

RMS



17017969

DN

OMB APPROVAL	
OMB Number:	3235-0123
Expires:	May 31, 2017
Estimated average burden hours per response.....	12.00

Securities and Exchange **ANNUAL AUDITED REPORT**

JUN 02 2017

**FORM X-17A-5 PART III**

SEC Mail Processing Section

SEC FILE NUMBER
8-66999

**RECEIVED**

FEB 28 2017

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 01/01/2016 AND ENDING 12/31/2016  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Key Investment Services LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

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

4900 Tiedeman Road

(No. and Street)

Brooklyn

Ohio

44144

(City)

(State)

(Zip Code)

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

Matt Gulla

216-813-6033

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Ernst & Young LLP

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

950 Main Avenue, Suite 1800 Cleveland

Ohio

44113

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

FOR OFFICIAL USE ONLY

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

OATH OR AFFIRMATION

I, Matt Gulla, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Key Investment Services LLC, as of December 31, 2016, 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:

Security accounts of principal officers and directors are classified as customer accounts (debits \$0, credits \$0)

Matt Gulla

Signature

CFO

Title

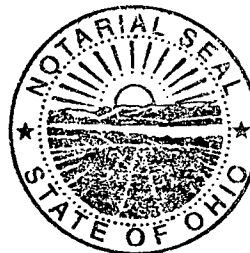
Ellen Gallagher

Notary Public

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

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

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



ELLEN GALLAGHER  
Notary Public, State of Ohio  
My Commission Expires  
July 23, 2019

**Securities and Exchange Commission**

Washington, D.C 20549

**Annual Audit Report**

Year Ended December 31, 2016

**Key Investment Services LLC**

**(Name of Respondent)**

4900 Tiedeman Road

Brooklyn, Ohio 44144

---

(Address of principal executive office)

**Mr. Matt Gulla**

**Chief Financial Officer**

**Key Investment Services LLC**

4900 Tiedeman Road

Brooklyn, Ohio 44144

Telephone No. (216) 813-6033

---

Key Investment Services LLC

Financial Statements and Supplementary Information

Year Ended December 31, 2016

**Contents**

Report of Independent Registered Public Accounting Firm .....	1
Financial Statements	
Statement of Assets, Liabilities and Member's Interest .....	2
Statement of Operations.....	3
Statement of Changes in Member's Interest.....	4
Statement of Cash Flows .....	5
Notes to Financial Statements.....	6
Supplementary Information	
Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1 .....	26
Schedule II – Statement Regarding Rule 15c3-3 .....	27



Building a better  
working world

Ernst & Young LLP  
950 Main Avenue  
Suite 1800  
Cleveland, Ohio 44113

Tel: +1 216 861 5000  
Fax: +1 216 583 2013  
ey.com

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Member  
Key Investment Services LLC

We have audited the accompanying statement of assets, liabilities, and member's interest of Key Investments services LLC, (the Company) as of December 31, 2016, and the related statements of operations, changes in member's interest, and cash flows for the year then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Key Investment Services LLC at December 31, 2016, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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

February 27, 2017

# Key Investment Services LLC

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

December 31, 2016

### Assets

Cash	\$ 4,770,868
Marketable securities, at fair value	23,284,813
Receivable from brokers, dealers, and clearing organizations	18,719,615
Fees receivable	2,709,854
Prepaid expenses	882,841
Furniture and equipment, net	168,260
Receivable from Affiliates	922,465
Income taxes due from Parent	3,043,325
Other assets	120,000
Total assets	<u>\$ 54,622,041</u>

### Liabilities and Member's Interest

#### Liabilities:

Securities sold, but not yet purchased	\$ 6,166
Accrued compensation	5,220,881
Payable to Parent	1,237,139
Accrued contingency costs	111,909
Accrued clearing costs	898,161
Reserve for annuity and insurance sales	341,679
Deferred tax liability, net	137,602
Other liabilities	847,907
Total liabilities	<u>8,801,444</u>

#### Member's Interest

Total liabilities and Member's interest	<u>\$ 45,820,597</u>
	<u>\$ 54,622,041</u>

*See accompanying notes to financial statements.*

# Key Investment Services LLC

## Statement of Operations

Year Ended December 31, 2016

<b>Revenues</b>	
Commissions	\$ 78,802,481
Principal transactions	1,775,753
Advisory fees	9,663,400
Other revenues	<u>1,499,778</u>
Total revenues	91,741,412
<b>Expenses</b>	
Employee compensation and benefits	57,264,125
Communications	1,506,393
Occupancy, information services and equipment	12,772,861
Promotion and development	1,271,954
Floor brokerage and clearance	11,325,440
Management fee expense from Parent	3,285,000
Other operating expenses	<u>3,462,516</u>
Total expenses	<u>90,888,289</u>
Income before income taxes	853,123
Provision for income taxes	386,807
Net increase in Member's interest resulting from operations	<u><u>\$ 466,316</u></u>

*See accompanying notes to financial statements.*

Key Investment Services LLC

Statement of Changes in Member's Interest

Year Ended December 31, 2016

Balance at January 1, 2016	\$ 44,991,720
Net increase in Member's interest resulting from operations	466,316
Capital contributions from Parent	362,561
Balance at December 31, 2016	<u>\$ 45,820,597</u>

*See accompanying notes to financial statements.*



## Key Investment Services LLC

### Statement of Cash Flows

Year Ended December 31, 2016

#### Operating activities:

Net increase in member's interest resulting from operations	\$ 466,316
Adjustments to reconcile net increase in member's interest to net cash provided by operating activities:	
Depreciation and amortization	124,203
Deferred income tax expense	262,269
Stock based compensation allocated from Parent	362,561
Changes in operating assets and liabilities:	
Decrease (increase) in receivable from brokers, dealers, and clearing organizations	2,597,743
Decrease (increase) in taxes due from Parent, net	(3,058,938)
Decrease (increase) in fee receivables	(520,706)
Decrease (increase) in marketable securities, fair value	(47,375)
Decrease (increase) in prepaid expenses	(174,921)
Decrease (increase) in receivable from affiliate	(351,643)
Increase (decrease) in accrued compensation	616,738
Increase (decrease) in securities sold, but not yet purchased	6,166
Increase (decrease) in accrued clearing costs	48,906
Increase (decrease) in accrued contingency costs	(88,901)
Increase (decrease) in intercompany payable to Parent	872,759
Increase (decrease) in reserve for annuity and insurance sales, net	(181,805)
Increase (decrease) in other liabilities	431,794
Net cash provided by operating activities	<u>1,365,166</u>

#### Investing activities:

Purchases of furniture and equipment	(100,541)
Increase in cash	1,264,625
Cash at beginning of fiscal year	3,506,243
Cash at end of fiscal year	<u>\$ 4,770,868</u>

*See accompanying notes to financial statements.*

# Key Investment Services LLC

## Notes to Financial Statements

Year Ended December 31, 2016

### **1. Organization**

Key Investment Services LLC (the Company), is an Ohio limited liability company whose sole member is KeyBank National Association (the Bank), which in turn is a wholly owned subsidiary of KeyCorp (the Parent). The Company is a registered full service introducing broker-dealer under the Securities Exchange Act of 1934 and a member of the Financial Industry Regulatory Authority, Inc. (FINRA). The Company was formed on June 8, 2005 with a capital contribution of \$1,000,000 on June 22, 2005. FINRA granted approval on November 17, 2005. The Company primarily sells investment company shares and fixed and variable rate annuity contracts through licensed/registered representatives located in some of the Bank's branches in Ohio, Michigan, Indiana, New York, Maine, Vermont, Washington, Oregon, Alaska, Idaho, Colorado, Connecticut, Massachusetts, Pennsylvania and Utah. In addition to sales of investment company shares and annuity contracts, the Company sells corporate debt and equity securities, unit investment trusts, U.S. government securities, managed products, and life insurance contracts.

