

AMERICAN ENTERPRISE INVESTMENT SERVICES, INC.

STATEMENT OF FINANCIAL CONDITION

(unaudited)

June 30, 2020

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American Enterprise Investment Services, Inc.  
Statement of Financial Condition (unaudited)  
June 30, 2020  
(In thousands, except share data)

**Assets:**

Cash and cash equivalents	\$ 267,147
Cash and cash equivalents segregated under federal and other regulations	2,388,364
Receivables:	
Customers	993,063
Brokers, dealers and clearing organizations	24,100
Affiliates	18,443
Other (net of allowance of \$280)	90,480
Securities borrowed	178,636
Goodwill	41,831
Securities owned, at fair value	37,601
Deposits with clearing organizations	34,424
Accrued interest and dividends receivable	846
Other assets	9,506
Total assets	<u>\$ 4,084,441</u>

**Liabilities and Stockholder's Equity**

**Liabilities:**

Payables:	
Customers	\$ 3,347,040
Brokers, dealers and clearing organizations	50,527
Affiliates	63,235
Other	23,461
Securities loaned	219,350
Unearned revenues	29,693
Accrued expenses	14,240
Securities sold, not yet purchased, at fair value	11,626
Accrued interest and dividends payable	245
Total liabilities	<u>3,759,417</u>
Liabilities subordinated to the claims of general creditors	60,000
Commitments and contingencies (see note 16)	

**Stockholder's equity:**

Common stock, \$1 par value:	
Authorized, issued and outstanding shares - 100	—
Additional paid-in capital	195,700
Retained earnings	69,324
Total stockholder's equity	<u>265,024</u>
Total liabilities and stockholder's equity	<u>\$ 4,084,441</u>

*The accompanying notes are an integral part of these financial statements*

American Enterprise Investment Services, Inc.  
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## 1. Organization and Summary of Significant Accounting Policies

### Organization

American Enterprise Investment Services, Inc. (the Company) is incorporated under the laws of the State of Minnesota. The company is a wholly-owned subsidiary of AMPF Holding Corp. AMPF Holding Corp. is a wholly-owned subsidiary of Ameriprise Financial, Inc. (the Parent). The Company executes and clears trades for accounts introduced by Ameriprise Financial Services, LLC (AFS), an affiliated company. The Company also performs services on behalf of mutual fund companies related to the management of customer books and records. The Company is a dealer in corporate and municipal bonds, U.S. Government and Agency securities and certificates of deposit. The Company is a clearing broker dealer registered with the Securities and Exchange Commission (SEC) and the various states in which the Company conducts business and is a member of the Financial Industry Regulatory Authority, Inc. (FINRA), the National Association of Securities Dealers Automated Quotations system (NASDAQ) and the Securities Investor Protection Corporation (SIPC).

### Significant Accounting Policies

#### *Basis of financial statement preparation*

The preparation of the 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 reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. These estimates reflect the best judgment of management and actual results could differ significantly from those estimates.

#### *Cash and cash equivalents*

Cash equivalents can include commercial paper, money market funds, time deposits and other highly liquid investments with original or remaining maturities at the time of purchase of 90 days or less. The Company has evaluated the cash equivalents for credit risk and has determined it is negligible due to the short term nature of the investment.

#### *Receivable from/Payable to customers*

Receivables from customers primarily consist of margin loans to brokerage clients and are carried at the estimated net realizable value. The Company is indemnified by AFS for losses incurred by the Company in connection with clients introduced by AFS. Payables to customers primarily consist of cash held in brokerage accounts and are carried at the amount of cash on deposit.

#### *Securities borrowed and loaned*

Securities borrowed and loaned result from transactions with other brokers and dealers or financial institutions. These are accounted for as collateralized financing transactions and are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. As of June 30, 2020, the Company advanced \$178,636 of cash collateral with security lenders and received securities with a market value of \$176,565 related to those transactions. Securities loaned transactions require the borrower to deposit cash or other collateral with the Company. As of June 30, 2020, the Company received \$219,350 of cash collateral from security borrowers and loaned securities with a market value of \$215,360 related to those transactions. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded as necessary. Interest is accrued on securities borrowed and loaned and the related amounts are included in accrued interest and dividends receivable or payable in the statement of financial condition.

