



STATEMENT OF FINANCIAL CONDITION

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
September 30, 2023  
(Unaudited)

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Statement of Financial Condition  
September 30, 2023  
(Unaudited)

**Contents**

Statement of Financial Condition .....	1
Notes to the Statement of Financial Condition .....	2

**Instinet, LLC**  
 (A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
**Statement of Financial Condition**  
 September 30, 2023  
 (Dollars in thousands)  
 (Unaudited)

**Assets**

Cash and cash equivalents	\$ 55,779
Restricted cash	4,750
Cash segregated in compliance with federal regulations	19,850
Securities borrowed	64,071
Receivable from broker-dealers and clearing organizations	232,088
Receivable from customers	39,153
Transaction fees and other receivables, net of a \$580 allowance	72,763
Deferred tax assets	3,471
Receivable from affiliates	3,701
Other assets	19,326
Total assets	<u>\$ 514,952</u>

**Liabilities and member's equity**

Securities loaned	\$ 60,447
Payable to broker-dealers and clearing organizations	79,144
Payable to customers	58,133
Accounts payable	56,378
Accrued compensation	6,755
Payable to affiliates	9,377
Accrued expenses and other liabilities	26,725
Subordinated borrowings	100,000
Total liabilities	<u>396,959</u>

Commitments and contingent liabilities (See note 8)

Total member's equity	<u>117,993</u>
Total liabilities and member's equity	<u>\$ 514,952</u>

*See accompanying notes to the statement of financial condition.*

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Condition  
September 30, 2023  
(Unaudited)

**1. Nature of Business**

Instinet, LLC (“Instinet” or the “Company”) is an electronic agency focused securities broker which offers sales trading support, sophisticated trading tools and advanced technology to institutional clients and broker-dealers for the execution of securities orders in global market centers or with other clients. The Company offers commission management services. Instinet settles and clears transactions with clients at prime brokers and custodian banks, but does not offer prime brokerage or custody services. The Company operates as a single operating segment.

Instinet is a limited liability company and wholly owned subsidiary of Instinet Holdings Incorporated (“IHI” or “Member”), which is ultimately owned by Nomura Holding America Inc. (“NHA”).

The Company is a broker-dealer and investment advisor registered with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”). FINRA is the Company’s designated examining authority.

Further, Instinet is an introducing broker registered with the Commodity Futures Trading Commission (“CFTC”) and a member of the National Futures Association (“NFA”).

Additionally the Company is a member of BOX Exchange LLC, Cboe BYX Exchange, Inc., Cboe BZX Exchange, Inc., Cboe C2 Exchange, Inc, Cboe EDGA Exchange, Inc., Cboe EDGX Exchange, Inc., Cboe Exchange, Inc., Investors’ Exchange LLC, Long-Term Stock Exchange, Inc., MEMX LLC, MIAX Emerald, LLC, MIAX PEARL, LLC, Miami International Securities Exchange, LLC, NYSE American LLC, NYSE Arca, Inc., NYSE Chicago, Inc., NYSE National, Inc, Nasdaq BX, Inc., Nasdaq GEMX, LLC, Nasdaq ISE, LLC, Nasdaq MRX, LLC, Nasdaq PHLX LLC, Nasdaq Stock Market, and New York Stock Exchange.

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

## **2. Significant Accounting Policies**

### **Accounting Estimates**

The preparation of the Company's statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the statement of financial condition and accompanying notes. Management believes that the estimates used in the preparation of the statement of financial condition are prudent and reasonable. Actual results could differ from those estimates.

### **Cash and Cash Equivalents (including Restricted Cash)**

The Company considers all highly-liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2023, restricted cash is comprised of \$4.8 million invested in a money market mutual fund defined under Rule 2a-7 of the Investment Company Act of 1940 and this money market deposit is held at one major U.S. financial institution which, at times, may exceed federally insured limits. As this money market fund is valued based on quoted net asset values, the carrying value of this instrument at September 30, 2023 approximated fair value.

#### *Restricted Cash*

The \$4.8 million of restricted cash is fully securing two letters of credit. These letters of credit were issued by a major U.S. financial institution on behalf of the Company to secure certain of the Company's customers' soft dollar credit balances, only in the event of the Company's bankruptcy or default. These two letters of credit of \$3.8 million and \$1.0 million have a final expiration date of December 31, 2023. At September 30, 2023, no amounts had been drawn under any of the letters of credit. The Company expects the letters of credit to be renewed.

### **Cash Segregated in Compliance with Federal Regulations**

The Company had \$250 thousand in cash at September 30, 2023 segregated in a special reserve bank account for the exclusive benefit of broker dealers under Rule 15c3-3 of the SEC and \$19.6 million in a special reserve bank account for the exclusive benefit of customers under Rule 15c3-3 of the SEC.