The Company clears its securities transactions on a fully disclosed basis through Pershing, LLC.

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

#### **Use of Estimates**

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

#### **Cash**

Cash is on deposit at the Bank. Cash balances may be held in excess of FDIC insurance limits, but the Company does not believe it is exposed to any credit risk.

#### **Marketable Securities**

Marketable securities, including primarily money market securities and mutual funds, are recorded on a settlement date basis, which approximates trade date basis. Marketable securities are valued at quoted market prices, which represent fair value.

# Key Investment Services LLC

## Notes to Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Receivable from Brokers, Dealers, and Clearing Organizations

Receivable from brokers, dealers, and clearing organizations represents commissions earned through the sales of various products net, of various clearing and administrative charges. The carrying amount of receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that are not expected to be collectible. In the opinion of management, at December 31, 2016, all receivables were considered collectible, and no allowance was necessary.

#### Prepaid Expenses

Prepaid expenses include retention payments, licensing and regulatory fees, and insurance premiums that are being amortized over various periods ranging from twelve to twenty-four months.

#### Furniture and Equipment

Furniture and equipment are stated at cost less accumulated depreciation and amortization. The Company depreciates furniture and equipment using the straight-line method over the estimated useful lives of the particular assets. Accumulated depreciation and amortization on furniture and equipment totaled \$281,225 at December 31, 2016.

#### Income Taxes

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

Deferred income taxes are provided for temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements at the statutory tax rate.

Accounting for uncertainty in income taxes prescribes a comprehensive model for how companies should recognize, measure, present and disclose in their financial statements uncertain tax positions taken or expected to be taken on a tax return. Under this accounting guidance, tax positions are recognized in the financial statements when it is more likely than not,

## Key Investment Services LLC

### Notes to Financial Statements (continued)

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

##### **Income Taxes (continued)**

the position will be sustained upon examination by the tax authorities. Such tax positions are initially and subsequently measured as the largest amount of tax benefit that is greater than 50% likely (more-likely-than-not) of being realized upon ultimate settlement with the tax authority assuming full knowledge of the position and all relevant facts. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense. Additionally, this guidance requires disclosure of an annual tabular roll forward of unrecognized tax benefits. The Company's management believes that there was no liability resulting from unrecognized tax benefits related to uncertain tax positions taken at December 31, 2016. Refer to Note 5 (Income Taxes) for further discussion of the Company's income taxes.

##### **Accrued Compensation**

Accrued compensation includes employee salaries, commissions, incentive compensation, payroll taxes, and benefits. Salaries, payroll taxes, and benefits are accrued based on days worked. Commissions are accrued on the settlement date basis and vary based on individual commission rates and production volume. Incentive compensation includes both discretionary and non-discretionary amounts. Discretionary amounts are accrued during the year based on estimated payouts. Non-discretionary amounts are accrued as pre-determined benchmarks are met.

##### **Accrued Clearing Costs**

Accrued clearing costs include various custodial, clearing, and system fees charged by the Company's clearing firm as incurred.

##### **Reserve for Annuity and Insurance Sales**

The Company estimates a reserve against revenue related to certain annuity and insurance contracts that have the potential to be cancelled or returned at a future date. This estimate is based on average historical loss rates over a three year period. During the year ended December 31, 2016, the Company recorded additional reserves of \$1,499,727 in connection with sales of annuity and insurance contracts, and reduced its reserves of \$1,681,532 related to a decrease in the potential cancellation of sold contracts.

## Key Investment Services LLC

### Notes to Financial Statements (continued)

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

##### Revenue Recognition

The Company earns commission income through the sales of various securities products primarily consisting of investment company shares and fixed and variable rate annuity contracts. Commission income and related expenses are recorded in the accompanying financial statements on a settlement date basis. No material differences resulted from recognizing revenue and related expenses on a settlement date basis, rather than on a trade date basis. Advisory fees are deferred and recognized as revenue in the period earned. The Company earns 12b-1 fees for promoting and distributing mutual funds, which are accrued as earned, with cash being received in the subsequent period. The 12b-1 fees are based on either the average daily fund net asset balances or average daily aggregate net fund sales, and are affected by the changes in the overall level of activity and mix of assets under management for the products sold.

##### Principal Transactions

Principal transactions are riskless principal trades entered into by the Company only when it has a confirmed customer order and are recorded on a settlement date basis, rather than on a trade date basis. No material differences resulted from recognizing revenue and related expenses on a settlement date basis, rather than on a trade date basis.

##### Stock-Based Compensation

Stock-based compensation is measured using the fair value method of accounting. The measured cost is recognized over the period during which the recipient is required to provide service in exchange for the award. The Company estimates expected forfeitures when stock-based awards are granted and records compensation expense only for awards that are expected to vest.

The Company recognizes compensation cost for stock-based, mandatory deferred incentive compensation awards using the accelerated method of amortization over a period of approximately five years (the current year performance period and a four-year vesting period, which generally starts in the first quarter following the performance period) for awards granted in 2012 and after, and over a period of approximately four years (the current year performance period and a three-year vesting period, which generally starts in the first quarter following the performance period) for awards granted prior to 2012.

Employee stock options typically become exercisable at the rate of 25% per year beginning one year after the grant date. Options expire no later than ten years after their grant date. The

# Key Investment Services LLC

## Notes to Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Stock-Based Compensation (continued)

Company recognizes stock-based compensation expense for stock options with graded vesting using an accelerated method of amortization.

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

The Parent uses shares repurchased under its annual capital plan submitted to the regulators (treasury shares) for share issuances under all stock-based compensation programs.

The Company estimates the fair value of options granted using the Black-Scholes option-pricing model, as further described in Note 3, *Stock Based Compensation*.

#### Fair Value Measurements

The Company follows the applicable accounting guidance for fair value measurements and disclosures for all applicable financial and nonfinancial assets and liabilities. This guidance defines fair value, establishes a framework for measuring fair value, addresses disclosures about fair value measurements, and applies only when other guidance requires or permits assets or liabilities to be measured at fair value; the guidance does not expand the use of fair value to any new circumstances.

Accounting guidance defines fair value as the price to sell an asset or transfer a liability in an orderly transaction between market participants in the Company's principal market. In other words, fair value represents an exit price at the measurement date. Market participants are buyers and sellers who are independent, knowledgeable, and willing and able to transact in the principal (or most advantageous) market for the asset or liability being measured. Current market conditions, including imbalances between supply and demand, are considered in determining fair value.