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*Deposits with clearing organizations*

Deposits with clearing organizations consist of cash collateral deposited with clearing organizations to allow the Company to clear trades. These are included in deposits with clearing organizations in the statement of financial condition.

*Securities transactions*

Proprietary securities transactions (securities owned and securities sold, not yet purchased) in regular-way trades are recorded on the trade date, with the pre-settlement balance reflected as part of receivable from/payable to brokers, dealers, and clearing organizations in the statement of financial condition. Customer securities transactions are recorded on a settlement date basis. Securities owned and securities sold, not yet purchased are carried at fair value on a trade date basis. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected on the statement of financial condition.

*Goodwill*

Goodwill represents the amount of an acquired company's acquisition cost in excess of the fair value of assets acquired and liabilities assumed. The Company's goodwill arose from the integration of the clearing operations of Ameriprise Advisor Services, Inc., an affiliated company, on October 5, 2009. The Company evaluates goodwill for impairment annually on the measurement date of July 1 and whenever events and circumstances indicate that impairment may have occurred. In determining whether impairment has occurred, the Company uses the discounted cash flow method. For the period ending June 30, 2020, the Company did not record any goodwill impairment.

*Accrued expenses*

Accrued expenses primarily represent amounts due to employees for compensation-related items. These expenses are recognized when incurred.

*Income taxes*

The Company's provision for income taxes represents the net amount of income taxes that the Company expects to pay or to receive from various taxing jurisdictions in connection with its operations. The Company provides for income taxes based on amounts that the Company believes it will ultimately owe taking into account the recognition and measurement for uncertain tax positions. Inherent in the provision for income taxes are estimates and judgments regarding the tax treatment of certain items. The Company's taxable income is included in the consolidated federal and state income tax returns of the Parent. The Company provides for income taxes on a separate return basis, except that, under an agreement between the Parent and the Company, tax benefits are recognized for losses to the extent they can be used in the consolidated return. It is the policy of the Parent to reimburse its subsidiaries for any tax benefits recorded.

In connection with the provision for income taxes, the financial statements reflect certain amounts related to deferred tax assets and liabilities, which result from temporary differences between the assets and liabilities measured for financial statement purposes versus the assets and liabilities measured for tax return purposes.

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## 2. Recent Accounting Pronouncements

### Adoption of New Accounting Standards

#### *Fair Value Measurement – Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement*

In August 2018, the FASB updated the accounting standards related to disclosures for fair value measurements. The update eliminates the following disclosures: 1) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, 2) the policy of timing of transfers between levels of the fair value hierarchy, and 3) the valuation processes for Level 3 fair value measurements. The new disclosures include changes in unrealized gains and losses for the period included in other comprehensive income (“OCI”) for recurring Level 3 fair value measurements of instruments held at the end of the reporting period and the range and weighted average used to develop significant unobservable inputs and how the weighted average was calculated. The new disclosures are required on a prospective basis; all other provisions should be applied retrospectively. The update is effective for interim and annual periods beginning after December 15, 2020. Early adoption is permitted for the entire standard or only the provisions to eliminate or modify disclosure requirements. The Company early adopted the provisions of the standard to eliminate or modify disclosure requirements in the fourth quarter of 2018. The Company adopted the provisions of the standard to include new disclosures on January 1, 2020. The update does not have an impact on the Company’s results of operations or financial condition.

#### *Intangibles – Goodwill and Other – Simplifying the Test for Goodwill Impairment*

In January 2017, the FASB updated the accounting standards to simplify the accounting for goodwill impairment. The update removes the hypothetical purchase price allocation (Step 2) of the goodwill impairment test. Goodwill impairment will now be the amount by which a reporting unit’s carrying value exceeds its fair value. The standard is effective for interim and annual periods beginning after December 15, 2019, and should be applied prospectively with early adoption permitted for any impairment tests performed after January 1, 2017. The Company adopted the standard on January 1, 2020. The adoption of this update did not have a material impact on the Company’s results of operations or financial condition.

