

**BNY MELLON CAPITAL MARKETS, LLC**  
(An Indirect Wholly Owned Subsidiary of BNY Mellon)

Statement of Financial Condition

December 31, 2020

(With Report of Independent Registered Public Accounting Firm Thereon)

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

OMB APPROVAL  
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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

SEC FILE NUMBER  
8-35255

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/2020 AND ENDING 12/31/2020  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **BNY Mellon Capital Markets, LLC**

OFFICIAL USE ONLY

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

FIRM I.D. NO.

**240 Greenwich Street, 3rd floor**

(No. and Street)

**New York**

**New York**

**10286**

(City)

(State)

(Zip Code)

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

John Conway

(212) 815-4358

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

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

**KPMG LLP**

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

**345 Park Avenue**

**New York**

**New York**

**10154**

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

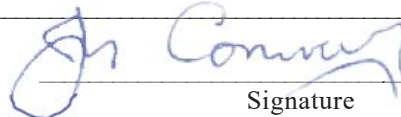
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

## OATH OR AFFIRMATION

I, John Conway, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of BNY Mellon Capital Markets, LLC, as of December 31, 2020, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Based upon the statement from Commission staff (SEC.gov/tm/paper-submission-requirements-covid-19-updates-061820) and difficulties arising from COVID 19, BNY Mellon Capital Markets, LLC is filing without a notarization.

  
Signature

Chief Financial Officer

Title

Notary Public

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss) or, if there is other comprehensive income in the period(s) presented, a Statement of Comprehensive Income (as defined in §210.1-02 of Regulation S-X).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

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

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KPMG LLP  
345 Park Avenue  
New York, NY 10154-0102

## Report of Independent Registered Public Accounting Firm

To the Member and Board of Managers  
BNY Mellon Capital Markets, LLC:

### *Opinion on the Financial Statement*

We have audited the accompanying statement of financial condition of BNY Mellon Capital Markets, LLC (the Company) as of December 31, 2020 and the related notes (collectively, the financial statement). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2020, in conformity with U.S. generally accepted accounting principles.

### *Basis for Opinion*

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

**KPMG LLP**

We have served as the Company's auditor since 1986.

New York, New York  
February 26, 2021

**BNY MELLON CAPITAL MARKETS, LLC**  
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**Assets**

Assets:

Cash	\$ 4,235,426
Cash segregated for regulatory purposes	10,000,000
Receivable from broker-dealers and clearing organizations	62,150,844
Receivable from customers	126,578
Securities purchased under agreements to resell, net	1,986,783,020
Securities owned, at fair value (includes \$5,484,290,994 pledged as collateral)	5,662,595,045
Derivative assets, net	16,683,010
Fees receivable	16,307,564
Interest receivable	6,616,690
Receivable from affiliates	11,793
Furniture, equipment, and leasehold improvements, at cost, (net of accumulated depreciation and amortization of \$2,858,599)	776
Software and intangibles at cost (net of accumulated amortization of \$13,564,091)	2,999,719
Deferred tax asset	7,770,841
Other assets	6,770,172
Total assets	<u>\$ 7,783,051,478</u>

**Liabilities and Member's Equity**

Liabilities:

Securities sold under agreements to repurchase, net	\$ 4,800,000,000
Payable to broker-dealers and clearing organizations	213,144,325
Payable to customers	326,446
Securities sold, not yet purchased, at fair value	2,328,483,664
Derivative liabilities, net	47,924,536
Payable to affiliates	11,603,218
Interest payable	686,339
Accrued compensation and other expenses	9,523,284
Other liabilities	2,719,019
Total liabilities	<u>7,414,410,831</u>

Member's equity	<u>368,640,647</u>
Total liabilities and member's equity	<u>\$ 7,783,051,478</u>

See accompanying notes to Statement of Financial Condition.

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Notes to Statement of Financial Condition

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**(1) Organization**

BNY Mellon Capital Markets, LLC (the Company), is a wholly owned subsidiary of BNY Capital Markets Holdings, Inc. (the Parent), which in turn, is a wholly owned subsidiary of The Bank of New York Mellon Corporation (BNY Mellon). The Company is a registered broker dealer with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA). The Company is also a member of the Municipal Securities Rule Making Board (MSRB) and Securities Investor Protection Corporation (SIPC).

The Company provides a wide range of financial services. Its businesses include securities underwriting, distribution, and trading. The Company conducts trading activity with its customers on both a principal and agency basis. Securities products offered and sold by the Company are not insured by the Federal Deposit Insurance Corporation. These securities products are not deposits or other obligations of BNY Mellon, are not guaranteed by BNY Mellon, and are subject to investment risks including the possibility of loss of principal invested.

The Company clears all its transactions through Pershing LLC (Pershing), an affiliate broker-dealer, on a fully disclosed basis, except for mortgage-backed securities, United States treasuries and federal agency debentures, which are cleared by the Company, and futures, which are cleared by Citigroup Global Markets, Inc. (Citi).