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

**Securities Borrowed and Loaned**

Securities borrowed and securities loaned are financing arrangements collateralized by US equities that are recorded at the amount of cash collateral advanced or received in accordance with ASC 860, *Transfers and Servicing*. Securities borrowed and securities loaned transactions are used by the Company to facilitate the settlement process and require the Company to deposit cash with the lender or to receive cash from the borrower. The Company also has a securities borrowing and lending matched book business, in which it borrows securities from one party and lends them to another party.

The amount of collateral required to be deposited for securities borrowed is an amount generally in excess of the fair value of the securities borrowed. For securities loaned, the Company receives collateral in the form of cash that is typically equivalent to the fair value of securities loaned. The Company has established policies and procedures for mitigating credit risk on securities borrowed transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties. The Company minimizes credit risks by monitoring the fair value of securities borrowed and loaned daily, with additional collateral obtained, or refunded, when deemed appropriate. The Company estimates expected credit losses over the contractual term of the securities borrowed transactions as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. As a result of the short-term nature of the transactions, the amount of unsettled credit exposure is limited to the amount owed to the Company for a short period of time. Further, the Company has not experienced any significant defaults. As such, the Company has not recorded a credit loss allowance on securities borrowed.

When the Company borrows securities, it provides cash to the lenders as collateral and earns interest income. Similarly, when the Company lends securities to another party, that party provides cash to the Company as collateral and the Company pays interest expense. Interest income and interest expense are recorded within income for these securities borrowing/lending activities.

**Receivable from and Payable to Customers**

Amounts receivable from and payable to customers include amounts due on delivery versus payment/receipt versus payment of customer fails transactions and are reported on a settlement-date basis, in accordance with ASC 940, *Financial Services – Broker and Dealers* (“ASC 940”). Securities owned by customers, other than those fully paid for, are held as collateral for

receivables. Such collateral is not reflected on the statement of financial condition. The Company estimates expected credit losses over the contractual term of the receivables from customers as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. As a result of the short-term nature of the receivables, the

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

amount of unsettled credit exposure is limited to the amount owed to the Company for a short period of time. Further, the Company has not experienced any significant defaults. As such, the Company has not recorded a credit loss allowance on these receivables.

**Transaction Fees and Other Receivables, Net**

Transaction fees and other receivables, net as of September 30, 2023, consisted of the following:

In \$000	
Transaction fees receivables	\$ 26,254
T*Share receivables	33,284
Prepaid soft dollars	4,151
Broker neutral receivables	3,514
Other receivables	5,560
	<u>\$ 72,763</u>

Transaction fees and other receivables are reported net of an allowance for credit losses of \$0.6 million. The allowance for credit losses is based on the Company's assessment of the collectability of customer accounts. The Company regularly reviews the allowance by considering factors such as historical experience, credit quality, age of the account receivable balances, as well as forecasts of future economic conditions that may affect a customer's ability to pay. As of March 31, 2023, \$1 thousand of allowance was related to prepaid soft dollar balances and \$0.7 million was related to transaction fees receivables. As of September 30, 2023, there were no allowance related to prepaid soft dollar balances and \$0.6 million is related to transaction fees receivables.

Under its T\*Share program, the Company arranges for customers to trade with multiple brokers while centralizing the payment of soft dollar expenses at the Company. Participating brokers reach an agreement with Instinet to transfer soft dollar credits generated from the client trading activity with the brokers. The Company recorded a receivable of \$26.3 million from executing brokers in transaction fees and other receivables, net and a corresponding payable in accounts payable on the statement of financial condition related to the T\*Share program. The Company estimates expected credit losses over the contractual term of the T\*share receivables as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. T\*Share receivables have no history of write off. There is no history of significant aged receivable from T\*Share receivables and the soft dollar credits would be offset from the client soft dollar account in the event of non-payment. As such, the Company has not recorded a credit loss allowance on T\*share receivables as of September 30, 2023.

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

**Accrued expenses and other liabilities**

Accrued expenses and other liabilities as of September 30, 2023, consisted of the following:

In \$000

Clearing, brokerage and exchange fees liabilities	\$ 15,765
Market data, connectivity and telecommunication	4,981
Accrued professional fees	950
Rebates due to customers	756
Short securities	910
Other general accruals	3,363
	<u>\$ 26,725</u>

Clearing, brokerage and exchange fees liabilities and rebates due to customers are recognized on a trade date basis, once the performance obligation has been satisfied.

**Account payables**

Account payables primarily include accumulated soft dollar credits related to soft dollars arrangements and the T\*Share program on the statement of financial condition. The liability is recognized on a trade date basis.

**Revenues from Contracts with Customers**

Under ASC 606, *Revenue from Contracts with Customers* (“ASC 606”), revenues are recognized when control of the promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for transferring those goods or services. The following is a description of the Company’s revenue recognition policies and balances as it relates to revenue from contracts with customers.