#### *Financial Instruments – Credit Losses – Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB updated the accounting standards related to accounting for credit losses on certain types of financial instruments. The update replaces the current incurred loss model for estimating credit losses with a new model that requires an entity to estimate the credit losses expected over the life of the asset. Generally, the initial estimate of the expected credit losses and subsequent changes in the estimate will be reported in current period earnings and recorded through an allowance for credit losses on the balance sheet. The current credit loss model for Available-for-Sale debt securities does not change; however, the credit loss calculation and subsequent recoveries are required to be recorded through an allowance. The standard is effective for interim and annual periods beginning after December 15, 2019. A modified retrospective cumulative adjustment to retained earnings should be recorded as of the first reporting period in which the guidance is effective for loans, receivables, and other financial instruments subject to the new expected credit loss model. Prospective adoption is required for establishing an allowance related to Available-for-Sale debt securities, certain beneficial interests, and financial assets purchased with a more-than-insignificant amount of credit deterioration since origination. The Company adopted the standard on January 1, 2020. The adoption of this update did not have a material impact on the Company’s results of operations or financial condition.

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**3. Cash, cash equivalents and securities segregated under federal and other regulations**

The Company is required to segregate cash and qualified securities in a special reserve account for the exclusive benefit of customers under SEC Rule 15c3-3 (Customer Protection Rule). The Company also performs the computation for assets in the proprietary accounts of brokers (PAB) in accordance with the customer reserve computation set forth in the Customer Protection Rule and segregates cash in a special reserve account for the benefit of the PAB.

As of June 30, 2020, cash and securities segregated under federal and other regulations consisted of the following:

Cash and cash equivalents segregated under federal and other regulations for benefit of:	
Customers	\$ 2,387,435
PAB	<u>929</u>
Total cash and cash equivalents segregated under federal and other regulations	<u><u>\$ 2,388,364</u></u>

**4. Cash sweeps**

The Company offers clients three options as an automatic investment or sweep of excess cash in their brokerage accounts. Clients can choose from an FDIC Insured interest bearing product, a Dreyfus money market fund or Ameriprise Cash.

The FDIC insured product is either Ameriprise Insured Money Market Account (AIMMA), a multibank program or Ameriprise Bank Insured Sweep Account (ABISA), a single bank model. AIMMA is a multi-bank program with 25 non-affiliated banks and one affiliated bank, Ameriprise Bank, FSB, participating in the program. As of June 30, 2020, \$27,617,749 was invested in the FDIC insured programs, of which Ameriprise Bank, FSB held \$5,297,515.

The Dreyfus money market option consist of two money market funds, the Dreyfus General Government Securities Money Market Fund and the Dreyfus Government Cash Fund. As of June 30, 2020, there was \$207,517 invested in the Dreyfus funds.

The amount of excess cash swept into AIMMA and Dreyfus Funds products is not reported in the statement of financial condition and is not included in the computation for determination of reserve requirement pursuant to rule 15c3-3 as client dollars in AIMMA are the obligations of the respective institutions and the Dreyfus Funds is an investment option that represents customer owned securities.

Ameriprise cash is an interest bearing product and is covered by the SIPC. Clients' assets are subject to coverage thresholds of a maximum of \$500 per client, including a \$250 limit on claims for cash held in Ameriprise client accounts. As of June 30, 2020, there was \$3,302,308 of clients' free credit balances invested in this product. This amount is held on deposit with the Company and is included as payable to customers in the statement of financial condition and is included in the computation for determination of reserve requirement pursuant to rule 15c3-3.