**(2) Summary of significant accounting policies**

**(a) Use of estimates**

The preparation of the Statement of Financial Condition in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect amounts reported in the Statement of Financial Condition and accompanying footnotes. Management believes that the estimates utilized in the Statement of Financial Condition are reasonable. Actual results could differ from these estimates. Market conditions could increase the risk and complexity of the judgments in these estimates.

**(b) Restricted cash**

Cash on deposit for the exclusive benefit of customers in accordance with SEC Rule 15c3-3, which is reported on the statement of financial condition as Cash segregated for regulatory purposes, is considered restricted cash. Cash on deposit with clearing organizations, which is reported on the statement of financial condition as Receivable from broker-dealers and clearing organizations, is also considered restricted cash. Both restricted cash amounts have been presented as part of the beginning-of-period and end-of-period reconciliation of the statement of cash flows.

**(c) Receivables from and Payables to Broker-Dealers and Clearing Organizations**

Receivables from broker-dealers and clearing organizations include amounts receivable from clearing organizations relating to pending and/or unsettled transactions, clearing deposits, and securities failed to deliver. Payables to broker-dealers and clearing organizations include amounts payable to clearing organizations relating to pending and/or unsettled securities trading activity, margin borrowings and securities failed to receive. Securities failed to deliver and Securities failed to receive represent sales and purchases of securities by the Company, but for which it has not delivered or received the securities

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on settlement date. Such transactions are initially measured at the sale or purchase price plus any accrued interest.

**(d) *Receivable from and Payable to customers***

Receivable from and Payable to customers represent amounts due from/to customers, primarily related to unsettled securities transactions which are reported net by customer.

**(e) *Securities received from customers***

Securities received from customers in lieu of cash margin are not reflected in the Statement of Financial Condition as the Company does not own such securities and they may only be sold or hypothecated to the extent the Company requires the equivalent funds to meet regulatory or counterparty requirements.

**(f) *Securities owned and Securities sold, not yet purchased***

Financial instruments such as securities owned and securities sold, not yet purchased, are stated at fair value the Statement of Financial Condition. The fair value of such financial instruments is generally based on listed market prices. For financial instruments where prices from recent exchange transactions are not available, the Company determines fair value based on discounted cash flow analysis, comparison to similar instruments and the use of financial models. Financial model-based pricing uses inputs of observable prices, where available, including interest rates, credit spreads, and other factors.

Securities sold, not yet purchased, represent obligations to deliver specified securities. The Company is obligated to acquire the securities sold, not yet purchased at prevailing market prices in the future to satisfy these obligations.

**(g) *Derivative contracts***

Derivatives are stated at fair value on the Statement of Financial Condition. Derivatives in unrealized gain positions are recognized as assets while derivatives in unrealized loss positions are recognized as liabilities. Derivatives are reported net by counterparty and after consideration of cash collateral, to the extent they are subject to legally enforceable netting agreements. Derivatives include forward settling trades such as when-issued and to-be-announced (“TBA”) securities, listed futures contracts, options on futures and total return swaps which are recorded on a trade date basis. The fair value of such financial instruments is generally based on listed market prices. For financial instruments where prices from recent exchange transactions are not available, the Company determines fair value based on discounted cash flow analysis, comparison to similar instruments and the use of financial models.

**(h) *Fair value measurement***

Fair value is defined under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) *Topic 820, Fair Value Measurement*, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It establishes a hierarchy of inputs for measuring fair value:

Level 1 inputs	Unadjusted quoted prices at the measurement date in active, accessible markets for identical assets or liabilities.
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Level 2 inputs	Quoted prices in active markets for similar instruments, quoted prices in inactive markets for identical or similar instruments, other observable inputs (interest rates and yield curves) or inputs other than quoted prices that are derived from/corroborated by observable market data.
Level 3 inputs	Best information available when no observable market activity or observable inputs for the asset or liability exist at the measurement date.

In valuing its positions, the Company uses listed market prices for exchange-traded securities, derivatives, and prices quoted by independent brokers and dealers for U.S. government and other over-the-counter securities and derivatives.

In valuing level 3 securities, if any exist, the Company first looks to current prices (any price not greater than 30 days old) with substantial size for similar securities. If no price is available, the Company utilizes model-based pricing, which takes into account the expected cash flows and credit quality of the financial instrument. See footnote 11 for more information.

**(i) *Securities purchased under agreements to resell and Securities sold under agreements to repurchase***

Securities purchased under agreements to resell and Securities sold under agreements to repurchase are treated as collateralized financing transactions and are carried at amounts at which the securities will be subsequently resold or repurchased plus accrued interest. The Company nets eligible repurchase agreements and resale agreements in the Statement of Financial Condition in accordance with ASC Subtopic 210-20, *Balance Sheet - Offsetting*. See footnote 12 for more information.

