




## OATH OR AFFIRMATION

I, Mark Kovachick, swear (or affirm) that, to the best of my knowledge and belief, the financial report pertaining to the firm of \_\_\_\_\_, as of December 31, 2021, is true and correct. I further swear (or affirm) that neither the company nor any partner, officer, director, or equivalent person, as the case may be, has any proprietary interest in any account classified solely as that of a customer.

  
\_\_\_\_\_  
Notary Public

STEPHANIE A MUSHENHEIM  
Notary Public  
State of Ohio  
My Comm. Expires  
May 18, 2025

Signature: \_\_\_\_\_

Title: Chief Financial Officer

### This filing\*\* contains (check all applicable boxes):

- (a) Statement of financial condition.
- (b) Notes to consolidated 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 cash flows.
- (e) Statement of changes in stockholders' or partners' or sole proprietor's equity.
- (f) Statement of changes in liabilities subordinated to claims of creditors.
- (g) Notes to consolidated financial statements.
- (h) Computation of net capital under 17 CFR 240.15c3-1 or 17 CFR 240.18a-1, as applicable.
- (i) Computation of tangible net worth under 17 CFR 240.18a-2.
- (j) Computation for determination of customer reserve requirements pursuant to Exhibit A to 17 CFR 240.15c3-3.
- (k) Computation for determination of security-based swap reserve requirements pursuant to Exhibit B to 17 CFR 240.15c3-3 or Exhibit A to 17 CFR 240.18a-4, as applicable.
- (l) Computation for Determination of PAB Requirements under Exhibit A to § 240.15c3-3.
- (m) Information relating to possession or control requirements for customers under 17 CFR 240.15c3-3.
- (n) Information relating to possession or control requirements for security-based swap customers under 17 CFR 240.15c3-3(p)(2) or 17 CFR 240.18a-4, as applicable.
- (o) Reconciliations, including appropriate explanations, of the FOCUS Report with computation of net capital or tangible net worth under 17 CFR 240.15c3-1, 17 CFR 240.18a-1, or 17 CFR 240.18a-2, as applicable, and the reserve requirements under 17 CFR 240.15c3-3 or 17 CFR 240.18a-4, as applicable, if material differences exist, or a statement that no material differences exist.
- (p) Summary of financial data for subsidiaries not consolidated in the statement of financial condition.
- (q) Oath or affirmation in accordance with 17 CFR 240.17a-5, 17 CFR 240.17a-12, or 17 CFR 240.18a-7, as applicable.
- (r) Compliance report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (s) Exemption report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (t) Independent public accountant's report based on an examination of the statement of financial condition.
- (u) Independent public accountant's report based on an examination of the financial report or financial statements under 17 CFR 240.17a-5, 17 CFR 240.18a-7, or 17 CFR 240.17a-12, as applicable.
- (v) Independent public accountant's report based on an examination of certain statements in the compliance report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (w) Independent public accountant's report based on a review of the exemption report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (x) Supplemental reports on applying agreed-upon procedures, in accordance with 17 CFR 240.15c3-1e or 17 CFR 240.17a-12, as applicable.
- (y) Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit, or a statement that no material inadequacies exist, under 17 CFR 240.17a-12(k).
- (z) Other: \_\_\_\_\_

\*\*To request confidential treatment of certain portions of this filing, see 17 CFR 240.17a-5(e)(3) or 17 CFR 240.18a-7(d)(2), as applicable.

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

**Annual Audit Report**

Year Ended December 31, 2021

Key Investment Services LLC  
(Name of Respondent)

4900 Tiedeman Road

Brooklyn, Ohio 44144

(Address of principal executive office)

Mr. Mark A. Kovachick  
Chief Financial Officer  
Key Investment Services LLC.

4900 Tiedeman Road

Brooklyn, Ohio 44144  
Telephone no. (216) 689-3723

(Name and address of person authorized to receive notices and communications  
from the Securities and Exchange Commission)

Key Investment Services LLC  
Financial Statements and Supplementary Information  
Year Ended December 31, 2021

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## Report of Independent Registered Public Accounting Firm

To the Members and Board of Directors of Key Investment Services LLC

### Opinion on the Financial Statements

We have audited the accompanying statement of assets, liabilities, and member's interest of Key Investment Services LLC (the Company) as of December 31, 2021, the related statements of operations, changes in member's interest, and cash flows for the year then ended, and 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 at December 31, 2021, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

### 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 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 accompanying information contained in Schedules I and II has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. Such information is the responsibility of the Company's management. Our audit procedures included determining whether the 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. In forming our opinion on the information, we evaluated whether such 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 information is fairly stated, in all material respects, in relation to the financial statements as a whole.