**5. Customer receivables and payables**

Customer receivables include amounts due on margin and cash transactions. Customer receivables are primarily collateralized by securities with market values in excess of the amounts due. At June 30, 2020, less than 1% of receivables from customers are unsecured per the FINRA definition. In accordance with the intercompany clearing agreement, the introducing broker dealer, AFS, has agreed to indemnify the Company and therefore the Company has not established an allowance for any potential losses based upon an evaluation of customer accounts. In addition, appropriate deductions are made in the Company's net capital computation, as AFS is an affiliated company. It is the

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policy of the Company to monitor the market value of the collateral and to request additional collateral when necessary. Such collateral is not reflected on the accompanying statement of financial condition.

Customer payables represent free credit balances, funds deposited by customers and funds accruing to customers as a result of settled trades.

The components of receivables from and payables to customers as of June 30, 2020 are as follows:

Receivables:	
Margin loans	\$ 910,318
Other customer receivables	82,745
Total receivables	<u>\$ 993,063</u>
Payables:	
Free credit balance	\$ 3,302,308
Other customer payables	44,732
Total payables	<u>\$ 3,347,040</u>

#### 6. Receivables from and payables to brokers, dealers, and clearing organizations

Broker receivables and payables arise primarily from securities transactions executed by the Company for customers and non-customers introduced by AFS. Broker receivables are generally collected within 30 days and are collateralized by securities in physical possession or control, on deposit, or receivable from customers or other brokers.

Broker payables represent amounts related to the unsettled purchase of securities. The value of such securities at June 30, 2020 approximates the amounts owed.

The components of receivables from and payables to brokers, dealers, and clearing organizations as of June 30, 2020 are as follows:

Receivables:	
Securities failed to deliver	\$ 14,256
Funds due from clearing organizations and financial institutions, net	9,844
Total receivables	<u>\$ 24,100</u>
Payables:	
Securities failed to receive	\$ 14,952
Funds due to clearing organizations and financial institutions, net	35,575
Total payables	<u>\$ 50,527</u>

The Company has the ability to hypothecate and rehypothecate customer securities. In addition, the Company monitors the market value of collateral held. It is the policy of the Company to request and receive additional collateral when required.

#### 7. Other receivables

Other receivables include \$32,216 for third party marketing support, \$21,608 for networking and sub-accounting fees, \$14,103 for receivables related to customers investment in affiliated companies' products, \$4,039 for distribution fees



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from cash sweep products, \$10,400 for customer account maintenance fee and \$8,114 for other miscellaneous receivables.

#### **8. Securities owned and securities sold, not yet purchased**

As of June 30, 2020, securities owned by the Company and securities sold, not yet purchased by the Company were \$37,601, and \$11,626, respectively. Of the securities owned by the Company, \$9,999 is held at the Option Clearing Corporation (OCC) as part of required clearing deposit. Securities sold, not yet purchased represent obligations of the Company to deliver the specified security at the contracted price and, thereby, create a liability to purchase the security in the market at prevailing prices. Accordingly, these transactions result in off-balance sheet risk, as the Company's ultimate obligation to satisfy the sale of securities sold, not yet purchased may exceed the amount reflected in the statement of financial condition. Holdings are primarily debt securities including corporate, government and agencies, and municipal debts.

#### **9. Goodwill**

Goodwill is not amortized but is instead subject to impairment tests. For the year ended June 30, 2020, the Company did not record any goodwill impairment.

#### **10. Fair values of assets and liabilities**

U.S. GAAP defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; that is, an exit price. The exit price assumes the asset or liability is not exchanged subject to a forced liquidation or distressed sale.

##### **Valuation Hierarchy**

The Company categorizes its fair value measurements according to a three-level hierarchy. The hierarchy prioritizes the inputs used by the Company's valuation techniques. A level is assigned to each fair value measurement based on the lowest level input that is significant to the fair value measurement in its entirety.

The three levels of the fair value hierarchy are defined as follows:

*Level 1* – Unadjusted quoted prices for identical assets or liabilities in active markets that are accessible at the measurement date.

*Level 2* – Prices or valuation based on observable inputs other than quoted prices in active markets for identical assets and liabilities.