It is the Company's policy to take possession of securities purchased under agreements to resell. The Company is required to provide securities to counterparties in order to collateralize repurchase agreements. Once pledged, these securities are considered encumbered securities. The Company minimizes credit risk associated with these activities by monitoring credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited or returned when deemed appropriate.

In the normal course of business, the Company obtains securities under resale agreements on terms that permit it to re-pledge or resell the securities to others.

Interest is accrued on securities purchased under agreements to resell and securities sold under agreements to repurchase contract amounts and are included in the respective lines on the Statement of Financial Condition.

On January 1, 2020, the Company adopted CECL. Under CECL, the Company has elected to use the collateral maintenance provision practical expedient for its collateralized financing transactions. Collateral financing transactions are reported net of the expected credit losses, which was not material at December 31, 2020.

**(j) *Furniture, equipment, leasehold improvements, software and intangibles***

Furniture, equipment, and leasehold improvements are carried at cost, net of accumulated depreciation and amortization. Furniture and equipment are depreciated using the straight-line method over the respective useful lives of the asset, generally ranging from four to ten years. Leasehold improvements

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are amortized over the lesser of fifteen years or the term of the lease. Software is depreciated over a five year period and intangibles are amortized over an eighteen year period.

**(k) *Income taxes***

The Company is included in the consolidated federal and combined state and local income tax returns filed by BNY Mellon. In addition, the Company files stand-alone tax returns in certain jurisdictions including Pennsylvania. Income taxes are calculated using the modified separate return method, and the amount of current tax expense or benefit is either remitted to or received from BNY Mellon, pursuant to a tax sharing agreement between BNY Mellon and the Company.

The Company accounts for income taxes in accordance with ASC Topic 740, *Income Taxes*, which generally requires the recognition of tax benefits or expenses on the temporary differences between the financial reporting and the tax basis of assets and liabilities. If appropriate, deferred tax assets are adjusted by a valuation allowance, which reflects expectations of the extent to which such assets are more likely than not to be realized.

In accordance with FASB ASC 740, *Income Taxes*, the Company uses a two-step approach in recognizing and measuring its uncertain tax benefits whereby it is first determined if the tax position is more likely than not to be sustained under examination. If the tax position meets the more likely than not threshold, the position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. A tax position that fails to meet the more likely than not recognition threshold will result in either a reduction of current or deferred tax assets, and/or recording of current or deferred tax liabilities.

**(l) *Leasing***

The Company determines if an arrangement is a lease at inception. Right-of-use (“ROU”) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments. The ROU assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date or at lease modification date for certain lease modifications. For all leases, the Company uses a rate that represents a collateralized incremental borrowing rate based on similar terms and information available at lease commencement date or at the modification date for certain lease modifications in determining the present value of lease payments. In addition to the lease payments, the determination of an ROU asset may also include certain adjustments related to lease incentives and initial direct costs incurred. Options to extend or terminate a lease are included in the determination of the ROU asset and lease liability only when it is reasonably certain that we will exercise that option.

ROU assets are reviewed for impairment when events or circumstances indicate that the carrying amount may not be recoverable. For operating leases, if deemed impaired, the ROU asset is written down and the remaining balance is subsequently amortized on a straight-line basis, similar to finance leases. The Company maintains ROU assets of \$87,869 included in other assets, and lease liabilities of \$88,268 included in other liabilities on the balance sheet, both based on the present value of the expected remaining lease payments.

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**(3) Recently Adopted Accounting Standards**

The following Accounting Standards Updates (“ASUs”) issued by the FASB have been adopted by the Company.

*ASU 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued an ASU, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments. This ASU introduces a new current expected credit losses model, which applies to financial assets subject to credit losses and measured at amortized cost including cash, regulated cash and securities, certain receivables, and certain off-balance sheet credit exposures.

The standard requires a cumulative effect of initial application to be recognized in retained earnings at the date of initial application. The Company adopted the new standard on January 1, 2020. The Company has developed expected credit loss models and approaches that include consideration of multiple forecast scenarios and other methodologies. The impact to the Company was immaterial.

**(4) Securities owned and Securities sold, not yet purchased, at fair value**

Securities owned and securities sold, not yet purchased, at fair value, consist of the following at December 31, 2020:

	<b>Securities owned</b>	<b>Securities sold, not yet purchased</b>
Corporate and sovereign debt securities	\$ 99,256,265	32,154,328
U.S. treasury obligations	1,764,476,289	2,284,338,809
U.S. government agencies	576,263,509	-
Agency mortgage-backed securities	2,982,328,237	1,996,400
State and municipal obligations	108,284,368	56,085
Commercial paper	89,616,403	-
Equity securities	38,060,036	9,590,561
Preferred stock	4,309,938	347,481
	<u>\$ 5,662,595,045</u>	<u>2,328,483,664</u>

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**(5) Receivable from and Payable to broker-dealers and clearing organizations and customers**

Receivable from and payable to broker-dealers and clearing organizations and customers consist of the following at December 31, 2020:

	<b>Receivable</b>	<b>Payable</b>
Receivable from/payable to clearing brokers	\$ 1,983,903	212,927,975
Securities failed-to-deliver/receive - broker-dealers	-	216,350
Trades pending settlement	49,364,446	-
Deposits at clearing organizations	10,802,495	-
	62,150,844	213,144,325
Collateral receivable/payable to customers	-	126,384
Receivable from/payable to customers	126,578	200,062
	126,578	326,446
	\$ 62,277,422	213,470,771

The Company clears its customer facilitation transactions, with the exception of mortgage-backed securities, United States treasuries, and federal agency debentures through Pershing on a fully disclosed basis. Pershing, an affiliated broker dealer, clears all transactions except the aforementioned and futures transactions, which are cleared through Citi. The amount receivable from clearing broker is due from Citi, and amount payable to the clearing broker is due to Pershing and is primarily comprised of a margin loan payable for securities owned and financed.

Securities fail-to-receive and fail-to-deliver from brokers represent unsettled trades which are past settlement date that either the Company has not received payment (or delivered securities), or the Company has not received securities (or made payment).

Trades pending settlement represent the contract price of securities to be delivered or received by the Company. Should the counterparty not deliver the securities to the Company, the Company may be required to purchase identical securities on the open market. The value of such securities at December 31, 2020 approximates the amounts owed.

The Deposits at clearing organizations represents balances on deposit that are required in order to do business and are reviewed periodically.

The Company receives and pays collateral against open contractual commitments. Cash collateral is reflected in the financial statements. Non-cash collateral is not reflected in the financial statements.

The Company minimizes credit risk by monitoring counterparty credit exposure and collateral values on a daily basis. The Company requires additional collateral to be deposited or returned, and likewise, counterparties request and return collateral as deemed necessary.

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**(6) Furniture, equipment, and leasehold improvements**

Furniture, office equipment, computer equipment, and leasehold improvements consist of the following as of December 31, 2020:

Furniture and office equipment	\$	1,831,074
Computer equipment		941,105
Leasehold improvements		87,196
		2,859,375
Less accumulated depreciation		2,858,599
Furniture, equipment, leasehold improvements, net	\$	776
Software	\$	13,160,324
Intangibles		3,403,486
		16,563,810
Less accumulated amortization		13,564,091
Software and intangibles, net	\$	2,999,719

**(7) Securities purchased under agreements to resell and Securities sold under agreements to repurchase**

At December 31, 2020, the Company had received securities with a fair value of \$2,454,210,190 as collateral for the counterparty's obligation for securities purchased under agreements to resell of \$1,986,783,020. These particular transactions are primarily overnight contracts for U.S. treasuries, in which the principal values are reset regularly.

At December 31, 2020, the Company had pledged securities with a fair value of \$5,361,218,682 as collateral for its obligation for securities sold under agreements to repurchase of \$4,800,000,000.

**(8) Line of credit**

The Company maintains an uncommitted line of credit of \$1 billion with BNY Mellon IHC, LLC. The line of credit is used to finance the Company's trading business. Principal is payable on demand. None of the line was in use at December 31, 2020.

**(9) Related-party transactions**

The Company conducts recurring business with affiliated entities including significant financing and operating transactions. During the year ended December 31, 2020, such transactions included purchases of securities under agreements to resell and other advisory services. The affiliates also provide legal, tax, banking, data processing, rent, and other administrative support services to the Company pursuant to cost sharing agreements between the Company and BNY Mellon and affiliates.

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As of December 31, 2020, the Company had fees receivable from affiliate of \$306,580 for the issuance of affiliate debt.

As of December 31, 2020, the margin balance payable to Pershing was \$212,927,975 and is included in Payable to brokers-dealers and clearing organizations. See footnote 6 for additional information.

As of December 31, 2020, amounts payable to affiliates of \$11,603,218 consists of payables related to accounts payable processing, intercompany service payments made by an affiliate on behalf of the Company including income tax and amounts payable under the terms of the TRS transaction described below.

The Company entered into back-to-back TRS transactions (TRS) between BNY Mellon and a third party. Total return swaps are contractual agreements where the Company agrees to pay a counterparty the total economics of a defined underlying asset, in return for receiving a stream of floating rate cash flows, such as the London Interbank Offered Rate (“LIBOR”). The underlying assets for total return swaps may include equity and fixed income indices securities. The exposure from these transactions is hedged by entering into a mirrored trade with BNY Mellon. BNY Mellon relies on this related party total return swap trade to economically hedge obligations arising from BNY Mellon's deferred compensation plan whereby the participants defer compensation and earn a return linked to the performance of investments they select. The Total Return Swap trades are not centrally cleared and the trades are six months in duration. The Total Return Swap trades are part of ISDA agreements between the counterparties. At December 31, 2020, the amount payable to an affiliate for the matured swaps was \$8,098,635 recorded in amounts Payable to affiliates on the Statement of Financial Condition.