We have served as the Company's auditor since 2006.

February 24, 2022

## Key Investment Services LLC

### Statement of Assets, Liabilities, and Member's Interest

December 31, 2021  
(Dollars In Thousands)

#### Assets

Cash	\$	7,069
Receivable from clearing organization		15,582
Securities owned, at fair value		83,804
Net deferred tax assets		941
Receivable from affiliate		5,681
Prepaid assets		1,037
Other assets		3,447
Total assets	\$	<u>117,561</u>

#### Liabilities and member's interest

##### Liabilities:

Payable to affiliate	\$	6,043
Accrued compensation		6,914
Other liabilities		2,642
Total liabilities		<u>15,599</u>

#### Member's interest

Total liabilities and member's interest	\$	<u>101,962</u>
		<u>117,561</u>

*See accompanying notes to financial statements.*

## Key Investment Services LLC

### Statement of Operations

Year Ended December 31, 2021

*(Dollars In Thousands)*

#### **Revenues**

Commissions	\$	100,175
Principal transactions		(26)
Advisory fees		31,225
Interest and dividends		498
Other revenues		1,758
Total revenues		<u>133,630</u>

#### **Expenses**

Employee compensation and benefits		81,098
Floor brokerage and clearance		5,793
Communications		1,828
Occupancy and equipment		9,106
Promotion and development		569
Data processing		2,817
Processing fees paid to affiliate		2,841
Management fee paid to affiliate		3,481
Other operating expenses		3,712
Total expenses		<u>111,245</u>

Income before income taxes 22,385

Income tax expense 5,348

Net income \$ 17,037

*See accompanying notes to financial statements.*

## Key Investment Services LLC

### Statement of Changes in Member's Interest

Year Ended December 31, 2021  
*(Dollars In Thousands)*

Balance at January 1, 2021	\$	84,568
Contributions from Key		357
Net income		17,037
Balance at December 31, 2021	\$	<u>101,962</u>

*See accompanying notes to financial statements.*

## Key Investment Services LLC

### Statement of Cash Flows

Year Ended December 31, 2021

*(Dollars In Thousands)*

#### **Operating activities**

Net Income	\$	17,037
Adjustments to reconcile net income to net cash provided by operating		
Stock-based compensation expense allocated from Key		357
Deferred income tax benefit		(57)
Changes in operating assets and liabilities:		
Decrease in receivable from clearing organization		3,461
(Increase) in securities owned, at fair value		(21,084)
(Increase) in prepaid expenses		(23)
(Increase) in receivables from affiliates		(81)
(Increase) in other assets		(626)
(Decrease) in securities sold, not yet purchased, at fair value		(4)
Increase in payable to affiliates		1,147
Increase in accrued compensation		825
(Decrease) in other liabilities		(270)
Net cash provided by operating activities		<u>682</u>
Net increase in cash		682
Cash at beginning of fiscal year		<u>6,387</u>
Cash at end of fiscal year	\$	<u><u>7,069</u></u>

#### **Additional disclosures relative to cash flow**

Taxes paid to Parent	\$	5,692
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*See accompanying notes to financial statements.*

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
*(Dollars In Thousands)*

### **1. Organization**

Key Investment Services LLC (the Company) is an Ohio limited liability company whose sole member is KeyBanc Capital Markets Inc. (KBCM or Parent), which is a wholly owned subsidiary of KeyCorp (Key). The Company is an introducing broker-dealer clearing its customer transactions on a fully disclosed basis. The Company primarily sells investment company shares, fixed and variable rate annuity contracts, corporate debt and equity securities, unit investment trusts, U.S. government securities, managed products, and life insurance contracts throughout the retail branch network of its affiliate bank, KeyBank, N.A. (KeyBank). The Company is a member of the Financial Industry Regulatory Authority, Inc. (FINRA) and Securities Investor Protection Corporation (SIPC) and is registered with the Securities and Exchange Commission (SEC) as a broker and dealer.

### **2. Significant Accounting Policies**

The following is a summary of significant accounting policies followed in preparation of these financial statements.

#### **Basis of Presentation**

Substantially all of the Company's financial assets and liabilities are carried at fair value or at amounts which, because of the short-term nature of the financial instrument, approximate fair value.

#### **Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results could differ from those estimates.

#### **Subsequent Events**

The Company has considered the impact of subsequent events on these consolidated financial statements through the time the financial statements were issued. Financial statements are considered issued when they are widely distributed for general use or filed with the SEC.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

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

#### **Cash**

Cash is on deposit primarily at KeyBank and with other third-party financial institutions. Cash balances may be held in excess of FDIC insurance limits.