*Transaction Fees*

Transaction fees are generated by customers trading securities and are charged on a per share basis, with each trade executed on the client’s behalf representing a separate performance obligation that is satisfied at a point in time. Customers are permitted to allocate a portion of their commissions to pay for research products and other qualifying services provided by third parties. As the Company acts as an agent in these transactions, it records such expenses on a net basis within income.



Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

Commission rates are fixed and revenue is recognized on the trade date. The performance obligation is satisfied on trade date because that is when the underlying securities and customer is identified, the pricing is agreed and the customer obtains or disposes of rights to obtain the economic benefit of the securities. The Company's receivables associated with transaction fees at April 1, 2023 was \$32.2 million and at September 30, 2023, was \$26.3 million. The Company did not carry any assets or recognize any contract obligations related to these receivables.

*Rebates from Market Centers and Exchanges and Rebates to Customers and Broker-Dealers*

Rebates from market centers and exchanges relates to credits received in consideration for posting transactions into the order books of certain execution venues. These credits are accounted for on a trade-date basis. The performance obligation is satisfied on trade date because that is when the Company has provided and executed the liquidity with the market centers from which the rebate is earned. The Company's receivables associated with rebates from market centers and exchanges at April 1, 2023 was \$2.5 million and at September 30, 2023, was \$1.4 million, in other assets on the statement of financial condition. The Company did not carry any assets or recognize any contract obligations related to these receivables.

At the same time, when clients provide liquidity to market centers through Instinet, they may, at Instinet's discretion, also receive credits, which are accounted for as contra revenue on a trade-date basis. These credits to clients are included within income.

*Broker Neutral Revenues*

The Company provides customers with access to its trading and transaction analytics tools for a fee, whereby customers are provided with distinct ongoing access to trading tools and trade analytics data. Such fees are fixed for the contract term, and are charged either as a recurring subscription fee (generally monthly), or on a per shares traded basis. The over time performance obligations are recognized when satisfied, either on a monthly basis as a recurring fee (subscription fee) or on a trade date basis (per shares traded agreements). The Company's receivables associated with broker neutral revenues at April 1, 2023 was \$3.7 million and at September 30, 2023 was \$3.5 million and are reflected in transaction fees and other receivables on the statement of financial condition. The Company did not carry any assets or recognize any contract obligations related to these receivables.

*Interest income*

Interest income is earned primarily from cash and cash equivalents and securities borrowed and is accounted for on an accrual basis.

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

*Other revenues*

Other revenues primarily consists of fees earned from the Company's T\*Share aggregation service, software licensing, regulatory fees, and clearing fees. T\*Share revenues are recognized monthly based on transaction volumes from participating brokers. Software licensing fees are recognized over time as services are provided. Regulatory and clearing fees are recorded as securities transactions occur.

**Membership in Depository Trust & Clearing Corporation ("DTCC"), at Cost**

The Company's membership in DTCC represents ownership interests and provides the Company the right to conduct business as a clearing broker. At September 30, 2023, Instinet recorded \$12.4 million in other assets on the statement of financial condition related to this ownership interest. The ownership interests are recorded initially at cost and, over time, may be recorded at a lesser amount if there is an other-than-temporary impairment in value in accordance with ASC 940. At September 30, 2023, management has concluded that an other-than-temporary impairment has not occurred on any such ownership interests.

**Clearing, Brokerage and Exchange Fees**

Clearing, brokerage and exchange fees relate primarily to the fees charged by market centers or regulators for trading and clearing transactions, and the costs incurred for market data content for U.S.-based clients. Trading-related costs are recorded on a trade-date basis, in line with related transaction fees.

**Foreign Currency Transactions**

The Company's functional currency is the U.S. dollar. Assets and liabilities denominated in foreign currencies are re-measured into the U.S. dollar equivalents using period-end spot foreign exchange rates, while income and expenses are re-measured at the average foreign exchange rates during the year. Gains and losses resulting from foreign currency re-measurements are included in income.

**Derivatives**

From time to time, the Company may enter into forward foreign currency contracts to facilitate customers' settling transactions in various currencies. The Company enters into forward foreign currency contracts with third parties, with terms generally identical to its customers' transactions, thereby mitigating its exposure to currency risk. These typically do not extend beyond 14 days. All derivative instruments are presented at their fair value. At September 30, 2023, the Company recorded \$3.5 thousand in payable to and \$13 thousand in receivable from broker-dealers and

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

clearing organizations in the statement of financial condition to reflect the fair value of its derivatives. The notional of the open contracts amount to \$8.0 million.

**Income Taxes**

The Company is included in the consolidated federal and certain combined state and local income tax returns filed by Nomura Holding America Inc. & Subsidiaries (the “Group”). The Company and the Group have a practice whereby federal, state and local taxable income and tax liability is determined for financial reporting purposes on a separate company basis. Compensation is provided to the members of the Group, including the Company, on a modified benefits for loss approach, which is to the extent the member produces tax benefit items which are eligible to be utilized by the Group.