*Level 3* – Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

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

The Company uses valuation techniques consistent with the market and income approaches to measure the fair value of its assets and liabilities. The Company's market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The Company's income approach uses valuation techniques to convert future projected cash flows to a single discounted present value amount. When applying either approach, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs.

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The following is a description of the valuation techniques used to measure fair value and the general classification of these instruments pursuant to the fair value hierarchy.

**Assets**

*Segregated securities under federal and other regulations*

When available, the fair value of securities is based on quoted prices in active markets. If quoted prices are not available, fair values are obtained from nationally-recognized pricing services, or other model-based valuation techniques such as the present value of cash flows. All segregated securities are treasury notes, and are classified as Level 1 as the fair values of the securities are obtained from nationally-recognized pricing services.

*Customer receivables*

Customer receivables are measured at outstanding balances, which are a reasonable estimate of fair value because of the sufficiency of the collateral and short term nature of these receivables. Margin loans that are sufficiently collateralized are classified as Level 2. This balance is not included in the following table.

*Securities borrowed*

Securities borrowed require the Company to deposit cash or collateral with the lender. As the market value of the securities borrowed is monitored daily and the transactions are short term, the carrying value is a reasonable estimate of fair value. The fair value of securities borrowed is classified as Level 1 as the value of the underlying securities is based on unadjusted prices for identical assets. This balance is not included in the following table.

*Securities owned*

When available, the fair value of securities is based on quoted prices in active markets. If quoted prices are not available, fair values are obtained from nationally-recognized pricing services, or other model-based valuation techniques such as the present value of cash flows. Level 1 securities primarily include U.S. treasury notes, equity securities, exchange trade funds (ETFs) and mutual funds traded in active markets. Level 2 securities primarily include corporate bonds, state and municipal obligations and U.S. agency and foreign government securities. Level 2 other securities primarily consist of unit investment trusts. The fair value of these Level 2 securities is based on a market approach with prices obtained from third party pricing services. Observable inputs used to value these securities can include, but are not limited to, reported trades, benchmark yields, issuer spreads and non-binding broker quotes. Other Level 2 securities include primarily unit investment trusts.

**Liabilities**

*Customer payables*

Customer deposits are liabilities with no defined maturities and fair value is the amount payable on demand at the reporting date. The fair value of these deposits is classified as Level 1. This balance is not included in the following table.

*Securities loaned*

Securities loaned require the borrower to deposit cash or collateral with the Company. As the market value of the securities loaned is monitored daily and the transactions are short term, the carrying value is a reasonable estimate of fair value. Securities loaned are classified as Level 1 as the fair value of the underlying securities is based on unadjusted prices for identical assets. This balance is not included in the following table.

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*Securities sold, not yet purchased*

When available, the fair value of securities is based on quoted prices in active markets. If quoted prices are not available, fair values are obtained from nationally-recognized pricing services, or other model-based valuation techniques such as the present value of cash flows. Level 1 securities primarily include U.S treasury notes, and equity securities traded in active markets. Level 2 securities primarily include corporate bonds, municipal bonds, residential mortgage backed securities, commercial mortgage backed securities and asset backed securities. Level 2 other securities include primarily unit investment trusts.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 146,000	\$ —	\$ —	\$ 146,000
Government and agency obligation	9,999	396	—	10,395
Corporate bonds	—	11,872	—	11,872
Municipal bonds	—	14,542	—	14,542
Equities	122	385	—	507
Other securities	285	—	—	285
<b>Total assets at fair value</b>	<b>\$ 156,406</b>	<b>\$ 27,195</b>	<b>\$ —</b>	<b>\$ 183,601</b>
<b>Liabilities</b>				
<i>Securities sold, not yet purchased</i>				
Corporate bonds	\$ —	\$ 9,761	\$ —	\$ 9,761
Government and agency obligation	1,451	—	—	1,451
Municipal bonds	—	16	—	16
Equities	352	—	—	352
Other securities	—	46	—	46
<b>Total liabilities at fair value</b>	<b>\$ 1,803</b>	<b>\$ 9,823</b>	<b>\$ —</b>	<b>\$ 11,626</b>