The Company values its assets and liabilities based on the principal market where each would be sold (in the case of assets) or transferred (in the case of liabilities). The principal market is the

## Key Investment Services LLC

### Notes to Financial Statements (continued)

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

##### Fair Value Measurements (continued)

forum with the greatest volume and level of activity. In the absence of a principal market, the valuation is based on the most advantageous market (i.e., the market where the asset could be sold at a price that maximizes the amount to be received or the liability transferred at a price that minimizes the amount to be paid). In the absence of observable market transactions, management considers liquidity valuation adjustments to reflect the uncertainty in pricing the instruments.

In measuring the fair value of an asset, the Company assumes the highest and best use of the asset by a market participant – not just the intended use – to maximize the value of the asset. The Company also considers whether any credit valuation adjustments are necessary based on the counterparty's credit quality.

When measuring the fair value of a liability, the Company assumes that the transfer will not affect the associated nonperformance risk. Nonperformance risk is the risk that an obligation will not be satisfied and encompasses not only the Company's own credit risk (i.e., the risk that the Company will fail to meet its obligation), but also other risks such as settlement risk (i.e., the risk that upon termination or sale, the contract will not settle). The Company considers the effect of its own credit risk on the fair value for any period in which fair value is measured.

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

All inputs, whether observable or unobservable, are ranked in accordance with a prescribed fair value hierarchy that gives the highest ranking to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest ranking to unobservable inputs (Level 3). Fair values for assets or liabilities classified as Level 2 are based on one or a combination of the following factors: (a) quoted market prices for similar assets or liabilities; (b) observable inputs, such as interest rates or yield curves; or (c) inputs derived principally from or corroborated by observable market data. The level in the fair value hierarchy ascribed to a fair value measurement in its entirety is based on the lowest level input that is significant to the measurement. The Company considers an input to be significant if it drives 10% or more of the total fair value of a particular asset or liability. Assets and liabilities may transfer between levels based on the observable and

## Key Investment Services LLC

### Notes to Financial Statements (continued)

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

##### **Fair Value Measurements (continued)**

unobservable inputs used at the valuation date, as the inputs may be influenced by certain market conditions. Transfers between levels of the fair value hierarchy are recognized at the end of the reporting period.

Typically, assets and liabilities are considered to be fair valued on a recurring basis if fair value is measured regularly. At a minimum, the Company conducts its valuations monthly.

Additional information regarding fair value measurements and disclosures is provided in Note 9, *Fair Value Measurements*.

##### **Subsequent Events**

In preparing these financial statements, subsequent events were evaluated through the time the financial statements were issued. Financial statements are considered issued when they are widely distributed to financial statement users or filed with the SEC. In compliance with applicable accounting standards, all material subsequent events either have been recognized in the financial statements or disclosed in the notes to the financial statements.

##### **Accounting Guidance Adopted in 2016**

**Going concern.** In August 2014, the FASB issued new accounting guidance that requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. Disclosure is required when conditions or events raise substantial doubt about an entity's ability to continue as a going concern. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016.

##### **Accounting Guidance Pending Adoption at December 31, 2016**

**Income taxes.** In October 2016, the FASB issued accounting guidance requiring an entity to recognize any deferred taxes from an intra-entity transfer of an asset other than inventory when the transfer occurs. This accounting guidance will be effective for annual and interim reporting periods beginning after December 15, 2017 (effective January 1, 2018, for us) and should be implemented using a modified-retrospective approach. Early adoption is permitted but only as of the beginning of an annual reporting period for which financial statements have not yet been



# Key Investment Services LLC

## Notes to Financial Statements (continued)

### 2. Significant Accounting Policies (continued)

#### Accounting Guidance Pending Adoption at December 31, 2016 (continued)

issued. We are currently evaluating the impact that this accounting guidance may have on our financial condition or results of operations.

**Stock-based compensation.** In March 2016, the FASB issued new accounting guidance that simplifies accounting for several aspects of share-based payment transactions, including income tax consequences, classification of awards as either equity or liabilities, and presentation on the statement of cash flows. This accounting guidance will be effective for interim and annual reporting periods beginning after December 15, 2016. The method of transition is dependent on the particular amendment within the new guidance.

Under this new guidance, generally, if the Parent's share price increases over an award's vesting period, the resulting tax windfall will decrease "income taxes." In a like manner, if the Parent's share price decreases over an award's vesting period, the resulting tax shortfall will increase "income taxes." We will elect to retain the Parent's existing accounting policy of estimating award forfeitures upon the award's grant date. The adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations.

**Revenue recognition.** In May 2014, the FASB issued new accounting guidance that revises the criteria for determining when to recognize revenue from contracts with customers and expands disclosure requirements. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides a five step model to be followed in making this determination. This accounting guidance can be implemented using either a retrospective method or a cumulative-effect approach. In August 2015, the FASB issued an update that defers the effective date of the revenue recognition guidance by one year. This new guidance will be effective for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted but only for interim and annual reporting periods beginning after December 15, 2016. We have elected to implement this new accounting guidance using a cumulative-effect approach. We are currently in the process of gathering an inventory of contracts with customers and performing an in-depth assessment, though our preliminary analysis suggests that the adoption of this accounting guidance is not expected to have a material effect on our financial condition or results of operations. There are many aspects of this new accounting guidance that are still being interpreted, and the FASB has issued updates to certain aspects of the guidance to address implementation issues. In May 2016, the FASB issued narrow-scope improvements related to

## Key Investment Services LLC

### Notes to Financial Statements (continued)

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

##### **Accounting Guidance Pending Adoption at December 31, 2016 (continued)**

collectability, sales tax and noncash consideration, and practical expedients for contract modifications and completed contracts. In December 2016, the FASB issued additional technical corrections and improvements. While certain implementation issues relevant to the industry are still pending resolution, including trade date versus settlement date recognition for broker dealers, our preliminary conclusions reached as to the application of the new guidance are not expected to be significantly affected. We will continue to evaluate any impact as additional guidance is issued and as our internal assessment progresses.

#### **3. Stock-Based Compensation**

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

Total compensation expense recognized by the Company for the long-term compensation plans was \$430,486 for 2016. The total income tax benefit recognized in the Statement of Operations for these plans was \$160,141 for the year ended December 31, 2016. Stock-based compensation expense related to awards granted to employees is recorded in employee compensation and benefits in the Statement of Operations.

##### **Stock Options**

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

## Key Investment Services LLC

### Notes to Financial Statements (continued)

#### 3. Stock-Based Compensation

##### Stock Options (continued)

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

The Black-Scholes model requires several assumptions, which the Parent developed and updated based on historical trends and current market observations. The Parent's determination of the fair value of options is only as accurate as the underlying assumptions. The assumptions pertaining to options issued during 2016 are shown in the following table.

