and Management of Brown Advisory Securities, LLC

We have reviewed Brown Advisory Securities, LLC's assertions, included in the accompanying Brown Advisory Securities, LLC's Exemption Report, in which (1) the Company identified 17 C.F.R. § 240.15c3-3(k)(2)(ii) as the provision under which the Company claimed an exemption from 17 C.F.R. § 240.15c3-3 (the "exemption provision") and (2) the Company stated that it met the identified exemption provision throughout the year ended December 31, 2018 without exception. The Company's management is responsible for the assertions and for compliance with the identified exemption provision throughout the year ended December 31, 2018.

Our review was conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States) and, accordingly, included inquiries and other required procedures to obtain evidence about the Company's compliance with the exemption provision. A review is substantially less in scope than an examination, the objective of which is the expression of an opinion on management's assertions. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to management's assertions referred to above for them to be fairly stated, in all material respects, based on the provisions set forth in paragraph (k)(2)(ii) of 17 C.F.R. § 240.15c3-3.

*PricewaterhouseCoopers LLP*

Baltimore, MD  
February 28, 2019

## Brown Advisory Securities, LLC's Exemption Report

Brown Advisory Securities, LLC (the "Company") is a registered broker-dealer subject to Rule 17a-5 promulgated by the Securities and Exchange Commission (17 C.F.R. §240.17a-5, "Reports to be made by certain brokers and dealers"). This Exemption Report was prepared as required by 17 C.F.R. § 240.17a-5(d)(1) and (4). To the best of its knowledge and belief, the Company states the following:

(1) The Company claimed an exemption from 17 C.F.R. § 240.15c3-3 under the following provisions of 17 C.F.R. § 240.15c3-3 (k): (2)(ii).

(2) The Company met the identified exemption provisions in 17 C.F.R. § 240.15c3-3(k) throughout the most recent fiscal year without exception.

I, David M. Churchill, swear (or affirm) that, to my best knowledge and belief, this Exemption Report is true and correct.



CFO/COO

February 28, 2019

**BROWN ADVISORY SECURITIES, LLC**

Financial Statements

(Together with Report of Independent Registered Public Accounting Firm  
on Exemption Report Required by SEC Rule 17a-5)

December 31, 2018

(With Report of Independent Registered Public Accounting Firm Thereon)



## SEC Mail Processing

### Report of Independent Accountants

MAR 07 2019

To Management of Brown Advisory Securities, LLC

Washington, DC

In accordance with Rule 17a-5(e)(4) of the Securities Exchange Act of 1934 and with the SIPC Series 600 Rules, we have performed the procedures enumerated below, which were agreed to by Brown Advisory Securities, LLC and the Securities Investor Protection Corporation ("SIPC") (collectively, the "specified parties") with respect to the accompanying General Assessment Reconciliation (Form SIPC-7) of Brown Advisory Securities, LLC for the year ended December 31, 2018, solely to assist the specified parties in evaluating Brown Advisory Securities, LLC's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7). Management is responsible for Brown Advisory Securities, LLC's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the Public Company Accounting Oversight Board (United States) and in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and results thereof are as follows:

1. Compared the listed assessment payments on page 1, items 2B and 2G of Form SIPC-7 with the respective cash disbursement records entries, as follows:
  - a. Payment dated July 31, 2018, in the amount of \$10,233 was compared to the wire confirmation 20180801J1Q5040C001396 drawn from the US Bank account number: 9880990 and payable to the order of Citibank New York, noting no differences.
  - b. Payment dated February 20, 2019 in the amount of \$9,872 was compared to the wire confirmation 20190220J1Q5040C000681 drawn from the US Bank account number: 9880990 and payable to the order of Citibank New York, noting no differences.
2. Compared the Total Revenue amount reported on the Statement of Operations of the audited Form X-17A-5 for the year ended December 31, 2018 to the "Total revenue" amount of \$15,416,940 reported on page 2, item 2a of Form SIPC-7 for the year ended December 31, 2018, noting no differences.
3. Compared any adjustments reported on page 2, items 2b and 2c of Form SIPC-7 with the supporting schedules and working papers, as follows:
  - a. Compared deductions of item 2c line 1, "Revenues from the distribution of shares of a registered open end investment company or unit investment trust, from the sale of variable annuities, from the business of insurance, from investment advisory services rendered to registered investment companies or insurance company separate accounts, and from transactions in security futures products" of \$1,189,801 to the sum of general ledger accounts 47020 and 47021 from the December 31, 2018 trial balance used to prepare the audited Form X-17A-5, noting no differences.
  - b. Compared deductions of item 2c line 3, "Commissions, floor brokerage and clearance paid to other SIPC members in connection with securities transactions" of \$635,675 to the general ledger account 59922 from the December 31, 2018 trial balance used to prepare the audited Form X-17A-5, noting no differences.
  - c. Compared deduction of item 2c line 5, "Net gain from securities in investment accounts" of \$21,478 to the sum of general ledger accounts 75532, 75535, and 48596 from the December 31, 2018 trial balance used to prepare the audited Form X-17A-5, noting no differences.
  - d. Compared deduction of item 2c line 7, "Direct expenses of printing advertising and legal fees incurred in connection with other revenue related to the securities business (revenue defined by Section 16(9)(L) of the Act)" of \$24,449 to the general ledger account 53881



- from the December 31, 2018 trial balance used to prepare the audited Form X-17A-5, noting no differences.
- e. Compared deduction of item 2c line 9(ii), "40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, code 3960)" of \$142,068 as 40% of the sum of general ledger accounts 75533 and 79640 from the December 31, 2018 trial balance used to prepare the audited Form X-17A-5, noting no differences.
  - f. Compared the balances between the "Total interest and dividend expense (FOCUS Line 22/PART IIA Line 13, Code 4075 plus line 2b(4) above)" but not in excess of total interest and dividend income" on item 2c line 9(i) and "40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960)" on item 2c line 9(ii), and determined the greater of line (i) and line (ii) for the deduction from total revenue in line 2a to be line (ii) of \$142,068, noting no differences.
4. Recalculated the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the related schedules and working papers obtained in procedure 3, as follows:
- a. Recalculated the mathematical accuracy of the SIPC Net Operating Revenues on page 2, line 2d and the General Assessment @ .0015 on page 2, line 2e of \$13,403,469 and \$20,105, respectively of the Form SIPC-7, noting no differences.
  - b. Recalculated deduction on item 2c line 9(ii), "40% of margin interest earned on customers securities accounts (40% of FOCUS line 5, Code 3960)" of \$142,068 as 40% of the sum of general ledger accounts 75533 and 79640 from the December 31, 2018 trial balance used to prepare the audited Form X-17A-5, noting no differences.
  - c. Recalculated "Total deductions" of \$2,013,471 on page 2 of Form SIPC-7 as the sum of item 2c lines (1), (3), (5), (7), and the greater of item 2c line 9(i) and 9(ii), noting no differences.
  - d. Recalculated "SIPC Net Operating Revenues" of \$13,403,469 on page 2, item 2d as the sum of "Total Revenue" of \$15,416,940 from item 2a and "Total additions" of \$0 on page 2 less "Total deductions" of \$2,013,471 on page 2, noting no differences.
  - e. Recalculated the mathematical accuracy of the "SIPC Net Operating Revenues" on page 2, line 2d and the "General Assessment @ .0015" on page 2, line 2e of \$13,403,469 and \$20,105, respectively of the Form SIPC-7, noting no differences.
  - f. Recalculated the mathematical accuracy of the "Total assessment balance and interest due (or overpayment carried forward)" of \$9,872 on page 1, line 2F of the Form SIPC-7, noting no differences.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the Company's preparation of Form SIPC-7 in accordance with the applicable instructions. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of Brown Advisory Securities, LLC and the Securities Investor Protection Corporation and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

Baltimore, MD

February 28, 2019