

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

| |
|-----------------|
| SEC FILE NUMBER |
| 8-66145 |

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 4/1/2019 AND ENDING 3/31/2020
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Arete Research, LLC

| |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM I.D. NO. |

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

15 Broad Street, 1st Floor

(No. and Street)

Boston

MA

02109

(City)

(State)

(Zip Code)

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

Mary Lecca

617-357-4800

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained on this Report*

WithumSmith+Brown, PC

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

SEC
Mail Processing
Section

155 Seaport Blvd

Boston

JUN 30 2020
MA

02210

(Address)

(City)

Washington DC

(Zip Code)

415

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 240.17a-5(e)(2).

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Mary Lecca, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statements and supporting schedules pertaining to the firm of Arete Research, LLC, as of March 31, 20 20, 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:

Mary Lecca
Signature

President
Title

Subscribed and sworn to before me this 5 day of June 2020

Russell T Sully
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 Cash Flows
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors.
- (g) Computation of net capital for brokers and dealers pursuant to Rule 15c3-1.
- (h) Computation for determination of reserve requirements pursuant to Rule 15c3-3.
- (i) Information relating to the possession or control requirements for brokers and dealers 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 Securities Investor Protection Corporation (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) Independent Auditors' Report on Internal Control.
- (p) Schedule of Segregation Requirements and Funds in Segregation - customer's regulated commodity futures account pursuant to Rule 171-5

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

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Member of
Arete Research, LLC

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Arete Research, LLC (the "Company") as of March 31, 2020, and the related notes (collectively referred to as the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of March 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Notes 2 and 7 to the financial statements, the Company has changed its method of accounting for leases on April 1, 2019 due to the adoption of ASC Topic 842. Our opinion is not modified with respect to this matter.

Basis for Opinion

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We 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. 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 2019.

WithumSmith+Brown, PC

Boston, Massachusetts
June 22, 2020

ARETE RESEARCH, LLC
(A Wholly-Owned subsidiary of
Arete Research Services, LLP)
STATEMENT OF FINANCIAL CONDITION
MARCH 31, 2020

ASSETS

ASSETS

| | |
|--|-------------------------|
| Cash | \$ 822,651 |
| Accounts receivable | 577,235 |
| Right of use asset | 110,908 |
| Other assets | 10,689 |
| Furniture and equipment, net of accumulated depreciation of \$52,022 | 21,633 |
| Refundable income taxes | <u>10,683</u> |
| TOTAL ASSETS | <u>\$ 1,553,799</u> |

LIABILITIES AND MEMBER'S EQUITY

LIABILITIES

| | |
|---------------------------------------|--------------|
| Accounts payable and accrued expenses | \$ 604,442 |
| Due to related parties | 241,542 |
| Lease liability | 127,312 |
| Contract liabilities | 4,375 |
| Deferred income tax liability | <u>1,300</u> |
| TOTAL LIABILITIES | 978,971 |

MEMBER'S EQUITY

TOTAL LIABILITIES AND MEMBER'S EQUITY

| |
|---------------------|
| <u>575,008</u> |
| <u>\$ 1,553,979</u> |

The accompanying notes are an integral part of this financial statement.

ARETE RESEARCH, LLC
(A Wholly-Owned Subsidiary of
Arete Research Services, LLP)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020

Note 1 - Organization

Arete Research, LLC (the "Company") is a Delaware limited liability company based in Boston, Massachusetts. The Company was formed on June 20, 2003. The Company was organized to operate as a registered broker-dealer in securities in the United States and provides research services on technology, telecom and media companies to fund managers in the United States. The Company has registered with the Securities and Exchange Commission ("SEC") as a broker-dealer and is a member of the Financial Industry Regulatory Authority ("FINRA").

The Company is a wholly-owned subsidiary of Arete Research Services, LLP (a limited liability partnership) (the "Parent") based in London, England. As discussed in NOTE 4, the Company contracts exclusively with its Parent to provide research services and back office support. Due to the extensive nature of the transactions with the Parent, the Company's financial condition, results of operations and its cash flows as presented in the financial statements may vary significantly from those that would have existed had the Company existed without such affiliation.