Average option life	6.0 years
Future dividend yield	2.86%
Historical share price volatility	0.297
Weighted-average risk-free interest rate	1.3%

Under the Parent's 2013 Equity Compensation Plan, its Compensation and Organization Committee has the authority to approve all stock option grants, but may delegate some of its authority to grant awards from time to time. The committee has given the Parent's Chief Executive Officer the authority to grant equity awards, including stock options, to any employee who is not designated an "officer" for purposes of Section 16 of the Exchange Act. No more than 3,000,000 common shares may be issued under this authority.

The weighted-average grant-date fair value of options was \$2.14 for options granted during 2016. Stock option exercises numbered 3,482 in 2016. The aggregate intrinsic value of exercised options was \$15,081 for 2016. As of December 31, 2016, unrecognized compensation cost related to nonvested options under the plan totaled \$17,781. The Company expects to recognize this cost over a weighted-average period of 2.66 years. Cash received by the Parent from options exercised was \$33,710 in 2016. The actual tax benefit realized for the tax deductions from options exercised totaled \$5,610 for 2016.

## Key Investment Services LLC

### Notes to Financial Statements (continued)

#### 3. Stock-Based Compensation

##### Long-Term Incentive Compensation Program

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

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

Performance units vested in 2016 numbered 15,137 and were paid in cash. The total fair value of the performance units that vested in 2016 was \$175,718.

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

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

The weighted-average grant-date fair value of awards granted under the Program was \$10.01 during 2016. As of December 31, 2016, unrecognized compensation cost related to nonvested shares under the Program totaled \$362,506. The Company expects to recognize this cost over a weighted-average period of 2.59 years. The total fair value of shares vested was \$370,505 in 2016.

## Key Investment Services LLC

### Notes to Financial Statements (continued)

#### 4. Related-Party Transactions

On August 1, 2016 the Parent acquired First Niagara, the parent of company of First Niagara Bank. First Niagara Bank merged into the Bank on October 7, 2016. First Niagara Bank did not own an affiliated SEC registered broker-dealer. All sales related to securities, investment shares, unit investment trusts, managed products, insurance, and annuity products were sold through an unaffiliated broker-dealer. As part of the merger the Company converted the majority of the customers that had an investment relationship with this unaffiliated broker-dealer and First Niagara Bank as part of the customer account conversion on September 21, 2016.

The Company incurred one-time costs with the third party broker-dealer related to the conversion as it incurred \$324,000 of expenses related to conversion costs as reflected within occupancy, information services, and equipment on the Statement of Operations as well as incurring \$4,838,700 related to various termination fees on behalf of the customers converting from the third party broker-dealer to the Company. This expense is incorporated in the floor brokerage and clearance expenses on the Statement of Operations.

In the ordinary course of business, the Company enters into transactions with the Bank and its affiliates.

The Bank and affiliated companies provide certain support services to the Company. Services include legal, human resources, payroll, tax, risk management, insurance, communications, facilities, distribution, printing, and computer processing. Due to the integration with First Niagara Bank, certain employees of the Bank were used by The Company to maintain the customer relationship. Therefore the Company reimbursed the Bank for those services. The Company may be provided these services or arrangements under one or more service agreements with the respective affiliate. Charges from affiliates for 2016 were:

Occupancy, information services, and equipment	\$ 10,940,402
Communications	1,365,251
Employee compensation and benefits	1,195,159
Promotion and development	59,418
Management fee expense from Parent	3,285,000
	<u>\$ 16,845,230</u>

Of the expenses recorded above, \$1,012,576 is due to the Parent at December 31, 2016, and included in the payable to Parent in the accompanying Statement of Assets, Liabilities and Member's Interest.

## Key Investment Services LLC

### Notes to Financial Statements (continued)

#### 4. Related-Party Transactions (continued)

The Company has a specific service agreement with KeyCorp Insurance Agency USA Inc. (the Agency). The major services performed by the Agency include the following: license and maintain licensing for the Agency; sell insurance in all states in which the Agency and Company sell insurance products; negotiate and maintain selling agreements; and license Agency and Company personnel to sell insurance, pay any non-income taxes to applicable states, pay all required registration and licensing costs, and employ and compensate personnel to carry out the foregoing activities. For these services provided, the Agency retains a contracted percentage of the revenue received by the Company, which amounted to \$55,093,094 for the year ended December 31, 2016, of which \$922,464 was due from the Agency at December 31, 2016 and is included in receivable from affiliates in the accompanying Statement of Assets, Liabilities and Member's interest.

#### 5. Income Taxes

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

Income taxes included in the statement of operations are summarized below:

Current:	
Federal	\$ 103,720
State	20,818
Total current	<u>124,538</u>
Deferred:	
Federal	248,034
State	14,235
Total deferred	<u>262,269</u>
Total income tax expense	<u>\$ 386,807</u>

## Key Investment Services LLC

### Notes to Financial Statements (continued)

#### 5. Income Taxes (continued)

The difference between income taxes and the amount computed by applying the statutory Federal tax rate of 35% to income before taxes is as follows:

	<u>Amount</u>	<u>Tax Rate</u>
Expected income tax at U.S. statutory tax rate	\$ 298,593	35.0%
State taxes, net of federal tax benefit	22,785	2.7
Disallowed meals and entertainment	57,689	6.8
Other	7,740	0.8
Income tax expense	<u>\$ 386,807</u>	<u>45.3%</u>

The deferred income tax expense (benefit) for the year ended December 31, 2016, consists of the following:

Employee compensation accruals	\$ (112,671)
Prepaid expenses	258,290
State taxes	100,627
Furniture and equipment	16,023
Total deferred tax expense	<u>\$ 262,269</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets as of December 31, 2016 are as follows:

# Key Investment Services LLC

## Notes to Financial Statements (continued)

### 5. Income Taxes (continued)

Deferred tax assets:	
Employee compensation accruals	\$ 546,969
Total deferred tax assets	<u>\$ 546,969</u>
Deferred tax liabilities:	
State Taxes	\$ 68,358
Prepaid Expenses	588,577
Furniture and equipment	27,636
Total deferred tax liabilities	<u>684,571</u>
Total deferred tax liabilities, net	<u>\$ 137,602</u>

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

During the year ended December 31, 2016, the Company paid the Parent \$3,251,401 for Federal and State income taxes. At December 31, 2016, the Company had a \$3,043,325 intercompany receivable from the Parent for Federal and State income taxes.

The Company's management believes that there is no tax liability resulting from unrecognized tax benefits related to uncertain tax positions taken at December 31, 2016.

### 6. Commitments and Contingencies

Since the Company is an introducing broker-dealer, securities transactions are processed by a clearing broker-dealer on a fully disclosed basis. Therefore, the Company is exempt from the provisions of Rule 15c3-3 under the Securities Exchange Act of 1934. The services provided by the clearing broker-dealer include the execution of certain securities transactions, the preparation of customer trade confirmations, the maintenance of customer accounts, and the custody and delivery of securities. In conjunction with this arrangement, the Company is contingently liable for the payment of securities purchased and the delivery of securities sold by customers.



## Key Investment Services LLC

### Notes to Financial Statements (continued)

#### **6. Commitments and Contingencies (continued)**

No losses from such contingencies have been incurred or are anticipated by management for the year ended December 31, 2016.