ASC 740 prescribes an asset and liability approach to accounting for taxes that requires the recognition of DTAs and deferred tax liabilities (“DTLs”) for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. 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 of a change in tax rates is recognized in income in the period that includes the enactment date.

In accordance with ASC 740, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. These income tax positions are measured at the largest amount that is greater than 50% likely of being realized based on a cumulative probability approach. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. As of September 30, 2023, the Company did not identify any unrecognized tax benefits and/or related interest and penalties that should be recorded with respect to its tax positions in accordance with ASC 740-10.

**3. Receivable from and Payable to Broker-Dealers and Clearing Organizations**

Amounts receivable from and payable to broker-dealers and clearing organizations as of September 30, 2023, consist of the following:

In \$000	<b>Receivable</b>	<b>Payable</b>
Securities failed-to-deliver/receive	\$ 40,913	\$ 49,829
Clearing deposits	99,364	-
Trade-date receivable/payable, net	91,425	26,851
Fees and other receivable/payable	386	2,464
	\$ 232,088	\$ 79,144

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

Securities failed-to-deliver/receive represents the contract value of securities which have not been delivered or received by the Company on settlement date. The Company records the selling price of the security as a receivable due from the purchasing broker-dealer. The receivable is collected upon delivery of the securities. The Company records the amount of the purchase price of the security as a payable due to the selling broker. The liability is paid upon receipt of the securities. The failed-to-deliver/receive have settled in the normal course.

Clearing deposits are required by clearing organizations to clear and settle transactions. The clearing organizations determine the amount of such deposits typically based on the transaction volume and other measures. The Company provides additional deposits as requested by clearing organizations.

Trade-date receivable/payable, net relates to trades done by certain clients that settle their trades with Instinet prior to the regular-way settlement date. Instinet records the net by security of all such transactions with clearing organizations as a receivable or a payable.

The Company estimates expected credit losses over the contractual term of the receivables from broker-dealers and clearing organizations as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. Because of the short term nature of the receivables, the amount of unsettled credit exposures is limited to the amount owed to the Company for a very short period of time. As such, generally no allowance for credit losses is held against these receivables. No allowance is held against clearing deposits that are posted with clearing organizations, due to the remote probability of default by the clearing organization and the robust multi-layered credit protection inherent in its design and operations.

Fees and other receivable/payable relates to open derivatives positions and suspense accounts.

#### **4. Collateralized Financing Agreements**

In the normal course of business, the Company obtains securities borrowed on terms that permit it to repledge or resell the securities to others. In connection with its securities borrowing activities at September 30, 2023, the Company obtained securities with a fair value of \$61.3 million of which \$43.2 million have been either repledged or otherwise transferred to others in connection with the Company's financing activities or to meet customers' needs. At September 30, 2023, the Company pledged securities to securities loaned transactions that can be sold or repledged by the third party with a fair value of \$60.1 million.

These transactions are documented under industry standard master netting agreements which reduce the Company's credit exposure to counterparties as they permit the close-out and offset of transactions and collateral amounts in the event of default of the counterparty. These transactions are short term in nature and have a maturity of less than 30 days. The following table presents

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

information about offsetting of these transactions in the statement of financial condition, together with the extent to which master netting agreements entered into with counterparties and central clearing parties permit additional offsetting in the event of counterparty default:

In \$000	<b>Securities Borrowed</b>	<b>Securities Loaned</b>
Gross Balance	\$ 64,071	\$ 60,447
Amounts offset in the statement of financial condition	-	-
Net amounts presented in the statement of financial condition	64,071	60,447
Amounts not offset in the statement of financial condition (1)		
Financial instruments	(61,256)	(60,447)
Cash collateral	-	-
Net amount	\$ 2,815	\$ -

(1) Represents amounts which are not permitted to be offset on the face of the statement of financial condition in accordance with ASC 210-20 but which provide the Company with the right of offset in the event of counterparty default. Amounts relating to agreements where the Company has not yet determined with sufficient certainty whether the right of offset is legally enforceable are excluded.

## 5. Deferred Compensation

Certain of the Company’s employees participate in cash settled deferred compensation awards based on NHI stock. Granted awards are Notional Stock Units (“NSU”) which vest annually in equal increments over a three year period and Collared Notional Stock Units (“CSU”) which vest every six months in equal increments over a three year period.

The Company’s ultimate payment is contingent on the relevant fair value calculation at the vesting date. The Company accrues compensation over time as employees progress toward vesting of each award, recognizing forfeitures as they occur. The total amount of unvested cash settled deferred compensation awards not yet recognized in the statement of financial condition is \$0.3 million. The Company recorded \$0.1 million as a reduction in accrued compensation on the statement of financial condition for the amounts paid to employees during the six months ended September 30, 2023.