*Fair Value of Financial Instruments*

Other financial instruments are recorded by the Company at fair value or at contract amounts, which approximate fair value and include receivables from and payables to brokers, dealers and clearing organizations; deposits with clearing organizations; and amounts receivable from and payable to affiliates. These financial instruments have short-term maturities (one year or less), are repriced frequently or bear market interest rates and, accordingly, are carried at amounts which are a reasonable estimate of fair value.

**11. Financing activities and off-balance sheet risk**

The Company's customer activities involve the execution, settlement and financing of various securities transactions. These activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to the customer, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customer's account. Such transactions may expose the Company to off-balance sheet risk in the event that margin requirements are not sufficient to cover losses that customers incur, or contra brokers are unable to meet the terms of the contracted obligations.

In the event a customer or broker fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations. The Company seeks to control the risk associated with its customer activities by requiring customers to maintain collateral in compliance

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with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, require customers to deposit additional collateral, or reduce positions, when necessary.

In August 2019, the Company has entered into agreements for uncommitted lines of credit with three third party banks, having a combined limit of \$500,000. There were no draws on the lines of credit during the period ending June 30, 2020.

The Company enters into securities borrowing transactions that may result in credit exposure in the event the counterparty to the transaction is unable to fulfill its contractual obligations. The Company minimizes credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requires that additional collateral be deposited with or returned by the Company when deemed necessary.

In the normal course of business, the Company obtains securities under securities borrowed and custody agreements on terms which permit it to pledge the securities to others. At June 30, 2020, the Company obtained securities with a fair value of approximately \$1,233,169 on such terms, for which \$468,690 have been either pledged or otherwise transferred to others in connection with the Company's financing activities. Of the securities pledged, the market value of securities pledged at the OCC was \$253,169.

## **12. Related-party transactions**

The Company maintains two revolving lines of credit with the Parent aggregating up to \$750,000 to fund short term operational needs: \$300,000 committed and \$450,000 with lender discretion. For the year ended June 30, 2020, the Company utilized the line of credit 50 days and during this period had an average overnight borrowing of \$81,580. There was an outstanding balance on the line of credit of nil at June 30, 2020,

The Company entered into an agreement with an affiliate, Ameriprise Holdings, Inc. (AHI) related to the use of property, equipment and similar items. Under this agreement the Company compensates AHI for use of property, equipment and similar items that AHI owns or maintains.

Receivables due from affiliates on the statement of financial condition as of June 30, 2020, primarily include \$10,403 clearing fees and other related receivables from AFS, marketing support of \$1,943 from CMID and \$3,911 networking sub-accounting fees from CMIS.

Payables due to affiliates on the statement of financial condition as of June 30, 2020, primarily include administrative and service costs to the Parent of \$48,455, and \$14,233 for trading concessions to AFS.

The Company participates in the Parent's Retirement Plan (the Plan), which covers all permanent employees age 21 and over who have met certain employment requirements. Contributions to the Plan are based on participants' age, years of service and total compensation for the year. Funding of retirement costs for the Plan complies with the applicable minimum funding requirements specified by the Employee Retirement Income Security Act (ERISA).

The Company also participates in defined contribution pension plans of the Parent that cover all employees who have met certain employment requirements. The Company's contributions to the plans are a percentage of either each employee's eligible compensation or basic contributions.

The Company participates in defined benefit health care plans of the Parent that provide health care and life insurance benefits to retired employees. The plans include participant contributions and service related eligibility requirements.

The Company also participates in the Parent's Incentive Compensation Plan. Under the Incentive Compensation Plan, employees are eligible to receive incentive awards including stock options, RSAs, non-qualified options, RSUs, performance shares and similar awards designed to comply with the applicable federal regulations and laws of jurisdiction. The Company pays various employee benefit plan expenses to the Parent including expenses associated

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with RSAs, RSUs, stock options and deferred compensation plans, based on the value of the awards issued to the Company's employees.