The Company establishes accruals for legal proceedings, including litigation, arbitrations, and regulatory and governmental investigations and inquiries, when information related to the loss contingencies represented by those matters indicates both that a loss is probable and that the amount of loss can be reasonably estimated. One investigation that may have a material impact on the Company is ongoing. This involves an investigation by the FINRA's Enforcement Division concerning the sales practices of some of the Company's representatives in selling certain unit investment trusts. However, in light of the inherent uncertainty in legal proceedings there can be no assurance that the ultimate resolution will not exceed established reserves. As a result, the outcome of a particular matter, or a combination of matters, may be material to the Company's results of operations for a particular period, depending upon the size of the loss or the Company's income for that particular period. Any such accruals are adjusted thereafter as appropriate to reflect the changed circumstances.

#### **7. Net Capital Requirements**

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

As an introducing broker-dealer, the Company is required to maintain minimum net capital of the greater of \$250,000 or 6 2/3% of aggregate indebtedness. At December 31, 2016, the minimum amount required was \$577,178. At December 31, 2016, the Company's net capital was \$37,605,163, which was \$37,027,985 in excess of its required net capital and the Company's aggregate indebtedness to net capital ratio was 0.23 to 1.

#### **8. Employee Benefit Plans**

Employees of the Company are covered under a 401(k) plan sponsored by the Parent. The plan permits eligible employees to contribute from 1% to 100% of eligible compensation with up to 6% being eligible for matching contributions. The plan also permits the Company to distribute a

## Key Investment Services LLC

### Notes to Financial Statements (continued)

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

discretionary annual profit-sharing contribution, which was accrued at 2.5% of eligible compensation for 2016 for employees eligible on the last business day of the plan year. For the year ended December 31, 2016, the Company's allocated contribution expense from the Parent was \$3,279,063, included in employee compensation and benefits on the accompanying statement of Operations.

Effective December 31, 2009, the Parent amended its pension plans to freeze all benefit accruals and close the plans to new employees. The Company will continue to credit participants' existing account balances for interest until they receive their plan benefits. Substantially all of the Company's employees who meet certain specified conditions are eligible for benefits under group medical and dental plans, and postretirement health care and life insurance plans established by the Parent. The costs related to the plans incurred by the Parent on behalf of the Company's employees are allocated to the Company based on management's estimate of the Company's proportionate share of the related costs. The Company's allocated cost for the year ended December 31, 2016 was \$2,187,815, included in employee compensation and benefits in the accompanying Statement of Operations.

#### **9. Fair Value Measurements**

##### **Fair Value Determination**

As defined in the applicable accounting guidance, fair value is the price to sell an asset or transfer a liability in an orderly transaction between market participants in the Company's principal market. The Company has established and documented its process for determining the fair values of its assets and liabilities, where applicable. Fair value is based on quoted market prices, when available, for identical or similar assets or liabilities. In the absence of quoted market prices, management determines the fair value of the Company's assets and liabilities using pricing models (either by a third party pricing service or internally). Both of these approaches rely on market-based parameters when available, or unobservable inputs. Unobservable inputs may be based on management's judgment, assumptions and estimates related to credit quality, liquidity, interest rates and other relevant inputs.

## Key Investment Services LLC

### Notes to Financial Statements (continued)

#### 9. Fair Value Measurements (continued)

##### Fair Value Determination (continued)

Management makes liquidity valuation adjustments to the fair value of certain assets to reflect the uncertainty in the pricing and trading of the instruments when they are unable to observe recent market transactions for identical or similar instruments. Liquidity valuation adjustments are based on the following factors:

- the amount of time since the last relevant valuation;
- whether there is an actual trade or relevant external quote available at the measurement date; and
- volatility associated with the primary pricing components

The Company ensures that its fair value measurements are accurate and appropriate by relying upon various controls, including:

- an independent review and approval of valuation models and assumptions;
- recurring detailed reviews of profit and loss; and
- a validation of valuation model components against benchmark data and similar products, where possible.

On a quarterly basis, management reviews any changes to its valuation methodologies to ensure they are appropriate and justified, and refines its valuation methodologies as more market-based data becomes available. Formal documentation in the form of fair value valuation methodologies is prepared detailing the asset or liability class and related general ledger accounts, valuation techniques, fair value hierarchy level market participants, accounting methods, valuation methodology, group responsible for valuations, and valuation inputs.

## Key Investment Services LLC

### Notes to Financial Statements (continued)

#### 9. Fair Value Measurements (continued)

##### Qualitative Disclosures of Valuation Techniques

**Marketable Securities.** Marketable securities are classified as Level 1 when quoted market prices are available in an active market for the identical securities. Level 1 instruments include exchange-traded equity securities. Marketable securities are classified as Level 2 if quoted prices for identical securities are not available, and the Company determines fair value using pricing models (either by a third party pricing service or internally) or quoted prices of similar securities. These instruments include money market securities, unit investment trusts (UIT) and mutual funds, which are valued using net asset value provided by the mutual fund companies where the positions are held. Securities are classified as Level 3 when there is limited activity in the market for a particular instrument. In such cases, the Company uses pricing models based on certain assumptions to determine fair value. There are currently no financial instruments that are measured at fair value on a recurring or nonrecurring basis that utilize Level 3 inputs.

##### Other Financial Assets and Liabilities

Cash balances are valued at carrying amount, which equals fair value. Receivables from brokers, dealers, and clearing organizations are reported at carrying value which approximates fair value due to their liquidity. Securities may include equity securities which are valued using quoted market prices in an active market for identical securities, resulting in a Level 1 classification. If quoted prices for identical securities are not available, fair value is determined by using pricing models or quoted prices of similar securities, resulting in a Level 2 classification.

##### Qualitative Disclosures of Valuation Techniques

On a quarterly basis, management validates the pricing valuation received from the broker dealer of record to ensure the fair value determination is consistent with the applicable accounting guidance and that the assets are properly classified in the fair value hierarchy. To perform this validation, management substantiates the fair values determined for a sample of securities by comparing the fair value provided by the broker dealer of record to prices from other independent sources for the same or similar securities. We analyze variances and conduct additional research with the broker dealer and take appropriate steps based on findings.

# Key Investment Services LLC

## Notes to Financial Statements (continued)

### 9. Fair Value Measurements (continued)

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

Certain assets and liabilities are measured at fair value on a recurring basis in accordance with U.S. GAAP. The following table presents these assets and liabilities at December 31, 2016.

	December 31, 2016			Total
	Level 1	Level 2	Level 3	
<b>Assets measured on a recurring basis</b>				
Money market accounts	\$ -	\$23,268,904	\$ -	\$23,268,904
Equity	9,741	-	-	9,741
Mutual funds	-	6,168	-	6,168
Total	\$9,741	\$23,275,072	\$ -	\$23,284,813
<b>Liabilities measured on a recurring basis</b>				
Mutual funds	\$ -	\$6,166	\$ -	\$6,166
Total	\$ -	\$6,166	\$ -	\$6,166

There were no transfers between Level 1 and Level 2 or in and out of Level 3 during 2016.