The Company previously entered into a loan subordinated to the claims of creditors with the Parent in the amount of \$100 million. As of December 31, 2020, the balance on that loan has been repaid. See footnote 15 for additional information.

In addition, the Company had receivables from affiliates totaling \$11,793, which represents fee income receivable.

The following table sets forth the Company's related party assets and liabilities as of December 31, 2020:

Assets:	
Cash	\$ 4,235,426
Fees receivable	306,580
Receivable from affiliates	<u>11,793</u>
Total assets	\$ <u>4,553,799</u>
Liabilities:	
Payable to broker-dealers and clearing organizations	\$ 212,927,975
Payable to affiliates	<u>11,603,218</u>
Total liabilities	\$ <u>224,531,193</u>

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**(10) Financial instruments**

*a) Fair value*

In accordance with FASB ASC Topic 820, *Fair Value Measurement*, the Company groups its financial assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the observability of the assumptions used to determine fair value.

Level 1 primarily consists of financial instruments whose value is based on unadjusted quoted market prices such as listed equities and options. Additionally, this category also includes U.S. treasury obligations for which the Company typically receives independent external valuation information based on active markets.

Level 2 primarily consists of financial instruments whose value is based on quoted prices for similar assets or liabilities in markets that are active, quoted prices in inactive markets, and model based pricing for which the inputs are observable or can be corroborated, either directly or indirectly, for substantially the full term of the financial instrument. This category primarily includes corporate debt, U.S. government agencies, agency mortgage-backed securities, state and municipal obligations, certificates of deposits, commercial paper and forward settling TBA securities.

Level 3 comprises securities whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are unobservable. There are no level 3 assets or liabilities at December 31, 2020.

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The balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 are as follows:

		<b>Assets at fair value as of December 31, 2020</b>				
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Netting <sup>(1)</sup></b>	<b>Total</b>
Securities owned, at fair value:						
Corporate and sovereign debt securities						
\$	-	99,256,265	-	-	-	99,256,265
	1,764,476,289	-	-	-	-	1,764,476,289
	-	576,263,509	-	-	-	576,263,509
Agency mortgage-backed securities						
	-	2,982,328,237	-	-	-	2,982,328,237
State and municipal obligations						
	-	108,284,368	-	-	-	108,284,368
Commercial paper						
	-	89,616,403	-	-	-	89,616,403
Equity securities						
	38,060,036	-	-	-	-	38,060,036
Preferred stock						
	-	4,309,938	-	-	-	4,309,938
<b>Total securities owned, at fair value</b>						
	<b>1,802,536,325</b>	<b>3,860,058,720</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5,662,595,045</b>
Derivative assets, at fair value						
Equity derivatives						
	-	-	-	-	-	-
Interest rate derivatives						
	22,624	36,016,562	-	(19,356,176)	-	16,683,010
<b>Total derivative assets, at fair value</b>						
	<b>22,624</b>	<b>36,016,562</b>	<b>-</b>	<b>(19,356,176)</b>	<b>-</b>	<b>16,683,010</b>
<b>Total fair valued assets</b>						
<b>\$</b>	<b>1,802,558,949</b>	<b>3,896,075,282</b>	<b>-</b>	<b>(19,356,176)</b>	<b>-</b>	<b>5,679,278,055</b>

<sup>(1)</sup> Includes the effect of netting agreements and net cash collateral received.

		<b>Liabilities at fair value as of December 31, 2020</b>				
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Netting <sup>(1)</sup></b>	<b>Total</b>
Securities sold, not yet purchased, at fair value:						
Corporate and sovereign debt securities						
\$	-	32,154,328	-	-	-	32,154,328
	2,284,338,809	-	-	-	-	2,284,338,809
Agency mortgage-backed securities						
	-	1,996,400	-	-	-	1,996,400
State and municipal obligations						
	-	56,085	-	-	-	56,085
Equity securities						
	9,590,561	-	-	-	-	9,590,561
Preferred stock						
	-	347,481	-	-	-	347,481
<b>Total securities sold, not yet purchased, at fair value</b>						
	<b>2,293,929,370</b>	<b>34,554,294</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,328,483,664</b>
Derivative liabilities, at fair value						
Interest rate derivatives						
	15,935	67,264,777	-	(19,356,176)	-	47,924,536
<b>Total derivative liabilities, at fair value</b>						
	<b>15,935</b>	<b>67,264,775</b>	<b>-</b>	<b>(19,356,176)</b>	<b>-</b>	<b>47,924,536</b>
<b>Total fair valued liabilities</b>						
<b>\$</b>	<b>2,293,945,305</b>	<b>101,819,069</b>	<b>-</b>	<b>(19,356,176)</b>	<b>-</b>	<b>2,376,408,200</b>

<sup>(1)</sup> Includes the effect of netting agreements and net cash collateral paid.



