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

SEC FILE NUMBER
8-50403

FACING PAGE

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

EA

REPORT FOR THE PERIOD BEGINNING 01-01-18 AND ENDING 12-31-18  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: Lupo Securities, LLC

OFFICIAL USE ONLY
FIRM I.D. NO.

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

141 W. Jackson Blvd., Suite 2200A

(No. and Street)

Chicago  
(City)

IL

(State)

60604

(Zip Code)

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

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

Ryan & Juraska LLP

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

141 W. Jackson Blvd., Suite 2250

Chicago

IL

60604

(Address)

(City)

(State)

(Zip Code)

**SEC Mail Processing**

CHECK ONE:

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

MAR 07 2019

Washington, DC

<b>FOR OFFICIAL USE ONLY</b>

\*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)

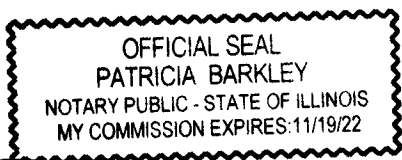
SEC 1410 (11-05)

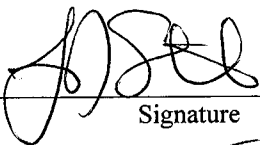

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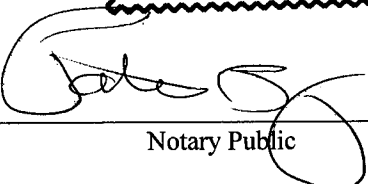
RMS

## OATH OR AFFIRMATION

I, Joe Stauder, swear (or affirm) that, to the best of my knowledge and belief, the accompanying financial statements and supporting schedules pertaining to the firm of Lupo Securities, LLC as of December 31, 2018 are true and correct. I further affirm that neither the company nor any member, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.



  
\_\_\_\_\_  
Signature  
  
\_\_\_\_\_  
Title

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

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

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income.
- (d) Statement of Changes in Members' Equity.
- (e) Statement of Cash Flows.
- (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors.

### Supplemental Information:

- (g) Computation of Net Capital pursuant to Rule 15c3-1.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements 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 pursuant to 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 copy of the Exemption Report.
- (o) 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).*



**RYAN & JURASKA LLP**

Certified Public Accountants

141 West Jackson Boulevard  
Chicago, Illinois 60604

Tel: 312.922.0062

Fax: 312.922.0672

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Member  
of Lupo Securities, LLC

### **Opinion on the Financial Statement**

We have audited the accompanying statement of financial condition of Lupo Securities, LLC (the Company) as of December 31, 2018 and the related notes (collectively referred to as the financial statement). In our opinion, the financial statement presents fairly, in all material respects, the financial position of Lupo Securities, LLC as of December 31, 2018 in conformity with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

The financial statement is the responsibility of Lupo Securities, LLC's management. Our responsibility is to express an opinion on the Company's 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 Lupo Securities, LLC 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 have served as Lupo Securities, LLC's auditor since 2008.

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.

*Ryan & Juraska LLP*

Chicago, Illinois  
February 25, 2019

**LUPO SECURITIES, LLC**

**Statement of Financial Condition**

**December 31, 2018**

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**Assets**

Cash	\$	323,406
Receivable from clearing broker		216,643,988
Securities owned, at fair value		
Equities		74,328,266
Options		121,682,853
Receivable from affiliate		18,000
Other asset		10,000
	\$	<u>413,006,513</u>

**Liabilities and Member's Equity**

**Liabilities:**

Securities sold short, at fair value	\$	212,560,983
Equities		186,974,025
Options		1,376,157
Accounts payable and accrued expenses		<u>400,911,165</u>

**Member's equity**

		<u>12,095,348</u>
	\$	<u>413,006,513</u>

See accompanying notes.

**1. Organization and Business**

Lupo Securities, LLC, (the "Company"), an Illinois limited liability company, was organized on June 1997 and is a broker-dealer registered with the Securities and Exchange Commission ("SEC"). The Company is a member of the Chicago Board Options Exchange ("CBOE"). The Company engages primarily in the proprietary trading of exchange-traded equity securities, equity and index options contracts and financial futures and futures options contracts. The Company is a wholly-owned subsidiary of Lupo Holding Company, LLC (the "Parent").