#### **Receivable from Clearing Organization**

Receivable from clearing organization represents amounts due from the Company's third-party clearing organization for security transactions and commissions associated with unsettled trades net of various clearing and administrative charges. Receivable from clearing organization is recognized on a trade-date basis. Clearing organization deposits, which are in the form of cash, are also included in the receivable from clearing organization in the statement of assets, liabilities, and member's interest.

Receivables from clearing organization are assessed for an allowance for credit losses Accounting Standards Codification (ASC) 326, *Measurement of Credit Losses on Financial Instruments*, and is based on an analysis of historical losses, current and forecasted economic conditions, collateral positions and where applicable master netting agreements. An allowance for credit losses is recorded in the statement of assets, liabilities, and member's interest as a reduction in the receivable for clearing organization. At December 31, 2021, no allowance for credit losses was recognized by the Company.

#### **Securities Owned and Securities Sold, but Not Yet Purchased**

Securities owned and securities sold, but not yet purchased are marketable securities recorded on a trade-date basis and carried at fair value.

#### **Prepaid Assets**

Prepaid expenses include third-party service fees, licensing and regulatory fees, and insurance premiums that are being amortized primarily over twelve months.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### 2. Significant Accounting Policies (continued)

#### Fair Value Measurements

Fair value is defined as the price to sell an asset or transfer a liability in an orderly transaction between market participants in the principal market. Therefore, fair value represents an exit price at the measurement date. The Company values its assets and liabilities based on the principal or most advantageous market where each would be sold (in the case of assets) or transferred (in the case of liabilities). In the absence of observable market transactions, the Company considers liquidity valuation adjustments to reflect the uncertainty in pricing the instruments.

Valuation inputs can be observable or unobservable. Observable inputs are assumptions based on market data obtained from an independent source. Unobservable inputs are assumptions based on the Company's own information or assessment of assumptions used by other market participants in pricing the asset or liability. The Company's unobservable inputs are based on the best and most current information available on the measurement date.

All inputs, whether observable or unobservable, are ranked in accordance with a prescribed fair value hierarchy that gives the highest ranking to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest ranking to unobservable inputs (Level 3). Fair values for Level 2 assets and liabilities are based on one or a combination of the following factors: (i) quoted market prices for similar assets or liabilities; (ii) observable inputs, such as interest rates or yield curves; or (iii) inputs derived principally from or corroborated by observable market data. The level in the fair value hierarchy ascribed to a fair value measurement in its entirety is based on the lowest level input that is significant to the measurement. Assets and liabilities may transfer between levels based on the observable and unobservable inputs used at the valuation date.

Assets and liabilities are recorded at fair value on a recurring or nonrecurring basis. Nonrecurring fair value adjustments are typically recorded as a result of the application of lower of cost or fair value accounting; or impairment. At a minimum, the Company conducts valuations quarterly.

Additional information regarding fair value measurements and disclosures is provided in Note 5 (Fair Value Measurements).

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### 2. Significant Accounting Policies (continued)

#### Income Taxes

The Company is a single member LLC treated for tax purposes as a division of the Parent and therefore is included in the consolidated federal income tax return filed by Key. For financial reporting purposes, Key follows the policy of allocating the consolidated income tax provision among its subsidiaries on a separate return basis, which includes any tax credits or carryovers and carrybacks, subject to recognition of such items on a consolidated basis. The Company files separate state tax returns.

Deferred tax assets and liabilities are determined based on temporary differences between financial statement asset and liability amounts and their respective tax bases, and are measured using enacted tax laws and rates that are expected to apply in the periods in which the deferred tax assets or liabilities are expected to be realized. Deferred tax assets are also recorded for any tax attributes, such as tax credit and net operating loss carryforwards. Subsequent changes in the tax laws require adjustment to these assets and liabilities with the cumulative effect included in the provision for income taxes for the period in which the change is enacted. A valuation allowance is recognized for a deferred tax asset if, based on the weight of available evidence, it is more-likely-than-not that some portion or all of the deferred tax asset will not be realized.