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***b) Derivative instruments***

The Company enters into various transactions involving derivatives financial instruments. These financial instruments include futures, exchange-traded options, forward settling government/agency securities, and agency mortgage-backed securities including to-be-announced contracts (TBAs), and Total Return Swaps (TRS). These derivative instruments are used to manage exposure to market and interest rate risk.

Futures and forward settling mortgage-backed TBA, securities provide for the delayed delivery of the underlying instrument. As a seller of options, the Company receives a premium in exchange for giving the counterparty the right to buy or sell the security at a future date at a contracted price. As a purchaser of options, the Company pays a premium in exchange for the right to buy or sell the security at a future date at a contracted price. The notional amounts for derivative financial instruments express the dollar volume of the transactions; however, credit risk is much smaller. Futures contracts are executed on an exchange, and cash settlement is transacted the next business day for the market movement. Accordingly, futures contracts generally have minimal credit risk. The counterparty credit risk on forward settling TBAs, ARMs, and CMO securities and options is limited to the unrealized fair value gains recorded in the statement of financial condition. Market risk is substantially dependent upon the value of the underlying financial instrument and is affected by market forces such as volatility and changes in interest rates.

In December 2020, the Company entered into back-to-back TRS transactions between BNY Mellon and a third party. The duration of these transactions are six months in nature. These transactions are reset every six months and updated accordingly. The underlying assets for total return swaps include equity and fixed income indices securities.

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The following table summarizes the notional amount and credit exposure of derivative instruments at December 31, 2020:

	<u>Notional value (in millions)</u>	<u>Derivative assets, at fair value</u>	<u>Derivative liabilities, at fair value</u>
Futures:			
Treasury	\$ 23	-	440
Euro-Dollar	465	-	15,495
Forwards:			
Agency Mortgage-Backed TBAs, ARM's, CMO's, U.S. Government and U.S. Agencies	20,239	36,016,562	67,264,777
Swap:			
Total Return Swap	451	-	-
Options:			
US Treasury options on futures	185	22,624	-
Total gross derivatives, at fair value	\$	<u>36,039,186</u>	<u>67,280,712</u>
Impact of netting		<u>(19,356,176)</u>	<u>(19,356,176)</u>
Total net derivatives, at fair value	\$	<u><u>16,683,010</u></u>	<u><u>47,924,536</u></u>

**c) *Financial Assets and Liabilities not measured at Fair Value***

The fair values of other financial assets and liabilities (consisting primarily of Receivable from and Payable to broker-dealers and clearing organizations; Receivable from and Payable to customers; Securities purchased under agreements to resell and Securities sold under agreements to repurchase) are considered to approximate their carrying amounts because they have limited counterparty credit risk and are short-term, replaceable on demand, and/or bear interest at market rates.

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<b>Summary of financial instruments</b>					
<b>(in thousands)</b>	<b>12/31/2020</b>			<b>Total</b>	<b>Carrying</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>estimated</b>	<b>amounts</b>
				<b>fair value</b>	
<b>Assets:</b>					
Cash	\$ 4,235	-	-	4,235	4,235
Cash segregated for regulatory purposes	10,000	-	-	10,000	10,000
Receivable from broker-dealers and clearing organizations	10,802	51,349	-	62,151	62,151
Receivable from customers	-	127	-	127	127
Securities purchased under agreements to resell, net	-	1,986,783	-	1,986,783	1,986,783
Fees receivable	-	16,308	-	16,308	16,308
Interest receivable	-	6,617	-	6,617	6,617
Receivable from affiliates	-	12	-	12	12
Total	<u>\$ 25,037</u>	<u>2,061,196</u>	<u>-</u>	<u>2,086,233</u>	<u>2,086,233</u>
<b>Liabilities</b>					
Securities sold under agreements to repurchase, net	\$ -	4,800,000	-	4,800,000	4,800,000
Payable to broker-dealers and clearing organizations	-	213,144	-	213,144	213,144
Payable to customers	-	326	-	326	326
Payable to affiliates	-	11,269	-	11,269	11,269
Interest payable	-	686	-	686	686
Subordinated liabilities	-	-	-	-	-
Total	<u>\$ -</u>	<u>5,025,425</u>	<u>-</u>	<u>5,025,425</u>	<u>5,025,425</u>

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**(11) Offsetting of assets and liabilities**

The following tables present derivative assets and liabilities and financial instruments that are subject to an enforceable netting agreement.

*Offsetting of Derivative Assets and Financial Instruments*

	December 31, 2020					
	Gross assets recognized	Offset in the statement of financial condition	Net assets recognized in the statement of financial condition	Gross amounts not offset in the statement of financial condition <sup>(1)</sup>		Net amount
				Financial instruments	Cash collateral received	
Derivative assets subject to netting arrangements:						
Interest rate derivatives	\$ 36,016,562	(19,356,176)	16,660,386	-	-	16,660,386
Total derivative assets subject to netting arrangements:	36,016,562	(19,356,176)	16,660,386	-	-	16,660,386
Derivative assets not subject to netting arrangements:						
Interest rate derivatives	22,624	-	22,624	-	-	22,624
Total derivative assets not subject to netting arrangements:	22,624	-	22,624	-	-	22,624
Total derivative assets, at fair value	36,039,186	(19,356,176)	16,683,010	-	-	16,683,010
Securities purchased under agreements to resell	2,453,893,270	(467,110,250)	1,986,783,020	(1,986,783,020)	-	-
	\$ 2,489,932,456	(486,466,426)	2,003,466,030	(1,986,783,020)	-	16,683,010

<sup>(1)</sup> The amount reported in collateral received and pledged (including cash) is limited to the amount of related assets presented in the statement of financial condition and therefore any over-collateralization of these assets are not included.