In the normal course of the business, the Company provides distribution services to entities which may have a direct financial interest in the Parent. Fees earned include networking and subaccounting fees. These amounts have been reflected within the corresponding financial statement line item.

For the period ending June 30, 2020, the Company paid dividends to the Parent of \$118,500.

In the normal course of business, the Company's or its affiliates' executive officers and directors may have brokerage accounts or other financial products offered by the Company or its affiliates.

### **13. Subordinated Liabilities**

The Company entered in a subordinated loan agreement with the Parent on January 25, 2017. Under this agreement the Parent lent the Company \$60,000 with an initial term of 5 years to be repaid no later than January 22, 2022. The Company has the option to renew the current agreement in one-year increments in perpetuity. The loan bears interest to be paid monthly at a rate of one month LIBOR plus 0.90% per annum. The loan agreement has been approved by FINRA to be added as allowable liabilities in computing net capital under the SEC's SEA Rule 15c3-1(d). Pursuant to the agreement, the Parent must notify the Company on or before the day thirteen months preceding the maturity if they do not intend to extend the maturity date of the agreement.

### **14. Net capital provisions**

As a registered broker dealer, the Company is subject to the SEC's uniform net capital rule (Rule 15c3-1).

The Company computes its net capital requirements under the alternative method provided for in Rule 15c3-1, which requires the Company to maintain net capital equal to 2% of combined aggregate customer-related debit items, as defined (or \$250, if greater).

At June 30, 2020, the Company's net capital was \$162,504 or 14% of aggregate debit balances, and \$139,805 in excess of required net capital. Advances to affiliates, dividend payments and other equity withdrawals are subject to certain notification and other provisions of the net capital rule of the SEC and other regulatory bodies.

### **15. Income taxes**

The Company had a payable to the Parent for current federal income taxes of \$28,687 and a payable to the Parent for state income taxes of \$1,921 at June 30, 2020.

The effective tax rate for the six months ending June 30, 2020 was 24.8%, which differs from the amount computed by applying the U.S. statutory rate of 21% mainly due to state income taxes.

The Company files income tax returns, as part of its inclusion in the consolidated federal income tax return of Ameriprise Financial (the Parent), in the U.S. federal jurisdiction and various state jurisdictions. The federal statute of limitations is closed on years through 2015, except for one issue for 2014 and 2015 which was claimed on amended returns. The IRS is currently auditing the Parent's U.S. income tax returns for 2016, 2017 and 2018. Ameriprise Financial's or its subsidiaries', including the Company's, state income tax returns are currently under examination by various jurisdictions for years ranging from 2010 through 2018.

As of June 30, 2020, the Company had \$8,061 of gross unrecognized tax benefits. If recognized, approximately \$6,368 net of federal tax benefits, of unrecognized tax benefits as of June 30, 2020 would affect the effective tax rate.

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The Company recognizes interest and penalties related to unrecognized tax benefits as a component of the income tax provision. The Company has recognized a \$136 increase of interest and penalties for the six months ended as of June 30, 2020. The Company had \$594 for the payment of interest and penalties accrued at June 30, 2020.

It is reasonably possible that the total amounts of unrecognized tax benefits will change in the next 12 months. The Company does not expect the gross unrecognized tax benefits to decrease in the next 12 months.

**16. Commitments, contingencies and other legal and regulatory matters**

In the normal course of its business, the Company indemnifies and guarantees certain service providers, such as clearing and custody agents, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company. The Company also indemnifies some clients against potential losses incurred in the event specified third-party service providers, including sub-custodians and third-party brokers, improperly executed transactions. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and may indemnify them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated, however, the Company believes that it is unlikely.