In addition to cash settled deferred compensation awards, certain of the Company’s employees are granted the right to receive NHI stock under Restricted Stock Units (“RSU awards”). RSUs vest annually in equal increments over a three year period. RSU awards do not receive dividends or dividend equivalent amounts that would have been paid had actual NHI shares been granted during the vesting period. RSU’s are measured at fair value based on the number of units granted multiplied by the stock price at the grant date, adjusted for a discount related to the present value

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

of the expected dividends to be paid on NHI shares during the vesting period (and which will not be paid on the unvested RSU) and net of estimated forfeitures. Compensation cost is recognized on a straight-line basis over the service period from the grant date to the vesting date. The Company accounts for the RSU awards as an expense on the statement of operations.

Cash settled deferred compensation awards and RSUs include Full Career Retirement (“FCR”) provisions which permit recipients of the awards to continue to vest in the awards upon voluntary termination if certain criteria based on corporate title and length of service within Nomura are met, provided the retiring employee does not work for a competitor.

The related deferred award amortization expense of an employee eligible for FCR is fully recognized in the first year of issuance if the employee’s FCR date has either passed or is within six (6) months of the issuance date, as long as the employee has not submitted notification to Nomura of an election to retire during a specific window. If the employee’s FCR date is beyond six (6) months of issuance but prior to a component award’s vest date, the associated amortization period of the issued deferred awards may not exceed the FCR date.

Replacement deferred cash awards were issued to some new hires. A total of \$0.1 million was recorded as a reduction in accrued compensation on the statement of financial condition for amounts paid to those employees during the six months ended September 30, 2023.

## **6. Retirement Saving Plan**

Substantially all employees of the Company participate in a defined contribution pension plan sponsored by IHI. The IHI Savings Plan (“401(k) Plan”) was established under Section 401(k) of the Internal Revenue Code. Eligible employees can contribute up to 50% of their annual base salary to the 401(k) Plan. IHI matches a discretionary amount of the employees’ pre-tax contributions. To be eligible for the contribution, an employee needs to be an active employee as of December 31, 2023 with at least one month service. The plan is managed by Instinet Group, LLC (“IGLLC”), a wholly owned subsidiary of IHI, and the related cost is allocated to the Company based on headcount (refer to Note 7 - *related-party transactions*).

## **7. Related-Party Transactions**

At September 30, 2023, balances with related parties are included in the following statement of financial condition captions:

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

In \$000

**Assets**

Receivable from affiliates	\$ 3,701
Transaction fees and other receivables, net	1,445

**Liabilities**

Payable to affiliates	\$ 9,377
Subordinated borrowings	100,000

*Cross Border and Profit Sharing*

Instinet is a party to a cross border agreement and a profit sharing agreement with IHI and its affiliates. The cross border agreement requires each affiliate to record revenue and associated expenses for all securities cleared and settled by each affiliate. The global profit sharing agreement provides for a routine return on non-revenue driving expenses along with a sharing of the global residual profit allocated based on the revenue drivers (customer relationships and technology). The methods are designed to be compliant with the relevant tax rules in all jurisdictions in which IHI and its affiliates does business.

At September 30, 2023, the Company recorded \$1.8 million in receivable from affiliates and \$6.9 million in payable to affiliates on the statement of financial condition. The Company settles these monthly.

*Operational and Administrative Agreements*

IGLLC provides various services to the Company. Pursuant to an operating agreement, IGLLC provides the Company with operational, management and administrative personnel, facilities and other services necessary to conduct its business in exchange for a fee. The service fee is equal to IGLLC's eligible expenses, net of interest income, plus 5%.

IGLLC also manages employees' benefit, facilities and IT support for IHI and its US affiliates and allocates related expenses to the Company based on headcount.

At September 30, 2023, receivables related to the services totaled \$0.7 million. The Company settles these monthly.

Instinet Technology Solutions Inc. ("ITS"), a wholly owned subsidiary of IHI, provides various services to the Company. Pursuant to an expense sharing agreement, ITS provides the Company with operational, management and administrative personnel to support its business in exchange for a fee. The service fee is equal to ITS's eligible expenses. Additionally, the Company reimburses

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

or is reimbursed by ITS for direct expenses paid by or credited to ITS on behalf of the Company. Payable to affiliates at September 30, 2023 includes \$1.0 million due to ITS. The Company settles these monthly.

Pursuant to various service fee arrangements, the Company provides and receives services to and from NHI's non-Instinet affiliates. Services include legal and compliance and clearing services. Payable to affiliates at September 30, 2023 includes \$0.2 million payable to NHI's non-Instinet affiliates for the above services. The Company settles these periodically.

Additionally, the Company reimburses or is reimbursed by IHI for direct expenses paid by or credited to IHI on behalf of the Company. Receivable from affiliates at September 30, 2023 includes \$0.2 million due from IHI. The Company settles monthly.