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**Offsetting of Derivative Liabilities and Financial Instruments**

	December 31, 2020					
	Gross liabilities recognized	Offset in the statement of financial condition	Net liabilities recognized in the statement of financial condition	Gross amounts not offset in the statement of financial condition <sup>(1)</sup>		Net amount
				Financial instruments	Cash collateral received	
Derivative liabilities subject to netting arrangements:						
Interest rate derivatives	\$ 67,264,777	(19,356,176)	47,908,601	-	-	47,908,601
Total derivative liabilities subject to netting arrangements:	67,264,777	(19,356,176)	47,908,601	-	-	47,908,601
Derivative liabilities not subject to netting arrangements:						
Interest rate derivatives	15,935	-	15,935	-	-	15,935
Total derivative liabilities not subject to netting arrangements:	15,935	-	15,935	-	-	15,935
Total derivative liabilities, at fair value	67,280,712	(19,356,176)	47,924,536	-	-	47,924,536
Securities sold under agreements to repurchase	5,267,110,250	(467,110,250)	4,800,000,000	(4,800,000,000)	-	-
	\$ 5,334,390,962	(486,466,426)	4,847,924,536	(4,800,000,000)	-	47,924,536

<sup>(1)</sup> The amount reported in collateral received and pledged (including cash) is limited to the amount of related liability presented in the statement of financial condition and therefore any over-collateralization of these liabilities are not included.

**(12) Transfers and servicing – secured borrowing and collateral**

The following table presents the fair value of collateral pledged under repurchase agreements accounted for as secured borrowings, by the type of collateral provided to counterparties.

**Gross Liabilities Collateral Pledged and Contractual Maturity**

	<b>Overnight and Continuous</b>
Repurchase Agreements	
U.S. treasury obligations	\$ 2,070,704,444
U.S. government agencies	420,825,977
Agency mortgage-backed securities	2,775,579,829
Total Gross Liabilities Collateral Pledged	\$ 5,267,110,250

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The Company's repurchase agreement transactions primarily encounter risk associated with liquidity. The Company is required to pledge collateral based on predetermined terms within the agreements. If the Company were to experience a decline in the fair value of the collateral pledged for these transactions, additional collateral could be required to be provided to the counterparty; therefore, decreasing the amount of assets available for other liquidity needs that may arise.

**(13) Collateral Arrangements**

Under the Company's collateralized financing arrangements and other business activities, the Company either receives or provides collateral. As of December 31, 2020, the fair value of securities received and pledged as collateral is detailed in the tables below:

**Source of available collateral - received:**

Securities purchased under agreement to resell	\$ <u>2,454,210,190</u>
--	-------------------------

**Use of available collateral - pledged:**

Securities sold under agreement to repurchase	\$ 5,361,218,682
Securities collateral pledged to clearing organizations	<u>124,994,287</u>
	\$ <u>5,486,212,968</u>

The Securities sold under agreements to repurchase and Securities purchased under agreements to resell transactions are generally documented under industry standard agreements that allow the prompt close-out of all transactions (including the liquidation of securities held) and the offsetting of obligations to return cash or securities by the non-defaulting party, following a payment default or other type of default under the relevant master agreement. The Company minimizes credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned by the Company when deemed necessary. The counterparty that receives the securities in these transactions is generally unrestricted in its use of the securities, with the exception of transactions executed on a tri-party basis, where the collateral is maintained by a custodian and operational limitations may restrict its use of the securities. All collateral delivered to counterparties which collateralize Securities sold under agreement to repurchase transactions are considered encumbered assets.

**(14) Liabilities Subordinated to the Claims of General Creditors**

The Company, with the approval of FINRA, entered into a subordinated loan with the Parent in December 2016, under which \$100 million was borrowed. On October 27, 2020, the Company repaid the remaining balance of \$50 million of the loan to the parent with regulatory approval from FINRA.

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**(15) Regulatory Requirements**

*a) Cash and Securities Segregated under Federal and Other Regulations*

The Company performs weekly computations to determine the reserve deposit requirements of the SEC under Rule 15c3-3. As of December 31, 2020, the Company had a \$126,382 reserve deposit requirement. At December 31, 2020, cash of \$10,000,000 has been segregated in a special reserve bank account for the exclusive benefit of customers under Rule 15c3-3 of the SEC.