**2. Summary of Significant Accounting Policies**

Revenue Recognition and Securities Valuation

The Company records all securities and futures transactions on a trade date basis, and, accordingly, gains and losses are recorded on unsettled securities transactions and open futures contracts. Dividends are recorded on the ex-dividend date and interest is recognized on the accrual basis. Investments in securities and securities sold, not yet purchased are recorded in the statement of financial condition at fair value in accordance with Accounting Standards Codification Topic 820 ("ASC 820") - Fair Value Measurement and Disclosures (see Note 9).

Use of Estimates

The preparation of financial statements in conformity with U.S Generally Accepted Accounting Principles ("U.S. GAAP") requires management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Income Taxes

In accordance with U.S. GAAP, the Company is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority, based on the technical merits of the position. Generally, the Company is no longer subject to income tax examinations by major taxing authorities for the years before 2015. Based on its analysis, there were no tax positions identified by management which did not meet the "more likely than not" standard as of and for the year ended December 31, 2018.

**3. Provision for Income Taxes**

No provision has been made for federal income taxes as the taxable income or loss of the Company is included in the respective income tax return of the member.

**4. Credit Concentration**

At December 31, 2018, a significant credit concentration consisted of approximately \$13 million, representing the fair value of the Company's trading accounts carried by its clearing broker, ABN AMRO Clearing Chicago LLC. Management does not consider any credit risk associated with this receivable to be significant.

December 31, 2018

**5. Agreements and Related Party Transactions**

The Company has a Joint Back Office (“JBO”) clearing agreement with ABN AMRO Clearing Chicago LLC (“AACC”). The agreement allows JBO participants to receive favorable margin treatment as compared to the full customer margin requirements of Regulation T. As part of this agreement, the Company has invested \$10,000 in the preferred interest of AACC. The Company’s investment in AACC is reflected in other asset in the statement of financial condition. Under the rules of the Chicago Board Options Exchange, the agreement requires that the Company maintain a minimum net liquidating equity of \$1,000,000 with AACC, exclusive of its preferred interest investment.

The Company has an expense sharing agreement with a company affiliated by common ownership under which they share certain general and administrative services. The Company reduces its various expense classifications in the statement of operations by the amounts charged to the affiliate. During the year ended December 31, 2018, the Company charged the affiliate approximately \$1,457,000 for shared expenses in accordance with the agreement. At December 31, 2018, the Company had a receivable from that affiliate of \$18,000.

**6. Commitments and Contingencies**

The Company conducts its operations in leased office facilities it co-leases with an affiliated entity and annual rentals are charged to current operations. The lease is subject to escalation clauses based on the operating expenses of the lessor. Rent expense for the year ended December 31, 2018 totaled approximately \$468,000 (net of expenses shared by an affiliate).

While the Company is a co-lessor on its lease, it is still jointly and severably liable for the lease commitments in their entirety. The full minimum annual rental commitments under the non-cancelable operating lease, after giving effect to rent abatements, are as follows as of December 31, 2018:

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 742,500
2020	839,807
2021	855,920
2022	872,276
2023	888,877
Thereafter	<u>3,729,574</u>
Total	\$ <u>7,928,954</u>

In the normal course of business, the Company is subject to various regulatory inquiries that may result in claims of potential violations of exchange rules and that may possibly involve sanctions and/or fines. These matters are rigorously defended as they arise.

The Company recognizes leases in accordance with Accounting Standards Codification Topic 842 (“ASC 842”) – Leases. That guidance was amended, effective for fiscal years beginning after December 15, 2018 for nonpublic entities that are broker-dealers, to require entities to recognize a right-of-use asset and a lease liability in the statement of financial condition. Management has not estimated the impact of the amendment to ASC 842 on its statement of financial condition.