*Financing activities*

On June 23, 2020, Instinet, LLC amended its revolving credit facility agreement with IGLLC to increase the facility to \$500 million. The agreement automatically renews for successive one year terms subject to a written notice of termination from either party. No notice by either party has been made. As of September 30, 2023, the Company has no outstanding borrowing.

*Execution Services*

The Company earns revenue for certain execution services provided to NHI's non-Instinet subsidiaries for trading in U.S. securities. Simultaneously, when NHI's non-Instinet subsidiaries provide liquidity to market centers through Instinet execution, they may also receive credits from the Company. Transaction fees and other receivables, net on the statement of financial condition at September 30, 2023 includes \$1.4 million due from NHI's non-Instinet subsidiaries.

In the event that trades, executed on behalf of affiliates, fail to settle on contractual settlement date, outstanding receivables or payables are reported in receivable from and payable to customers on the statement of financial condition. At September 30, 2023, there were no payables related to fails from affiliates.

*Commission Sharing*

The Company pays commission credits essentially representing an internal commission allocation to NHI's non-Instinet subsidiaries for their involvement in sales efforts related to some of Instinet Pacific Limited ("IPL", a subsidiary of IHI)'s clients trading in US equities. A liability of \$0.6 million is recorded as part of the cross-border agreement with IHI and affiliates – Refer to "Cross Border and Profit Sharing".



Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

*Research Services*

The Company reimburses NHI's non-Instinet affiliates for research payments from mutual clients received on behalf of the affiliates. Payable to affiliates as of September 30, 2023 includes \$0.7 million due to NHI's non-Instinet affiliates. The Company settles these monthly.

**8. Commitments and Contingent Liabilities**

The Company's business activities are highly regulated in many jurisdictions and subject to frequent regulatory examinations, inquiries and investigations. From time to time, the Company may become involved in legal and regulatory proceedings arising in the ordinary course of business or other circumstances. While any litigation contains an element of uncertainty, management believes, after consultation with counsel, that the outcomes of currently known legal or regulatory proceedings or related claims are unlikely to have a material adverse effect on the Company's statements of operations, financial condition or cash flows.

In the normal course of business, the Company may enter into legal contracts that contain a variety of representations and warranties that provide general indemnification to others. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be asserted against the Company that have not yet occurred. However, based on the Company's experience, the Company does not expect that any such indemnifications will have a material adverse effect on the Company's statement of financial condition.

On December 1, 2022, Northwest Biotherapeutics, Inc. filed suit in US District Court for the Southern District of New York against the Company and seven other entities. In its complaint, plaintiff alleges that defendants were engaged in a scheme to manipulate Northwest's share price downward through spoofing. Plaintiff seeks an injunction preventing defendants from spoofing and unspecified monetary damages relating to the sale of 49 million shares of common stock at prices that plaintiff claims were artificially depressed through spoofing. On March 20, 2023 defendants filed a motion to dismiss the complaint and on April 10, 2023 plaintiffs filed an amended complaint. Instinet filed a motion to dismiss the amended complaint on July 12, 2023. The Company continues to believe that plaintiff's claims are entirely without merit and expects to mount a vigorous defense.

On March 13, 2023, Global Tech Industries Group, Inc. filed suit in US District Court for the Southern District of New York against the Company, four other entities, and fifty unnamed individuals. In its complaint, plaintiff alleges that defendants were engaged in a scheme to manipulate Global's share price downward through spoofing. Plaintiff seeks unspecified monetary damages relating to the sale of 18 million shares of common stock at prices that plaintiff claims were artificially depressed through spoofing. The Company settled the matter for \$50,000 on October 25, 2023.

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

Since June 2020, the Company has been under review by FINRA relating to its compliance with rules relating to FINRA's Consolidated Audit Trail ("CAT") reporting requirements. The Company did not timely comply with the new CAT reporting requirements and, once it commenced reporting, submitted a substantial number of reports containing errors. The Company has agreed with FINRA to terminate this matter for a fine of \$3,800,000. The Company will also be required to retain a monitor to test the Company's CAT reporting for compliance with applicable rules.

At September 30, 2023, there were no matters for which a legal reserve was required.

### **9. Credit, Market and Other Risks**

The Company is exposed to market risk from its customers' securities transactions during the period between the transaction date and the settlement date. The settlement cycle is generally two business days in the U.S. equities markets and can be as much as five days in some international markets. In addition, the Company may have exposure that extends beyond the settlement date in the case of a party that does not settle in a timely manner by failing either to make payment or to deliver securities. The Company holds the securities that are the subject of the transaction as collateral for its customer receivables. Adverse movements in the prices of these securities can increase the Company's market risk.