Note 2 - Summary of Significant Accounting Policies

Basis of Financial Statement Presentation

The accounting policies and reporting practices of the Company conform to the predominant practices in the broker-dealer industry and are in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

Government and Other Regulation

The Company's business is subject to significant regulation by various governmental agencies and self-regulatory organizations, including the SEC and FINRA. Such regulation includes, among other things, periodic examinations by these regulatory bodies to determine whether the Company is conducting and reporting its operations in accordance with the applicable requirements of these organizations. As a registered broker dealer, the Company is subject to the SEC's net capital rule (Rule 15c3-1), which requires that the Company maintain a minimum net capital, as defined.

Accounting Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that might affect certain reported amounts and disclosures in the financial statements and accompanying notes during the reporting period. Accordingly, actual results could differ from those estimates.

ARETE RESEARCH, LLC
(A Wholly-Owned Subsidiary of
Arete Research Services, LLP)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020

Note 2 - Summary of Significant Accounting Policies (Continued)

Accounts Receivable

Accounts receivable are customer obligations due in connection with research services performed in the normal course of business. The Company performs continuing credit evaluations of its customers' financial condition, comprising review of the terms of credit, the amount of credit granted and management's past history with a customer to determine if any such amounts will potentially be uncollectible. The Company includes any accounts receivable balances that are determined to be uncollectible in its overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. Based on the information available, management does not deem that an allowance for doubtful accounts is necessary as of March 31, 2020.

Concentration of Credit Risk

Financial instruments, which potentially subject the Company to concentrations of credit risk, consist primarily of cash maintained in financial institutions in excess of the FDIC insured limit of \$250,000. The Company limits the amount of credit risk exposure to any one financial institution. Although cash balances may exceed federally insured limits at times during the year, the Company has not experienced and does not expect to incur any losses in such accounts. Concentrations of credit risk with respect to trade receivables are limited due to the large number of customers comprising the Company's customer base and their dispersion across different geographic areas.

Income Taxes

The Company is a limited liability company, but has elected to be taxed as a "C" corporation for Federal income tax purposes. The Company recognizes and measures tax positions taken or expected to be taken in its tax return based on their technical merit and assesses the likelihood that the positions will be sustained upon examination based on the facts, circumstances and information available at the end of each period. Interest and penalties on tax liabilities, if any, would be recorded in interest expense and other general and administrative expense, respectively.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

ARETE RESEARCH, LLC
(A Wholly-Owned Subsidiary of
Arete Research Services, LLP)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020

Note 2 – Summary of Significant Accounting Policies (Continued)

Furniture and Equipment, net

Furniture and equipment is carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Useful lives of furniture and equipment are five and three years, respectively. Repairs and maintenance are expensed as incurred and major improvements are capitalized.

Contract Liabilities

Research fees received in advance for future services are deferred to the fiscal year in which the service will be provided.

Subsequent Events

The Company has evaluated subsequent events through June 22, 2020, which is the date the financial statements were issued.

Leases

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842), which supersedes the requirements in Topic 840, *Leases*. The objective of Topic 842 is to establish the principles that lessees and lessors shall apply to report useful information to users of financial statements about the amount, timing, and uncertainty of cash flow arising from a lease. The core principle of Topic 842 is that a lessee should recognize the assets and liabilities that arise from leases.

The ASU requires operating leases be included as right-of-use ("ROU") assets and lease liabilities recorded in the statement of financial condition. ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at the commencement date based on the present value of lease payments over lease term. The company determines if an arrangement is a lease at inception. The discount rate is the implicit rate if it is readily determinable or otherwise the Company uses its incremental borrowing rate. Lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

ARETE RESEARCH, LLC
(A Wholly-Owned Subsidiary of
Arete Research Services, LLP)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020

Note 3 - Net Capital Requirement

The Company is subject to the SEC's Net Capital Rule (Rule 15c3-1), which requires that the Company maintain "Net Capital" equal to the greater of \$5,000 or 6-2/3% of "Aggregate Indebtedness", as defined, and requires that the ratio of aggregate indebtedness to net capital shall not exceed 15 to 1. At March 31, 2020, the Company's "Net Capital" was \$321,622 and the "Required Net Capital" was \$57,784. At March 31, 2020, the Company's ratio of aggregate indebtedness to net capital was 2.69 to 1.