ASC 740, *Income Taxes*, prescribes a model for the recognition, measurement, presentation and disclosure of uncertain tax positions taken or expected to be taken on a tax return. Under ASC 740, tax positions are recognized when it is more-likely-than-not the position will be sustained upon examination by the taxing authorities. Such tax positions are measured as the largest amount of tax benefit that is greater than 50% likely (more-likely-than-not) of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. The Company's management believes there was no liability resulting from unrecognized tax benefits related to uncertain tax positions taken at December 31, 2021. Further, the Company does not expect the total amount of unrecognized tax benefits to significantly increase in the next twelve months. Refer to Note 6 (Income Taxes) for further discussion of the Company's income taxes.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### 2. Significant Accounting Policies (continued)

#### Accrued Compensation

Accrued compensation includes employee salaries, commissions, bonuses, payroll taxes, and benefits. Salaries, payroll taxes, and benefits are accrued based on days worked. Commissions paid to employees are accrued on a trade-date basis and vary based on individual commission rates and production volume. Bonuses payable in cash include both discretionary and non-discretionary amounts, which are accrued as pre-determined benchmarks are met or based on estimated payouts.

#### Reserve for Annuity and Insurance Sales

The Company estimates a reserve against revenue related to certain annuity and insurance contracts that have the potential to be cancelled or returned at a future date. This estimate is based on average historical loss rates over a three-year period. During the year ended December 31, 2021, the Company recorded a reserve of \$747.

#### Revenue Recognition

Commissions, investment advisory fees, and distribution (12b-1) revenues are recognized in accordance with ASC 606, *Revenue from Contracts with Customers*. The core principal of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Refer to Note 7 (Revenue from Contracts with Customers) for further discussion on the Company's revenue recognition for commissions, investments advisory, and distribution (12b-1) revenues.

Principal transactions revenue represents revenue earned from the purchasing and selling of securities in the secondary market and unrealized gains and losses associated with unsold security positions held in inventory. Revenues in the form of realized trading gains and losses are recognized on a trade-date basis. Realized gains and losses on sales of securities are determined based upon the sale of positions held on a first-in-first-out basis.

Interest revenue and expense associated with securities owned and securities sold, not yet purchased, respectively, are recognized based on the settlement date of the underlying purchase or sale and accrued into income and expense using the effective yield method.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

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

#### **Stock-Based Compensation**

Stock-based payments are awarded by the Parent to certain employees of the Company as compensation for services provided. In substance, the Parent contributes capital to the Company, and the Company records stock-based compensation expense for its employees in exchange for services rendered.

Stock-based compensation is measured using the fair value method of accounting on the grant date. The measured cost is recognized over the period during which the recipient is required to provide service in exchange for the award. The Company estimates expected forfeitures when stock-based awards are granted and records compensation expense only for awards that are expected to vest. Compensation expense related to awards granted to employees is recorded in employee compensation and benefits in the consolidated statement of operations.

The Company recognizes compensation cost for stock-based, mandatory deferred incentive compensation awards using the accelerated method of amortization over a period of approximately five years (the current year performance period and a four-year vesting period, which generally starts in the first quarter of the performance period).

Employee stock options typically become exercisable at the rate of 25% per year, beginning one year after the grant date. Options expire no later than ten years after their grant date. The Company recognizes stock-based compensation expense for stock options with graded vesting using an accelerated method of amortization.

The Company estimates the fair value of options granted using the Black-Scholes option-pricing model, as further described in Note 10 (Stock-Based Compensation).

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### 2. Significant Accounting Policies (continued)

#### Accounting Guidance Adopted in 2021

Standard	Date of Adoption	Description	Effect on Financial Statements or Other Significant Matter
<p>ASU 2019-12 <i>Simplifying the Accounting for Income taxes</i></p>	<p>January 1, 2021</p>	<p>This ASU simplifies the accounting for income taxes by removing certain exceptions to the existing guidance, such as exceptions related to the incremental approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss and the recognition of deferred tax liabilities when a foreign subsidiary becomes an equity method investment and when a foreign equity method investment becomes a subsidiary.</p> <p>Along with general improvements, it adds simplifications related to franchise taxes, the tax basis of goodwill and the method for recognizing an enacted change in tax laws. The guidance also specifies that an entity is not required to allocate the consolidated amount of certain tax expense to a legal entity not subject to tax in its own separate financial statements.</p> <p>The guidance should be applied on either a retrospective, modified retrospective or prospective basis depending on the amendment.</p>	<p>The Company adopted this guidance on January 1, 2021 using the transition guidance prescribed by amendment. The adoption of this accounting guidance did not have a material effect on the financial condition, results of operations, or cash flows of the Company.</p>

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### 3. Securities Owned and Securities Sold, but Not Yet Purchased

Securities owned at December 31, 2021 consisted of the following.

	<u>Securities Owned</u>
U.S. and Canadian government obligations	\$ 70,989
Money market accounts	12,815
	<u>\$ 83,804</u>

The Company held no securities sold, but not yet purchased positions at year end.