*b) Net Capital Requirement*

The Company is subject to the Uniform Net Capital requirements of the SEC under Rule 15c3-1, which requires the maintenance of minimum net capital. The SEC's requirements also provide that equity capital may not be withdrawn or cash dividends paid if certain minimum net capital requirements are not met. The Company computes its net capital in accordance with the alternative method of this Rule, which requires the maintenance of minimum net capital equal to the greater of \$250,000 or 2% of aggregate debit items arising from customer related transactions, as defined.

At December 31, 2020, the Company had net capital of \$188,089,191, which was \$187,839,191 in excess of the minimum net capital required to be maintained at that date.

Advances to affiliates, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule or other regulatory bodies.

**(16) Income Taxes**

The deferred income taxes reflect the tax effects of temporary differences between the financial reporting and tax bases of asset and liabilities. The Company has a gross deferred tax asset of \$8,598,593 and a gross deferred tax liability of \$827,752 at December 31, 2020. The deferred tax asset is primarily attributable to intangibles and the deferred tax liability is primarily attributable to depreciation. The net deferred tax asset is \$7,770,841. The Company has not recorded a valuation allowance because management believes it is more likely than not that the Company's deferred tax assets will be realized.

Federal and state and local taxes payable of \$143,132 and \$13,156 respectively, are included in payable to affiliates on the statement of financial condition. State taxes receivable of \$334,149 are included in other assets on the statement of financial condition.

BNY Mellon's federal consolidated income tax returns are closed to examination through 2016. The New York State and New York City income tax returns are closed to examination through 2014. The Company's New Jersey income tax returns are closed to examination through 2015.

**(17) Financial Instruments and Related Risks**

In the normal course of business, the Company's activities involve the execution of securities transactions. These activities may expose the Company to off-balance sheet credit risk in the event the counterparty is unable to fulfill its contracted obligations. The Company conducts business with brokers and dealers that are members of the major securities exchanges.

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The Company's securities activities are transacted on a delivery versus payment basis. In delivery versus payment transactions, the Company is exposed to risk of loss in the event of the customer's or broker's inability to meet the terms of their contracts. Should the customer or broker fail to perform, the Company may be required to complete the transaction at prevailing market prices. Trades pending at December 31, 2020 were settled without an adverse effect on the Company's financial statements.

Subsequent market fluctuations of securities sold, but not yet purchased may require purchasing these securities at prices which differ from values reflected on the statement of financial condition. Inventory positions are monitored on a daily basis to minimize the risk of loss.

The Company's exposure to credit risk can be directly impacted by volatile securities markets, which may impair the ability of counterparties to satisfy their contractual obligations.

The Company seeks to control its credit risk through a variety of reporting and control procedures and by applying uniform credit standards maintained for all activities with credit risk.

The coronavirus pandemic has had a significant effect on the global macroeconomic environment. Since March 2020, the vast majority of the Company's employees have worked from home. They have been fully functional with minimal disruption to regular operations. However, our continued reliance on work-from-home arrangements may result in increased operational risks. Market volatility associated with the performance of global equity and fixed income markets and lower interest rates has had, and may continue to have, an impact on the business. Fee-based businesses benefit from heightened volatility. Significant increases in market volatility also resulted in increased trading activity. However, the heightened volumes and volatility experienced in the first quarter of 2020 declined over the remainder of 2020. It is difficult to forecast the impact of the coronavirus, together with related public health measures, with certainty because so much depends on how the health crisis evolves, its impact on the global economy as well as actions taken by central banks and governments to support the economy and the availability, use and effectiveness of vaccines.

**(18) Commitments and Contingencies**

In the ordinary course of business, the Company is routinely a defendant in or party to a number of pending and potential legal actions, including actions brought on behalf of various classes of claimants and regulatory matters. In regulatory enforcement matters, claims for disgorgement and the imposition of penalties and/or other remedial sanctions are possible. Due to the inherent difficulty of predicting the outcome of such matters, the Company cannot ascertain what the eventual outcome of these matters will be; however based on current knowledge and after consultation with legal counsel, the Company does not believe that judgments or settlements, if any, arising from pending or potential legal actions or regulatory matters, either individually or in the aggregate, will have a material adverse effect on the financial position or liquidity of the Company although they could have a material effect on the net income for a given period. The Company intends to defend itself vigorously against all of the claims asserted in these legal actions.

As part of the Company's investment banking activities, the firm regularly enters in agreements which could create firm commitments on behalf of the Company and the issuer or underwriting group, which are generally short term in nature. These firm commitments are subject to the SEC's Net Capital rules and are reported on the Company's Net Capital Computation. As of December 31, 2020, the Company's Net Capital Computation reported firm commitments from underwriting activities of \$5,446,160.



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**(19) Subsequent Events**

The Company has evaluated whether any events or transactions occurred subsequent to the date of the financial statements and through February 26, 2021 and determined that there were no material events or transactions that would require recognition or disclosure in the financial statements.