The majority of the Company's transactions, including derivatives and, consequently, the concentration of its credit exposure are with broker-dealers and other financial institutions, primarily located in the United States.

The Company seeks to manage its risks through a variety of reporting and control procedures, including establishing credit limits and credit standards based upon a review of the counterparty's financial condition and credit ratings. The Company monitors trading activity and collateral levels on a daily basis for compliance with regulatory and internal guidelines and obtains additional collateral, if appropriate.

The Company uses securities borrowed and loaned transactions to facilitate the settlement process to meet its customers' needs and to enter into equity finance transactions. Under these transactions, the Company either receives or provides collateral, generally cash or securities.

In the event the counterparty is unable to meet its contractual obligations to return the pledged collateral, the Company may be exposed to the market risk of acquiring the collateral at prevailing market prices.

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

The Company is subject to operational, technological and settlement risks. These include the risk of potential financial loss attributable to operational factors such as untimely or inaccurate trade execution, clearance or settlement or the inability to process large volumes or transactions.

The Company is also subject to risk of loss attributable to technological limitations or computer failures that may constrain the Company's ability to gather, process and communicate information efficiently, securely and without interruption.

### 10. Income Taxes

Effective April 1, 2022, the Company changed its income tax calculation from a separate return method to a modified separate return method. The Company is treated as a disregarded entity for tax purposes and its income and deductions are included with and reported as part of its direct parent, IHI's, tax return. IHI is included in the consolidated federal and certain combined state and local income tax returns filed by NHA and its subsidiaries (the "Group"). The Company and the Group have a practice whereby federal, state and local taxable income and tax liability is determined for financial reporting purposes on a separate company basis. Compensation is provided to the members of the Group, including the Company, on a modified benefits for loss approach, which is to the extent the member produces tax benefit items which are eligible to be utilized by the Group. Any such losses (current or carried forward) compensated for by the group are not recognized as deferred tax assets on the company's financial statements. The accrual for unrecognized tax benefits, on the other hand, is accrued on a weighted basis of the Company's share of the Group's unrecognized tax benefits.

Federal, and certain state and local income and capital taxes are paid to NHA in accordance with this practice. As such, accrued income taxes receivable from affiliates of \$1.7 million is shown on the statement of financial condition as of September 30, 2023.

The components of the Company's net deferred tax assets ("DTAs") at September 30, 2023, are as follows (in thousands):

Deferred tax assets	\$3,471
Less valuation allowance	<u>-</u>
	3,471
Deferred tax liabilities	<u>-</u>
Net deferred tax asset / (liability)	<u><u>\$3,471</u></u>

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

IHI's tax returns are subject to routine examination by the Internal Revenue Service ("IRS") and by various state and local tax authorities. The IRS audit of tax years from March 31, 2011 to March 31, 2015 has been finalized. The audit resulted in a change to the net operating loss of the Federal consolidated group, which includes IHI, but does not impact the Company. The tax years ended March 31, 2020 through March 31, 2022 are open under the normal federal statute of limitations.

Additionally, the Company is currently under routine audits by various state and local tax jurisdictions for the tax years ended March 31, 2014 through March 31, 2018. The various state and local tax jurisdictions have not proposed any adjustments as of the date of this report. Waivers to extend the statute of limitation have been executed with a certain tax jurisdiction for the tax years ended March 31, 2014 through March 31, 2019. The years ended March 31, 2020 through March 31, 2022 are open under the normal statute of limitations.

The Company did not identify any material unrecognized tax positions and/or related interest and penalties that should be recorded. Although no interest or penalties were accrued, the Company's policy is to treat interest and/or penalties related to income tax matters and uncertain tax positions as part of pretax income, if applicable.

The Company does not believe that it is reasonably possible that any significant unrecognized tax benefits will be recorded within the next twelve months.

### **11. Fair Value of Financial Instruments**

ASC 820, *Fair Value Measurements*, requires the disclosure of the fair value of financial instruments, including assets and liabilities recognized on the statement of financial condition. Fair value is defined as the price at which an asset or liability could be exchanged in a current transaction between knowledgeable, willing parties. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments' complexity. ASC 820 establishes the following three hierarchies for fair value:

Level I – Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date.

Level II – Inputs other than quoted prices included in Level I that are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

Level III – Inputs reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Assumptions include those of risk, both the risk inherent in the valuation technique and the risk inherent in the inputs to the model.

An instrument’s categorization within the fair value hierarchy is based on the lowest level of significant input to its valuation. As of September 30, 2023, the Company had no financial instruments carried at fair value on a recurring basis, except for the derivatives described in Note 2, which are classified as Level II in the fair value hierarchy.

**Estimated Fair Value of Financial Instruments not Carried at Fair Value**

Certain financial instruments are not carried at fair value on a recurring basis in the statement of financial condition since they are neither held for trading purposes nor are elected for the fair value option. These are typically carried at contractual amounts due.