### 4. Financial Instruments with Off-Balance Sheet and Credit Risk

In the ordinary course of business, the Company's activities involve the execution, settlement and financing of various securities transactions. These activities may expose the Company to credit and market risks in the event the customer, counterparty, or clearing firm is unable to fulfill its contractual obligations. A substantial portion of the Company's transactions are collateralized. The Company's exposure to credit risk associated with the nonperformance can be adversely affected by volatile trading markets. The Company monitors concentrations of credit risk on both an individual and group counterparty basis and seeks to limit risk through consideration of various factors, including the financial strength of counterparties and industry segments, reviewing the size of positions or commitments, analyzing the expected duration of the positions, and by entering into legally enforceable master netting arrangements. Where considered necessary, the Company requires a deposit of additional collateral or a reduction of securities positions.

All securities owned are pledged to the third-party clearing organization on terms that permit it to sell or repledge the securities to others, subject to certain limitations. Securities sold, but not yet purchased, represent obligations of the Company to deliver the specified security in the market at contracted price and thereby creates a liability to repurchase the security in the market at prevailing prices, if not owned by the Company. These transactions result in off-balance sheet market risk, as the Company's ultimate obligation to satisfy the transaction may exceed the amount recognized in the consolidated statement of financial condition. No liability for off-balance sheet credit risk was considered necessary at December 31, 2021.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### 5. Fair Value Measurements

In accordance with U.S. GAAP, the Company measures certain assets and liabilities at fair value. Fair value is defined as the price to sell an asset or liability in an orderly transaction between market participants in the Company's principal market. Additional information regarding the Company's accounting policies for determining fair value is provided in Note 2 ("Summary of Significant Accounting Policies") under the heading "Fair Value Measurements".

#### Qualitative Disclosures of Valuation Techniques

*Securities owned and securities sold, but not yet purchased (Securities):* The Company's security portfolio consisted of bonds backed by the U.S. and Canadian governments, securities issued by the U.S. Treasury, and money market securities. These instruments are classified as Level 2 as quoted prices for identical securities are not available, and fair value is determined using pricing models (either by a third-party pricing service or internally) or quoted prices of similar securities. Inputs to the pricing models include actual trade data (i.e., spreads, credit ratings and interest rates) for comparable assets, and standard inputs such as yields, broker/dealer quotes, bids and offers. Money market securities are valued using net asset values provided by the mutual fund companies where the positions are held.

#### Assets and Liabilities Measured at Fair Value on a Recurring Basis

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with U.S. GAAP. The following table presents the Company's assets and liabilities measured at fair value on a recurring basis at December 31, 2021.

	Level 1	Level 2	Level 3	Total
Assets measured on a recurring basis <sup>(a)</sup>				
Securities Owned:				
U.S. and Canadian government obligations	\$ —	\$ 70,989	\$ —	\$ 70,989
Money market accounts	—	12,815	—	12,815
Total assets on a recurring basis at fair value	\$ —	\$ 83,804	\$ —	\$ 83,804

<sup>(a)</sup>During 2021 the Company had no Level 3 recurring assets or liabilities

## Key Investment Services LLC

### Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

#### 6. Income Taxes

The Company is a single member LLC treated for tax purposes as a division of its Parent and therefore is included in the consolidated federal income tax return filed by Key. For financial reporting purposes, Key follows the policy of allocating the consolidated income tax provision among the Parent and its subsidiaries on a separate return basis, which includes any tax credits or carryovers and carrybacks, subject to recognition of such items on a consolidated basis. Income tax expense included in the statement of operations is summarized below:

<b>Current:</b>	
Federal	\$ 4,558
State	847
Total current expense	5,405
<b>Deferred expense (benefit):</b>	
Federal	(47)
State	(10)
Total deferred (benefit)	(57)
<b>Total income tax expense</b>	<b>\$ 5,348</b>

The difference between income tax expense and the amount computed by applying the statutory federal tax rate of 21% to income before income taxes was as follows:

	Amount	Rate
Income before income taxes at 21% U.S. statutory federal tax rate	\$ 4,701	21.0 %
State income tax, net of federal tax benefit	661	3.0 %
Disallowed meals and entertainment	9	— %
Stock-based compensation	(24)	(0.1)%
Other	1	— %
Total income tax expense	\$ 5,348	23.9 %

Deferred income taxes reflect the net tax effect of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### 6. Income Taxes (continued)

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2021 were as follows:

#### Deferred tax assets:

Employee compensation accruals	\$	431
Accrued expenses		499
State taxes		11
Total deferred tax assets	\$	<u>941</u>

#### Deferred tax liabilities:

Total deferred tax liabilities		<u>—</u>
Total net deferred tax assets	\$	<u><u>941</u></u>

Deferred tax assets are recoverable from Key when they are able to be used. An assessment is conducted of all available evidence to determine the amount of deferred tax assets that are more-likely-than-not to be realized, and therefore recorded. This evidence includes Key's taxable income in prior periods, projected future reversals of deferred tax items, potential tax-planning strategies and projected future taxable income. Based on these criteria, the Company currently believes that it is more-likely-than-not that the net deferred tax asset will be realized in future periods.

Total federal and state income taxes paid to Key during 2021 was \$5,692. At December 31, 2021, the Company had a \$70 net intercompany payable to Key for federal and state income taxes, which is included in other liabilities.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### 7. Revenue from Contracts with Customers

The following table represents a disaggregation of revenue from contracts with customers for 2021 that were accounted for under ASC 606.

<b>Commissions</b>	
Brokerage	\$ 71,025
Distribution fees (12b-1 and trails)	29,150
Total commissions	<u>100,175</u>
<b>Advisory fees</b>	<u>31,225</u>
Total revenue from contracts with customers	<u><u>\$ 131,400</u></u>

Brokerage commissions represents revenue earned from trade execution services provided to the Company's institutional brokerage and retail brokerage customers. Services provided to institutional brokerage customers consist of sales and trading of equity securities and equity research. Services provided to retail brokerage customers consist of sales of various securities products, primarily comprised of investment company shares and fixed and variable rate annuity contracts. In exchange for providing these services, customers are charged a commission upon execution of a security buy or sell trade with the Company. Commissions and related clearing expenses are recognized on trade date, which is the date the Company fulfills a customer trade order by contracting the trade with another counterparty and confirming the trade with the customer. Commissions revenue is recognized on trade date because the Company's performance obligation is satisfied on this date as the underlying purchaser of the security instrument is identified, the pricing of the trade is agreed upon by both parties and the risks and rewards of ownership have been transferred to/from the customer.

Distribution (12b-1) fees represent revenue earned for promoting and distributing mutual funds, which are accrued when the services are performed and it is probable that significant amounts would not be reversed upon resolution of any variable uncertainties. The distribution fees are variable based on either the average daily fund net asset balances or average daily aggregate net fund sales and are affected by the changes in the overall level of activity and mix of assets under management for the products sold. Due to the factors and activity outside of the Company's control, the constraint on recognizing this revenue cannot be overcome until such activity and market values are known, which is usually monthly. Cash for the distribution fees is generally received within the following quarter.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### 7. Revenue from Contracts with Customers (continued)

Advisory fees represent revenue earned from providing advisory-related services to customers. The Company believes the performance obligation for providing these 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 upon a percentage applied to the customers assets under management. Investment advisory fees are billed at the beginning of a service period (generally quarterly) and are recognized over that period as services are performed.

As of December 31, 2021, the Company had no contract assets or contract liabilities.

### 8. Related-Party Transactions

The Company enters into transactions with its Parent, Key and its subsidiaries. Amounts due from or payable to the Company's related parties at year end are recognized in receivable from affiliates and payables to affiliates in the consolidated statement of financial position.

KeyBank provides certain support services to the Company. Such services include accounting, legal, human resources, payroll, tax, risk management, insurance, communications, facilities, distribution, printing, computer processing and software development. The Company may be provided these services under one or more service agreements with KeyBank.

Support service charges from KeyBank for 2021 were:

Communications	\$	1,494
Processing fee		2,841
Management fee		3,481
Software development		45
	\$	<u>7,861</u>

At December 31, 2021, the Company recognized a net payable of \$971 due to KeyBank for these support services.

The Company has a specific shared service agreement with KeyCorp Insurance Agency USA Inc. (the Agency), a wholly owned subsidiary of Key. The Agency maintains licensure for Company personnel selling insurance and fixed annuity products in all states where such products are offered. The Agency also incurs all costs associated with licensing, taxation and other expenses associated with the insurance and annuity product offerings. For these services provided, the Agency retains a contracted percentage of revenue generated by the Company.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### **8. Related-Party Transactions (continued)**

The insurance and annuity revenue recognized by the Company and the amount retained by the Agency was \$73,478 and \$4,256, respectively, for 2021. These amounts were recognized in commissions revenue on the statement of operations. At December 31, 2021, the Company recorded a net receivable of \$633 due from the Agency related to this arrangement.