Supplementary Information

Key Investment Services LLC

Schedule I

Computation of Net Capital Pursuant to Rule 15c3-1

As of December 31, 2016

NET CAPITAL

Total Member's interest qualified for net capital \$ 45,820,597

DEDUCTIONS AND OTHER CHARGES:

Nonallowable assets:

Furniture and equipment, net	\$ (168,260)	
Prepaid expenses	(882,841)	
Taxes due from Parent	(3,043,325)	
Fee receivable	(2,709,854)	
Receivable from Affiliates	(922,465)	
Other assets	(20,000)	
		<u>(7,746,745)</u>

HAIRCUTS ON SECURITIES AND INVENTORY

(468,689)

NET CAPITAL

\$ 37,605,163

AGGREGATE INDEBTEDNESS- Items included in statement of financial condition:

Liabilities	\$ 8,801,444
Deduct:	
Securities sold, but not yet purchased	(6,166)
Deferred tax liability, net	<u>(137,602)</u>

TOTAL AGGREGATE INDEBTEDNESS

\$ 8,657,676

DIVIDED BY

15

MINIMUM NET CAPITAL REQUIREMENT

\$ 577,178

MINIMUM DOLLAR REQUIREMENT

\$ 250,000

NET CAPITAL REQUIREMENT

\$ 577,178

EXCESS NET CAPITAL

\$ 37,027,985

RATIO: AGGREGATE INDEBTEDNESS TO NET CAPITAL 0.23 TO 1

NOTE: The above computation does not differ from the amended computation of net capital under Rule 15c3-1 as of December 31, 2016 as filed on Form X-17A-5 on February 26, 2017

Key Investment Services LLC

Schedule II

Statement Regarding Rule 15c3-3

December 31, 2016

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

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

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



SEC  
Mail Processing  
Section

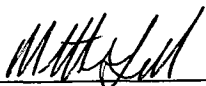
FEB 28 2017

Key Investment Services LLC's Exemption Report  
Washington DC  
415

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

- 1) The Company claimed an exemption from 17 C.F.R. { 240.15c3-3 under the following provision of 17 C.F.R. { 240.15c3-3 (k): [(2)(ii)];
  - a. As an introducing broker or dealer, clears all transactions with and for customers on a fully disclosed basis with a clearing broker or dealer, and who promptly transmits all customer funds and securities to the clearing broker or dealer which carries all of the accounts of such customers and maintains and preserves, such books and records pertaining thereto pursuant to the requirements of Rules 17a-3 and 17a-4, as are customarily made and kept by a clearing broker or dealer.
  
- 2) The Company met the identified exemption provision in 17 C.F.R. { 240.15c3-3(k) throughout the most recent fiscal year ended December 31, 2016 except as described in the subsequent pages.

I, Matt Gulla, swear (or affirm) that, to the best of my knowledge and belief, this Exemption Report is true and correct.

By: 

Title: CFO

February 27, 2017

Number of Checks	Dollar Amount	Date of Deposit	Reason	Resolution
1	\$ 80,000.00	1/6/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 120,000.00	1/19/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 20,000.00	1/20/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 32,293.01	1/21/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 10,000.00	1/21/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 4,508.54	1/27/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 500.00	2/1/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 500.00	2/1/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 25,000.00	2/8/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 18,509.52	2/8/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 3,000.00	2/10/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 10,000.00	2/17/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 369.26	2/18/16	Untimely deposit to clearing account	Escalated to Compliance
2	\$ 13,000.00	3/1/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 16,000.00	3/9/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 6,500.00	3/17/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 300.00	3/22/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 5,000.00	3/28/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 19,880.91	3/30/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 6,500.00	3/31/16	Untimely deposit to clearing account	Escalated to Compliance

1	\$ 6,500.00	4/12/16	Untimely deposit to clearing account	Escalated to Compliance
6	\$ 214,900.46	4/14/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 35,604.78	5/12/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 50,000.00	6/15/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 100,000.00	6/20/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 48,500.00	6/23/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 300,000.00	6/27/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 31,352.65	6/29/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 1,064.59	6/29/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 10,745.60	7/11/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 21,450.80	7/11/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 5,000.00	7/15/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 5,000.00	7/15/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 10,649.44	7/15/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 50,000.00	7/26/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 50,000.00	7/26/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 398,287.87	7/29/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 127,175.34	8/1/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 567,235.51	8/3/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 100,000.00	8/16/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 44,000.00	8/19/16	Untimely deposit to clearing account	Escalated to Compliance

1	\$ 8,221.73	8/22/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 40,000.00	9/8/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 6,000.00	9/9/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 1,916.98	9/23/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 5,000.00	9/30/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 29,871.19	10/4/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 1,591.74	10/8/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 1,591.74	10/8/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 219,215.38	10/20/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 25,000.00	10/22/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 3,000.00	10/24/16	Untimely deposit to clearing account	Escalated to Compliance
4	\$ 111,348.03	10/25/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 1,244.84	10/28/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 6,500.00	11/4/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 50,000.00	11/12/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 10,018.11	11/14/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 69,007.57	11/21/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 10,270.81	12/5/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 4,855.62	12/12/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 3,326.00	12/17/16	Untimely deposit to clearing account	Escalated to Compliance
1	\$ 10,000.00	12/22/16	Untimely deposit to clearing account	Escalated to Compliance

1	\$ 2,000.00	12/22/16	Untimely deposit to clearing account	Escalated to Compliance
---	-------------	----------	--------------------------------------	-------------------------



Ernst & Young LLP  
950 Main Avenue  
Suite 1800  
Cleveland, Ohio 44113

Tel: +1 216 861 5000  
Fax: +1 216 583 2013  
ey.com

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Member  
Key Investment Services LLC

We have reviewed management's statements, included in the accompanying Key Investment Services LLC's Exemption Report, in which (1) Key Investment Services LLC (the Company) identified the following provision of 17 C.F.R. § 15c3-3(k) under which the Company claimed an exemption from 17 C.F.R. § 240.15c3-3: (k)(2)(ii) (the "exemption provision") and (2) the Company stated that it met the identified exemption provision throughout the most recent fiscal year ended December 31, 2016, except as described in its exemption report. Management of the Company is responsible for compliance with the exemption provision and its statements.

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

Based on our review, we are not aware of any material modifications that should be made to management's statements referred to above for them to be fairly stated, in all material respects, based on the provision set forth in paragraph (k)(2)(ii) of Rule 15c3-3 under the Securities Exchange Act of 1934.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, FINRA, and other regulatory agencies that rely on Rule 17a-5 under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and other recipients specified by Rule 17a-5(d)(6) and is not intended to be and should not be used by anyone other than these specified parties.