The carrying value of the majority of the following financial instruments will approximate fair value since they are liquid, short-term in nature and / or contain minimal credit risk. These include cash and cash equivalents, securities borrowed, other assets and securities loaned. However, the fair value of other financial instruments may be different than carrying value if they are longer term in nature or contain more than minimal credit risk. These financial assets and financial liabilities would be generally classified as Level II or III within the fair value hierarchy. As of September 30, 2023, the only longer dated instrument with a material difference between fair value and carrying value was subordinated borrowings. Other assets included in the table below primarily relate to a membership in DTCC. The fair value of DTCC is estimated using the stock price valuation provided by the issuer.

The following table presents carrying values, estimated fair values and classification within the fair value hierarchy of those fair values for financial instruments which were carried on a basis other than fair value within the statement of financial condition as of September 30, 2023.

In \$000	Carrying Value	Fair Value	Fair Value of Level I	Fair Value of Level II	Fair Value of Level III
<b>Assets</b>					
Cash & cash equivalents	\$ 55,779	\$ 55,779	\$ 55,779	\$ -	\$ -
Restricted cash	4,750	4,750	4,750	-	-
Securities borrowed	64,071	64,071	-	64,071	-
Other assets	13,071	26,347	-	-	26,347
<b>Liabilities</b>					
Securities loaned	\$ 60,447	\$ 60,447	\$ -	\$ 60,447	\$ -
Subordinated borrowings	100,000	96,865	-	-	96,865

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

**12. Subordinated borrowing**

The Company’s subordinated borrowing is a term loan covered by an agreement approved by FINRA and is included by the Company in regulatory net capital, as defined, under the SEC’s Uniform Net Capital Rule (“SEC Rule 15c3-1”). The loan agreement contains an evergreen provision that automatically extends the maturity by one year unless specified actions are taken prior to maturity date. To the extent that the loan is required for the Company’s continued compliance with minimum regulatory net capital requirements, repayment is deferred.

Borrowings at September 30, 2023 is as follows (dollars in thousands):

<u>Lender</u>	<u>Par Value</u>	<u>Type</u>	<u>Maturity Date</u>	<u>Interest Rate</u>
NHA	\$ 100,000	Term	April 10, 2025	Variable

At September 30, 2023, the interest rate on the loan was 6.51%, which is based on SOFR plus a spread. Interest payable was \$0.5 million at September 30, 2023.

**13. Regulatory Requirements**

The Company is a registered broker-dealer and, accordingly, is subject to the SEC’s Uniform Net Capital Rule (“Rule 15c3-1”) under the Securities Exchange Act of 1934, which requires the maintenance of minimum net capital. The Company has elected to use the alternative net capital method, permitted by Rule 15c3-1, which requires that the Company maintain minimum net capital equal to the greater of \$1 million, 2% of aggregate debit items arising from customer transactions, or the CFTC minimum required further discussed below.

At September 30, 2023, the Company had regulatory net capital of \$119.4 million which was \$117.1 million in excess of its required net capital of \$2.3 million. The Company’s ratio of net capital to aggregate debit items was 102.42%.

At September 30, 2023, the Company had cash on deposit of \$19.6 million in the special reserve bank account for the exclusive benefit of customers (“Customer reserve bank account”) under Rule 15c3-3. Additionally, under Rule 15c3-3, the Company had cash on deposit of \$250 thousand in a special reserve bank account for the exclusive benefit of broker dealers (“PAB reserve bank account”). The Company withdrew \$2.4 million from its Customer reserve bank account for the calculation performed as of September 30, 2023, resulting in \$17.2 million of deposits as of October 3rd, 2023. The cash on deposit in the PAB reserve bank account remained at \$250 thousand.

Instinet, LLC  
(A Wholly Owned Subsidiary of Instinet Holdings Incorporated)  
Notes to the Statement of Financial Conditions (continued)

Advances to affiliates, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule and other regulatory bodies. On April 10, 2023, the Company made a capital distribution of \$125 million to IHI.

Instinet is also registered as an introducing broker with the CFTC and introduces all its commodity futures activity to an affiliate who executes and facilitates clearing of the transactions. The Company is subject to the greater of the following when determining its minimum net capital requirement under CFTC rules:

- \$45 thousand minimum net capital required as a CFTC introducing broker;
- the amount of adjusted net capital required by a futures association of which it is a member;
- the amount of net capital required by Rule 15c3-1(a) of the Securities and Exchange Commission (17 CFR 240.15c3-1(a)).

At September 30, 2023, the Company had a \$2.3 million minimum capital requirement with the CFTC driven by its minimum requirement under the Securities Exchange Act (“SEA”) rule 15c3-1.

#### **14. Subsequent Events**

The Company has evaluated subsequent events through December 12, 2023, the date as of which this statement of financial condition is available to be issued and has concluded that no additional disclosure is required.