The Parent also provides certain accounting, compliance, and operations support services to the Company. During 2021, these support service charges totaled \$209 and were recognized in other operating expenses on the statement of operations.

The Company has an advisory agreement with KeyBank in association with services provided for certain assets under management. During 2021, the support services totaled \$113 and were recognized in other operating expenses on the statement of operations. At December 31, 2021, the Company recognized a payable to KeyBank of \$24 under this arrangement.

The Company has entered into operating lease arrangements with KeyBank for the leasing of office space. The Company has classified these arrangements as short-term operating leases pursuant to ASC Topic 842, *Leases*, as the lease term is twelve months or less at lease commencement. The lease cost is recognized on a straight-line basis over the twelve-month lease term in occupancy and equipment expense on the statement of operations. For the year ended December 31, 2021, total lease expense associated with these short-term leases was \$8,904.

### **9. Employee Benefit Plans**

Employees of the Company are covered under a 401(k) plan sponsored by Key. The plan permits eligible employees to contribute from 1% to 100% of eligible compensation with up to 6% being eligible for matching contributions. The plan also permits the distribution of a discretionary annual profit-sharing contribution, which was 1.0% of eligible compensation for employees eligible on the last business day of the 2021. For the year ended December 31, 2021, the Company's contributions expense was \$3,551, included in employee compensation and benefits in the statement of operations.

Effective December 31, 2009, Key amended the defined benefit pension plan to freeze all benefit accruals and close the pension plan to new employees. The Company will continue to credit existing participants' account balances for interest until participants receive their plan benefits.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### **9. Employee Benefit Plans (continued)**

Substantially all of the Company's employees who meet certain specified conditions are eligible for benefits under group medical and dental plans and postretirement health care and life insurance plans established by Key. Costs related to the plans incurred by Key on behalf of the Company's employees are allocated to the Company based on management's estimate of the Company's proportionate share of the related costs. For the year ended December 31, 2021, the Company's allocated expense was \$3,726, included in employee compensation and benefits expense on the statement of operations.

### **10. Stock-Based Compensation**

Key has long-term incentive award plans that provide for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, or other awards. Other awards may be denominated or valued by reference to Key's common shares or other factors, discounted stock purchases, and deferred compensation to eligible employees of the Company. These incentive compensation plans are administered by Key. In accordance with a resolution adopted by the Compensation and Organization Committee of Key's Board of Directors, Key may not grant options to purchase common shares, restricted stock, or other shares under any long-term compensation plan in an aggregate amount that exceeds 6% of Key's outstanding common shares in any rolling three-yr period.

Total compensation expense recognized by the Company for the long-term compensation plans was \$358 for 2021. The total income tax benefit recognized in the statement of operations for these plans was \$85 for the year ended December 31, 2021. Stock-based compensation expense related to awards granted to employees is recorded in employee compensation and benefits in the statement of operations.

#### **Stock Options**

Stock options granted to employees generally become exercisable at the rate of 25% per year. No option granted by Key will be exercisable less than one year after, or expire later than ten years from, the grant date. The exercise price is the closing price of Key's common shares on the grant date.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### 10. Stock-Based Compensation (continued)

#### Stock Options (continued)

The fair value of stock options granted is performed using the Black-Scholes option-pricing model. This model was originally developed to determine the fair value of exchange-traded equity options, which (unlike employee stock options) have no vesting period or transferability restrictions. Because of these differences, the Black-Scholes model does not precisely value an employee stock option, but it is commonly used for this purpose. The model assumes that the estimated fair value of an option is amortized as compensation expense over the option's vesting period. There were no stock options granted during 2021.

Stock options exercised in 2021 numbered 12,392. The aggregate intrinsic value of stock options exercised in 2021 was \$108. As of December 31, 2021, there was no unrecognized compensation cost related to nonvested options under the Plan.

Cash received by Key from options exercised was \$142 in 2021. The actual tax benefit for the tax deductions from options exercised totaled \$6 for 2021.

#### Long-Term Incentive Compensation Program

Key's Long-Term Incentive Compensation Program (the "Program") rewards senior executives critical to the Company's long-term financial success. Awards are granted annually in a variety of forms:

- deferred cash payments that generally vest and are payable at the rate of 25% per year;
- time-lapsed (service condition) restricted stock units payable in stock, which generally vest at the rate of 25% per year;
- performance units payable in stock, which vest at the end of the three-year performance cycle and will not vest unless KeyCorp attains defined performance levels and the service condition is met; and
- performance units payable in cash, which vest at the end of the three-year performance cycle and will not vest unless KeyCorp attains defined performance levels and the service condition is met.