February 27, 2017

**SIPC-7**

(33-REV 7/10)

SECURITIES INVESTOR PROTECTION CORPORATION  
P.O. Box 92185 Washington, D.C. 20090-2185  
202-371-8300

**General Assessment Reconciliation**

**SIPC-7**

(33-REV 7/10)

For the fiscal year ended December 2016

(Read carefully the instructions in your Working Copy before completing this Form)

**TO BE FILED BY ALL SIPC MEMBERS WITH FISCAL YEAR ENDINGS**

1. Name of Member, address, Designated Examining Authority, 1934 Act registration no. and month in which fiscal year ends for purposes of the audit requirement of SEC Rule 17a-5:

66999 FINRA DEC  
Key Investment Services LLC  
ATTN: Gary Marousek  
Brooklyn, OH 44144

Note: If any of the information shown on the mailing label requires correction, please e-mail any corrections to form@sipc.org and so indicate on the form filed.

Name and telephone number of person to contact respecting this form.

Matt Gulla 216-813-6033

**WORKING COPY**

- 2. A. General Assessment (item 2e from page 2) \$ 34,223
- B. Less payment made with SIPC-6 filed (exclude interest) ( 15,760 )  
7/28/2016  
Date Paid
- C. Less prior overpayment applied ( \_\_\_\_\_ )
- D. Assessment balance due or (overpayment) \_\_\_\_\_
- E. Interest computed on late payment (see instruction E) for \_\_\_\_\_ days at 20% per annum \_\_\_\_\_
- F. Total assessment balance and interest due (or overpayment carried forward) \$ 18,463
- G. PAID WITH THIS FORM:  
Check enclosed, payable to SIPC  
Total (must be same as F above) \$ 18,463
- H. Overpayment carried forward \$( \_\_\_\_\_ )

3. Subsidiaries (S) and predecessors (P) included in this form (give name and 1934 Act registration number):

\_\_\_\_\_  
\_\_\_\_\_

The SIPC member submitting this form and the person by whom it is executed represent thereby that all information contained herein is true, correct and complete.

Key Investment Services LLC

(Name of Corporation, Partnership or other organization)

*Matt Gulla*

(Authorized Signature)

Dated the 27 day of February, 2017.

CFO

(Title)

**This form and the assessment payment is due 60 days after the end of the fiscal year. Retain the Working Copy of this form for a period of not less than 6 years, the latest 2 years in an easily accessible place.**

**SIPC REVIEWER**

Dates:                                                                 
Postmarked                      Received                      Reviewed

Calculations                      Documentation                      Forward Copy                     

Exceptions: \_\_\_\_\_

Disposition of exceptions: \_\_\_\_\_





## SIPC-7 Instructions

This form is to be filed by all members of the Securities Investor Protection Corporation whose fiscal years end in 2011 and annually thereafter. The form together with the payment is due no later than 60 days after the end of the fiscal year, or after membership termination. Amounts reported herein must be readily reconcilable with the member's records and the Securities and Exchange Commission Rule 17a-5 report filed. Questions pertaining to this form should be directed to SIPC via e-mail at [form@sipc.org](mailto:form@sipc.org) or by telephoning 202-371-8300.

A. For the purposes of this form, the term "SIPC Net Operating Revenues" shall mean gross revenues from the securities business as defined in or pursuant to the applicable sections of the Securities Investor Protection Act of 1970 ("Act") and Article 6 of SIPC's bylaws (see page 4), less item 2c(9) on page 2.

B. Gross revenues of subsidiaries, except foreign subsidiaries, are required to be included in SIPC Net Operating Revenues on a consolidated basis except for a subsidiary filing separately as explained hereinafter.

If a subsidiary was required to file a Rule 17a-5 annual audited statement of income separately and is also a SIPC member, then such subsidiary must itself file SIPC-7, pay the assessment, and should not be consolidated in your SIPC-7.

SIPC Net Operating Revenues of a predecessor member which are not included in item 2a, were not reported separately and the SIPC assessments were not paid thereon by such predecessor, shall be included in item 2b(1).

C. Your General Assessment should be computed as follows:

(1) Line 2a For the applicable period enter total revenue based upon amounts reported in your Rule 17a-5 Annual Audited Statement of Income prepared in conformity with generally accepted accounting principles applicable to securities brokers and dealers, or if exempted from that rule, use X-17A-5 (FOCUS Report) Line 12, Code 4030.

(2) Adjustments The purpose of the adjustments on page 2 is to determine SIPC Net Operating Revenues.

(a) Additions Lines 2b(1) through 2b(7) assure that assessable income and gain items of SIPC Net Operating Revenues are totaled, unreduced by any losses (e.g., if a net loss was incurred for the period from all transactions in trading account securities, that net loss does not reduce other assessable revenues). Thus, line 2b(4) would include all short dividend and interest payments including those incurred in reverse conversion accounts, rebates on stock loan positions and repo interest which have been netted in determining line 2(a).

(b) Deductions Line 2c(1) through line 2c(9) are either provided for in the statute, as in deduction 2c(1), or are allowed to arrive at an assessment base consisting of net operating revenues from the securities business. For example, line 2c(9) allows for a deduction of either the total of interest and dividend expense (not to exceed interest and dividend income), as reported on FOCUS line 22/PART IIA line 13 (Code 4075), plus line 2b(4) or 40% of interest earned on customers' securities accounts (40% of FOCUS Line 5 Code 3960). Be certain to complete both line (i) and (ii), entering the greater of the two in the far right column. Dividends paid to shareholders are not considered "Expense" and thus are not to be included in the deduction. Likewise, interest and dividends paid to partners pursuant to the partnership agreements would also not be deducted.

*If the amount reported on line 2c (8) aggregates to \$100,000 or greater, supporting documentation must accompany the form that identifies these deductions. Examples of support information include; contractual agreements, prospectuses,*

*and limited partnership documentation.*

- (i) Determine your SIPC Net Operating Revenues, item 2d, by adding to item 2a, the total of item 2b, and deducting the total of item 2c.
- (ii) Multiply SIPC Net Operating Revenues by the applicable rate. Enter the resulting amount in item 2e and on line 2A of page 1.
- (iii) Enter on line 2B the assessment due as reflected on the SIPC-6 previously filed.
- (iv) Subtract line 2B and 2C from line 2A and enter the difference on line 2D. This is the balance due for the period.
- (v) Enter interest computed on late payment (if applicable) on line 2E.
- (vi) Enter the total due on line 2F and the payment of the amount due on line 2G.
- (vii) Enter overpayment carried forward (if any) on line 2H.

D. Any SIPC member which is also a bank (as defined in the Securities Exchange Act of 1934) may exclude from SIPC Net Operating Revenues dividends and interest received on securities in its investment accounts to the extent that it can demonstrate to SIPC's satisfaction that such securities are held, and such dividends and interest are received, solely in connection with its operations as a bank and not in connection with its operations as a broker, dealer or member of a national securities exchange. Any member who excludes from SIPC Net Operating Revenues any dividends or interest pursuant to the preceding sentence shall file with this form a supplementary statement setting forth the amount so excluded and proof of its entitlement to such exclusion.

E. Interest on Assessments. If all or any part of assessment payable under Section 4 of the Act has not been postmarked within 15 days after the due date thereof, the member shall pay, in addition to the amount of the assessment, interest at the rate of 20% per annum on the unpaid portion of the assessment for each day it has been overdue.