**December 31, 2018**

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**7. Financial Instruments**

Accounting Standards Codification Topic 815 ("ASC 815"), Derivatives and Hedging, requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of gains and losses on derivative instruments, and disclosures about credit risk related contingent features in derivative agreements. The disclosure requirements of ASC 815 distinguish between derivatives, which are accounted for as "hedges" and those that do not qualify for such accounting. The Company reflects derivatives at fair value and recognizes changes in fair value through the statement of operations, and as such do not qualify for ASC 815 hedge accounting treatment.

In the normal course of business, the Company enters into transactions in derivative financial instruments that include futures contracts and exchange-traded options contracts as part of the Company's overall trading strategy. All derivative instruments are held for trading purposes. Fair values of options contracts are recorded in securities owned or securities sold short, as appropriate. Open trade equity in futures transactions is recorded as receivables from and/or payables to broker-dealers, as applicable. All positions are reported in the accompanying statement of financial condition at fair value and gains and losses from derivative financial instruments are reflected in trading gains in the statement of operations.

Futures contracts provide for the delayed delivery/receipt of the underlying instrument. As a writer of options contracts, the Company receives a premium in exchange for giving the counterparty the right to buy or sell the underlying instrument at a future date at a contracted price. The contractual or notional amounts related to these financial instruments reflect the volume and activity and do not reflect the amounts at risk. Futures contracts are executed on an exchange, and cash settlement is made on a daily basis for market movements. Accordingly, futures contracts generally do not have credit risk. The credit risk for options contracts is limited to the unrealized fair valuation gains recorded in the statement of financial condition. Market risk is substantially dependent upon the value of the underlying instruments and is affected by market forces such as volatility and changes in interest and foreign exchange rates.

Securities sold short represent obligations of the Company to deliver the security or underlying instrument and, thereby, create a liability to repurchase the security or underlying instrument in the market at prevailing prices. Accordingly, these transactions result in risk as the Company's satisfaction of the obligations may exceed the amount recognized in the statement of financial condition.

The Company is engaged in various trading activities in which counterparties primarily include broker-dealers. In the event counterparties do not fulfill their obligations, the Company may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty. It is the Company's policy to review, as necessary, the credit standing of each counterparty.

**December 31, 2018**

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**8. Guarantees**

Accounting Standards Codification Topic 460 ("ASC 460"), Guarantees, requires the Company to disclose information about its obligations under certain guarantee arrangements. ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity's failure to perform under an agreement, as well as indirect guarantees of the indebtedness of others.

Certain derivatives contracts that the Company has entered into meet the accounting definition of a guarantee under ASC 460. Derivatives that meet the ASC 460 definition of guarantees include futures contracts and written options. The maximum potential payout for these derivatives contracts cannot be estimated as increases in interest rates, foreign exchange rates, securities prices, commodities prices and indices in the future could possibly be unlimited.

The Company records all derivative contracts at fair value. For this reason, the Company does not monitor its risk exposure to derivatives contracts based on derivative notional amounts; rather the Company manages its risk exposure on a fair value basis. The Company believes that the notional amounts of the derivative contracts generally overstate its exposure. Aggregate market risk limits have been established, and market risk measures are routinely monitored against these limits. The Company believes that market risk is substantially diminished when all financial instruments are aggregated.

**9. Fair Value Measurement and Disclosures**

ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is 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. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability and rely on management's own assumptions that market participants would use in pricing the asset or liability. The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.



December 31, 2018

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**9. Fair Value Measurement and Disclosures, continued**

At December 31, 2018, all financial instruments of the Company are classified as Level 1. No valuation techniques have been applied to any nonfinancial assets or liabilities in the statement of financial condition. Due to the nature of these items, all have been recorded at their historic value.

**10. Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (Rule 15(c)3-1). Under this rule, the Company is required to maintain "net capital" equal to the greater of \$100,000 or 6 $\frac{2}{3}$  % of "aggregate indebtedness", as defined.

At December 31, 2018, the Company had net capital and net capital requirements of \$9,023,743 and \$100,000, respectively.

**11. Subsequent Events**

The Company's management has evaluated events and transactions through February 25, 2019, the date the financial statements were issued, noting no material events requiring disclosure in the Company's financial statements.

During the period from January 1, 2019 thru February 25, 2019, the Company made distributions to its member totaling \$1,700,000.