Note 4 - Related Party Transactions

The Company has entered into an agreement with the Parent whereby the Parent will charge the Company for research and back office services. For the year ended March 31, 2020, research and back office services expenses, as computed under this agreement, were \$3,661,952 and \$6,000, respectively, and are included in the accompanying statement of operations under the captions research expenses and back office services – related party. Additionally, certain sales made by the Parent and an affiliate related through common ownership to their customer base in the United States of America are collected by the Company. As of March 31, 2020, the Company had \$211,506 due to its affiliates pursuant to this agreement with the Parent which is included in due to related parties in the accompanying statement of financial condition. As of March 31, 2020, the Company had an amount of \$30,036 due to its affiliates related to 2019 revenue collected on behalf of the related parties.

Note 5 - Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of March 31, 2020:

| | |
|------------------------------------|--------------------------|
| Accounts payable | \$ 9,025 |
| Professional and regulatory fees | 45,784 |
| Salaries | 44,633 |
| Bonus and other compensation costs | <u>505,000</u> |
| | <u>\$ 604,442</u> |

ARETE RESEARCH, LLC
(A Wholly-Owned Subsidiary of
Arete Research Services, LLP)
NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020

Note 6 - Income Tax

The Company recognizes the amount of taxes payable or refundable for the current year and recognizes deferred tax liabilities and assets for the expected future tax consequences of temporary differences that have been recognized in the financial statements and tax returns.

Net deferred income taxes at March 31, 2020 is attributable to temporary differences for right of use asset, lease liability and depreciation of furniture and equipment.

The U.S. Federal jurisdiction, California, Massachusetts, Connecticut, New Jersey and New York are the major tax jurisdictions where the Company files income tax returns. At March 31, 2020, the Company had no uncertain tax positions that would require financial statement recognition, de-recognition or disclosure.

Note 7 - Leases

The Company leases its office space in Boston, Massachusetts under an agreement expiring in November 2021 which provides for base rent plus a proportionate share of the operating expenses applicable to the building. The lease is secured by a security deposit of \$8,189, which is included in other assets on the statement of financial condition. The agreement provides for monthly lease payments ranging from \$6,324 to \$6,587, with annual increases, as described in the agreement. The Company adopted ASU 842 on April 1, 2019 and recorded an increase in assets of \$199,233 and an increase in liabilities of \$199,233 on the statement of financial condition as a result of recognizing the right-of-use asset and lease liability. In addition, the right-of-use asset was reduced by deferred rent of \$24,243 previously recorded.

ARETE RESEARCH, LLC
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NOTES TO FINANCIAL STATEMENTS
MARCH 31, 2020

Note 7 - Leases – continued

Amounts reported in the statement of financial condition as of March 31, 2020 were as follows:

Operating leases:

| | |
|---------------------------|-----------|
| Operating lease ROU asset | \$110,908 |
| Operating lease liability | \$127,312 |

Weighted average remaining lease term:

| | |
|------------------|------------|
| Operating leases | 1.67 years |
|------------------|------------|

Weighted average discount rate:

| | |
|------------------|----|
| Operating leases | 3% |
|------------------|----|

The Company's maturity analysis and reconciliation to its lease liability is presented in the table below

For the year ending March 31,

| | |
|--------------------------------------|--------------------------|
| 2021 | \$ 77,996 |
| 2022 | <u>52,700</u> |
| | \$ 130,696 |
| Less imputed interest | <u>3,384</u> |
| Lease liability as of March 31, 2020 | <u>\$ 127,312</u> |

Note 8 – Employee Benefit Plan

The Company is a sponsor of a 401(k) Retirement Plan (the "Plan"). The Plan requires employer contributions in an amount equal to 3% of each employee's compensation for the plan year.