F. Securities and Exchange Commission Rule 17a-5(e) (4) requires those who are not exempted from the audit requirement of the rule and whose gross revenues are in excess of \$500,000 to file a supplemental independent public accountants report covering this SIPC-7 no later than 60 days after their fiscal year ends.

**Mail this completed form to SIPC together with a check for the amount due, made payable to SIPC, using the enclosed return PO BOX envelope or wire the payment to:**  
**Bank Name: Citibank, New York**  
**Swift: CITIUS33**  
**ABA#: 021000089**  
**Account Number: 30801482**  
**Address: 111 Wall Street, New York, New York 10043 USA**  
**On the wire identify the name of the firm and its SEC Registration 8-# and label it as "for assessment."**  
**Please fax a copy of the assessment form to (202)223-1679 or e-mail a copy to [form@sipc.org](mailto:form@sipc.org) on the same day as the wire.**

## From Section 16(9) of the Act:

The term "gross revenues from the securities business" means the sum of (but without duplication)—

(A) commissions earned in connection with transactions in securities effected for customers as agent (net of commissions paid to other brokers and dealers in connection with such transactions) and markups with respect to purchases or sales of securities as principal;

(B) charges for executing or clearing transactions in securities for other brokers and dealers;

(C) the net realized gain, if any, from principal transactions in securities in trading accounts;

(D) the net profit, if any, from the management of or participation in the underwriting or distribution of securities;

(E) interest earned on customers' securities accounts;

(F) fees for investment advisory services (except when rendered to one or more registered investment companies or insurance company separate accounts) or account supervision with respect to securities;

(G) fees for the solicitation of proxies with respect to, or tenders or exchanges of, securities;

(H) income from service charges or other surcharges with respect to securities;

(I) except as otherwise provided by rule of the Commission, dividends and interest received on securities in investment accounts of the broker or dealer;

(J) fees in connection with put, call, and other options transactions in securities;

(K) commissions earned for transactions in (i) certificates of deposit, and (ii) Treasury bills, bankers acceptances, or commercial paper which have a maturity at the time of issuance of not exceeding nine months, exclusive of days of grace, or any renewal thereof, the maturity of which is likewise limited, except that SIPC shall by bylaw include in the aggregate of gross revenues only an appropriate percentage of such commissions based on SIPC's loss experience with respect to such instruments over at least the preceding five years; and

(L) fees and other income from such other categories of the securities business as SIPC shall provide by bylaw.

Such term includes revenues earned by a broker or dealer in connection with a transaction in the portfolio margining account of a customer carried as securities accounts pursuant to a portfolio margining program approved by the Commission. Such term does not include revenues received by a broker or dealer in connection with the distribution of shares of a registered open end investment company or unit investment trust or revenues derived by a broker or dealer from the sales of variable annuities, the business of insurance, or transactions in security futures products.

## From Section 16(14) of the Act:

The term "Security" means any note, stock, treasury stock, bond, debenture, evidence of indebtedness, any collateral trust certificate, preorganization certificate or subscription, transferable share, voting trust certificate, certificate of deposit, certificate of deposit for a security, or any security future as that term is defined in section 78c(a)(55)(A) of this title, any investment contract or certificate of interest or participation in any profit-sharing agreement or in any oil, gas or mineral royalty or lease (if such investment contract or interest is the subject of a registration statement with the Commission pursuant to the provisions of the Securities Act of 1933 [15 U.S.C. 77a et seq.]), any put, call, straddle, option, or privilege on any security, or group or index of securities (including any interest therein or based on the value thereof), or any put, call, straddle, option, or privilege entered into on a national securities exchange relating to foreign currency, any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase or sell any of the foregoing, and any other instrument commonly known as a security. Except as specifically provided above, the term "security" does not include any currency, or any commodity or related contract or futures contract, or any warrant or right to subscribe to or purchase or sell any of the foregoing.

## From SIPC Bylaw Article 6 (Assessments):

### Section 1(f):

The term "gross revenues from the securities business" includes the revenues in the definition of gross revenues from the securities business set forth in the applicable sections of the Act.

### Section 3:

For purpose of this article:

(a) The term "securities in trading accounts" shall mean securities held for sale in the ordinary course of business and not identified as having been held for investment.

(b) The term "securities in investment accounts" shall mean securities that are clearly identified as having been acquired for investment in accordance with provisions of the Internal Revenue Code applicable to dealers in securities.

(c) The term "fees and other income from such other categories of the securities business" shall mean all revenue related either directly or indirectly to the securities business except revenue included in Section 16(9)(A)-(L) and revenue specifically excepted in Section 4(c)(3)(C)[Item 2c(1), page 2].

Note: If the amount of assessment entered on line 2e of SIPC-7 is greater than 1/2 of 1% of "gross revenues from the securities business" as defined above, you may submit that calculation along with the SIPC-7 form to SIPC and pay the smaller amount, subject to review by your Examining Authority and by SIPC.

#### SIPC Examining Authorities:

ASE American Stock Exchange, LLC  
CBOE Chicago Board Options Exchange, Incorporated  
CHX Chicago Stock Exchange, Incorporated

FINRA Financial Industry Regulatory Authority  
NYSE, Arca, Inc.  
NASDAQ OMX PHLX  
SIPC Securities Investor Protection Corporation



Building a better  
working world

Ernst & Young LLP  
950 Main Avenue  
Suite 1800  
Cleveland, Ohio 44113

Tel: +1 216 861 5000  
Fax: +1 216 583 2013  
ey.com

## **Report of Independent Registered Public Accounting Firm on Applying Agreed-Upon Procedures**

To the Board of Directors and Management of Key Investment Services LLC:

We have performed the procedures enumerated below, which were agreed to by the Board of Directors and management of Key Investment Services LLC (the Company), the Securities Investor Protection Corporation (SIPC), set forth in the Series 600 Rules of SIPC. We performed the procedures solely to assist the specified parties in evaluating the Company's compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7) for the year ended December 31, 2016. The Company's management is responsible for the Company's compliance with those requirements. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the Public Company Accounting Oversight Board (United State) and the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are as follows:

1. Compared the assessment payments made in accordance with the General Assessment Payment Form (Form SIPC-6) and applied to the General Assessment calculation on Form SIPC-7 with respective cash disbursement record entries.

There were no findings.

2. Compared the amounts reported in the audited financial statements required by SEC Rule 17a-5 with the amounts reported in Form SIPC-7 for the fiscal year ended December 31, 2016.

There were no findings.

3. Compared any adjustments reported in Form SIPC-7 with supporting schedules and working papers.

There were no findings.

4. Verified the arithmetical accuracy of the calculations reflected in Form SIPC-7 and in the schedules and working papers supporting the adjustments.

There were no findings.

5. Compared the amount of any overpayment applied with the Form SIPC-7 on which it was computed.

There were no findings.



Building a better  
working world

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on compliance with the applicable instructions of the General Assessment Reconciliation (Form SIPC-7) for the year ended December 31, 2016. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Ernst &amp; Young LLP". The signature is written in a cursive, flowing style.

February 27, 2017