Performance units vested in 2021 numbered 2,087 and were paid in cash. The total fair value of the performance units that vested in 2021 was \$38.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
(Dollars In Thousands)

### **10. Stock-Based Compensation (continued)**

#### **Long-Term Incentive Compensation Program (continued)**

The compensation cost of time-lapsed and performance-based restricted stock or unit awards granted under the Program is calculated using the closing trading price of Key's common shares on the grant date.

Unlike time-lapsed and performance-based restricted stock or units, dividends are not paid during the vesting period for performance shares or units that may become payable in excess of targeted performance.

The total compensation cost and related income tax benefit recognized for the Program totaled \$358 and \$85, respectively, in 2021. The weighted-average grant-date fair value of awards granted under the Program was \$19.90 during 2021. As of December 31, 2021, unrecognized compensation cost related to nonvested shares under the Program totaled \$479. The Company expects to recognize this cost over a weighted-average period of 2.40 years. The total fair value of shares vested was \$419 in 2021.

### **11. Commitments and Contingencies**

In the ordinary course of business, the Company is a defendant in various lawsuits and a subject of regulatory inquiries, in each case, incidental to its securities business. In view of the number and diversity of claims against the Company and the inherent difficulty of predicting the outcome of litigation, regulatory actions and other claims, the Company cannot state with certainty what the eventual outcome of pending litigation or regulatory inquiries or other claims will be. The Company provides for costs relating to these matters when a loss is probable and the amount can be reasonably estimated. While it is not possible to predict with certainty, management believes that the ultimate resolution of such matters will not have a material adverse effect on the statement of assets, liabilities, and member's interest, the statement of operations, and the statement of cash flows of the Company.

# Key Investment Services LLC

## Notes to the Financial Statements

December 31, 2021  
*(Dollars In Thousands)*

### **12. Net Capital Requirements**

The Company is subject to the Uniform Net Capital Rule under the Securities Exchange Act of 1934. This rule prohibits the Company from engaging in any securities transactions whenever its “aggregate indebtedness” (as defined) exceeds 15 times its “net capital” (as defined). Under such rule, the Company may be required to reduce its business if its “net capital ratio” (as defined) exceeds 12 to 1. The Company may also be prohibited from expanding its business if its net capital ratio exceeds 10 to 1. The Company is also subject to certain notification provisions of the rule relating to the withdrawal of capital.

As an introducing broker-dealer, the Company is required to maintain minimum net capital of the greater than \$250,000 of 6 2/3% of the aggregate indebtedness. At December 31, 2021, the minimum amount required was \$1,040. At December 31, 2021, the Company’s net capital was \$89,195, which was \$88,155 in excess of its required net capital and the Company’s aggregate indebtedness to net capital ratio was 0.17 to 1.

## Supplemental Information

Key Investment Services LLC  
Schedule I  
Computation of Net Capital Pursuant to Rule 15c3-1  
December 31, 2021  
(Dollars In Thousands)

**Net Capital**

Total Member's interest from statement of assets, liabilities, and member's interest	\$ 101,962
Deductions and/or charges:	
Nonallowable assets:	
Net deferred tax assets	(941)
Receivable from affiliate	(5,681)
Prepaid assets	(1,037)
Other assets	(3,227)
	(10,886)
Net capital before haircuts on security positions	91,076
Haircuts of securities positions	
Trading and investment securities	
Debt securities	(1,625)
Other securities	(256)
	(1,881)
Net Capital	\$ 89,195
Aggregate indebtedness	
Liabilities	\$ 15,599
Total aggregated indebtedness	\$ 15,599
Divided by	15
Minimum net capital requirement	\$ 1,040
Minimum dollar requirement	\$ 250
Net capital requirement	\$ 1,040
Excess net capital	\$ 88,155
Ratio of aggregate indebtedness to net capital	0.17 to 1

# Key Investment Services LLC

## Schedule II

### Statement Regarding Rule 15c3-3

December 31, 2021

*(Dollars In Thousands)*

The Company is exempt from Rule 15c3-3 of the Securities and Exchange Commission under paragraphs (k)(2)(ii) of that Rule.

As Key Investment Services LLC business activities do not involve taking possession and control of customer funds or securities, an exemption from Rule 15c3-3 of the Securities and Exchange Commission is claimed under paragraph (k)(2)(ii) for the following:

- A. Computation for the Determination of Reserve Requirements Under Rule 15c3-3
- B. Information Relating to the Possession or Control Requirements under Rule 15c3-3