The Company may be involved, in the normal course of business, in legal, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its operations. These include proceedings specific to the Company, as well as proceedings generally applicable to business practices in the industries in which it operates. Uncertain economic conditions, volatility in the financial markets, and significant recently enacted financial reform legislation may increase the likelihood that clients and other persons or regulators may present or threaten legal claims or that regulators increase the scope or frequency of examinations of the Company or the financial services industry generally.

As with other financial services firms, the level of regulatory activity and inquiry concerning the Company's businesses remains elevated. From time to time, the Company receives requests for information from, and/or has been subject to examination or claims by, the SEC, the FINRA, and other governmental and quasi-governmental authorities concerning the Company's business activities and practices. These legal and regulatory inquiries, proceedings and potential disputes are subject to uncertainties and, as such, the Company is unable to predict the ultimate resolution or range of loss that may result. In accordance with applicable accounting standards, the Company establishes an accrued liability for contingent litigation and regulatory matters when those matters present loss contingencies that are both probable and can be reasonably estimated. In such cases, there still may be an exposure to loss in excess of any amounts reasonably estimated and accrued. When a loss contingency is not both probable and estimable, the Company does not establish an accrued liability, but continues to monitor, in conjunction with any outside counsel handling a matter, further developments that would make such loss contingency both probable and reasonably estimable. Once the Company establishes an accrued liability with respect to a loss contingency, the Company continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established, and any appropriate adjustments are made each quarter.

**17. Offsetting assets and liabilities**

Certain financial instruments and derivative instruments are eligible for offset in the Balance Sheet under U.S. GAAP. The Company's securities borrowing and lending agreements are subject to master netting arrangements and collateral

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arrangements and meet the U.S. GAAP guidance to qualify for offset. A master netting arrangement with counterparty creates a right of offset for amounts due to and from that same counterparty that is enforceable in the event of a default or bankruptcy. Securities borrowed and loaned result from transactions between the Company and other financial institutions and are recorded at the amount of cash collateral advanced or received.

All securities borrow and loan transactions have an open contractual term and, upon notice by either party, may be terminated within three business days. As of June 30, 2020, all securities loan open contracts are equity securities.

The Company's policy is to recognize amounts subject to master netting arrangements on a gross basis on the Statement of Financial Condition.

The Company's assets subject to master netting arrangements as of June 30, 2020, are as follows:

	Gross amounts of recognized assets	Gross amount offsets in the statement of financial condition	Amounts of assets presented in the statement of financial condition	Gross amount not offset in the statement of financial condition		Net amount
				Financial instruments <sup>(1)</sup>	Security collateral	
Securities borrowed	\$ 178,636	\$ —	\$ 178,636	\$ (80,103)	\$ (97,208)	\$ 1,325
Total	<u>\$ 178,636</u>	<u>\$ —</u>	<u>\$ 178,636</u>	<u>\$ (80,103)</u>	<u>\$ (97,208)</u>	<u>\$ 1,325</u>

- 1) Represents the amount of assets that could be offset by liabilities with the same counterparty under master netting arrangements that management elects not to offset on the Statement of Financial Condition.

The Company's liabilities subject to master netting arrangements as of June 30, 2020, are as follows:

	Gross amounts of recognized assets	Gross amount offsets in the statement of financial condition	Amounts of assets presented in the statement of financial condition	Gross amount not offset in the statement of financial condition		Net amount
				Financial instruments <sup>(1)</sup>	Security collateral	
Securities loaned	\$ 219,350	\$ —	\$ 219,350	\$ (80,103)	\$ (136,002)	\$ 3,245
Total	<u>\$ 219,350</u>	<u>\$ —</u>	<u>\$ 219,350</u>	<u>\$ (80,103)</u>	<u>\$ (136,002)</u>	<u>\$ 3,245</u>

- 1) Represents the amount of liabilities that could be offset by assets with the same counterparty under master netting arrangements that management elects not to offset on the Statement of Financial Condition.

## 18. Subsequent events

As of August 14, 2020, which is the date the financial statements were available to be issued, the Company has evaluated events or transactions that may have occurred after the financial condition date for potential recognition or disclosure.