Statement of Financial Condition

June 30, 2016

Goldman Sachs Execution & Clearing, L.P.

GOLDMAN SACHS EXECUTION & CLEARING, L.P.

Statement of Financial Condition (Unaudited)

INDEX

GOLDMAN SACHS EXECUTION & CLEARING, L.P.

Statement of Financial Condition (Unaudited)

$ in thousands	As of June 2016
Assets	
Cash and cash equivalents	**$ 35,778**
Cash and securities segregated for regulatory and other purposes (includes $191,284 at fair value)	**211,284**
Collateralized agreements:	
Securities purchased under agreements to resell, at fair value	**4,979**
Securities borrowed	**3,244**
Receivables:	
Brokers, dealers and clearing organizations	**110,581**
Customers and counterparties	**4,801**
Financial instruments owned, at fair value (includes $267 pledged as collateral)	**2,435**
Other assets	**70,641**
Total assets	**$443,743**
Liabilities and partners' capital	
Collateralized financings:	
Securities loaned	**$ 1,944**
Payables:	
Brokers, dealers and clearing organizations	**7,901**
Customers and counterparties	**23,406**
Financial instruments sold, but not yet purchased, at fair value	**873**
Unsecured short-term borrowings	**14,536**
Other liabilities and accrued expenses	**82,826**
Total liabilities	**131,486**
Commitments, contingencies and guarantees	
Partners' capital	
Partners' capital	**312,257**
Total liabilities and partners’ capital	**$443,743**

The accompanying notes are an integral part of this statement of financial condition.

Notes to Statement of Financial Condition (Unaudited)

Note 1.

Description of Business

Goldman Sachs Execution & Clearing L.P. (the firm), a New York limited partnership, is a registered U.S. broker-dealer with the Securities and Exchange Commission (SEC), a member of the Financial Industry Regulatory Authority, a registered futures commission merchant with the Commodity Futures Trading Commission (CFTC) and the National Futures Association (NFA). The firm is an indirectly wholly-owned subsidiary of The Goldman Sachs Group, Inc. (Group Inc.), a Delaware corporation.

The firm executes and clears client transactions on major stock exchanges, primarily with broker-dealers, institutional investors and affiliates. During the first half of 2016, substantially all business activities, and related assets and liabilities, of the firm were transferred to Goldman, Sachs & Co. (GS&Co.), a wholly-owned subsidiary of Group Inc. and registered U.S. broker-dealer and futures commission merchant, as part of a migration of the firm's clearing business to GS&Co.

Note 2.

Basis of Presentation

This statement of financial condition is prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and include the accounts of the firm.

This statement of financial condition is unaudited and should be read in conjunction with the audited statement of financial condition as of December 31, 2015.

All references to June 2016 refer to the date June 30, 2016. Any reference to a future year refers to a year ending on December 31 of that year.

Note 3.

Significant Accounting Policies

The firm's significant accounting policies include when and how to measure the fair value of assets and liabilities. See Notes 5 through 7 for policies on fair value measurements. All other significant accounting policies are either described below or included in the following footnotes:

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Equity-Method Investments

When the firm does not have a controlling financial interest in an entity but can exert significant influence over the entity's operating and financial policies, the investment is accounted for either (i) under the equity method of accounting or (ii) at fair value by electing the fair value option available under U.S. GAAP. Significant influence generally exists when the firm owns 20% to 50% of common stock or in-substance common stock.

The firm applies the equity method of accounting to investments that are strategic in nature or closely related to the firm's principal business activities, when the firm has a significant degree of involvement in the cash flows or operations of the investee or when cost-benefit considerations are less significant. As of June 2016, the firm holds one investment over which it exerts significant influence on the entity's operating and financial policies and accounts for that investment using the equity method of accounting.

Use of Estimates

Preparation of this statement of financial condition requires management to make certain estimates and assumptions, the most important of which relate to fair value measurements, discretionary compensation accruals and the accruals for losses that may arise from litigation, regulatory proceedings and tax audits. These estimates and assumptions are based on the best available information but actual results could be materially different.

Revenue Recognition

Financial Assets and Financial Liabilities at Fair Value. Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are recorded at fair value either under the fair value option or in accordance with other U.S. GAAP. In addition, the firm has elected to account for certain of its other financial assets at fair value by electing the fair value option. The fair value of a financial instrument is the amount 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. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs. See Notes 5 through 7 for further information about fair value measurements.

Commissions and Fees. Commissions and fees are recognized on the day the trade is executed.

Cash and Cash Equivalents

The firm defines cash equivalents as highly liquid overnight deposits held in the ordinary course of business.

Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and payables to brokers, dealers and clearing organizations are accounted for at cost plus accrued interest, which generally approximates fair value. While these receivables and payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 5 through 7. Had these receivables and payables been included in the firm's fair value hierarchy, they would have been classified in level 2 as of June 2016.

Receivables from Customers and Counterparties

Receivables from customers and counterparties generally relate to collateralized transactions. These receivables are accounted for at amortized cost net of estimated uncollectible amounts.

As of June 2016, the carrying value of receivables not accounted for at fair value generally approximated fair value. While these items are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 5 through 7. Had these items been included in the firm's fair value hierarchy, they would have been classified in level 2 as of June 2016.

Payables to Customers and Counterparties

Payables to customers and counterparties primarily consist of customer credit balances related to the firm's execution and clearing activities. Payables to customers and counterparties are accounted for at cost plus accrued interest, which generally approximates fair value. While these payables are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 5 through 7. Had these payables been included in the firm's fair value hierarchy, they would have been classified in level 2 as of June 2016.

Offsetting Assets and Liabilities

To reduce credit exposures on securities financing transactions, the firm may enter into master netting agreements or similar arrangements (collectively, netting agreements) with counterparties that permit it to offset receivables and payables with such counterparties. A netting agreement is a contract with a counterparty that permits net settlement of multiple transactions with that counterparty, including upon the exercise of termination rights by a non-defaulting party. Upon exercise of such termination rights, all transactions governed by the netting agreement are terminated and a net settlement amount is calculated. In order to assess enforceability of the firm's right of setoff under netting, the firm evaluates various factors including applicable bankruptcy laws, local statutes and regulatory provisions in the jurisdiction of the parties to the agreement.

In the statement of financial condition, resale agreements and securities borrowed and loaned, are not reported net of the related cash and securities received or posted as collateral. See Note 8 for further information about offsetting, collateral received and pledged, including rights to deliver or repledge collateral.

Foreign Currency Translation

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the statement of financial condition and revenues and expenses are translated at average rates of exchange for the period. Foreign currency remeasurement gains or losses on transactions in nonfunctional currencies are recognized in earnings.

Recent Accounting Developments

Revenue from Contracts with Customers (ASC 606). In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 provides comprehensive guidance on the recognition of revenue from customers arising from the transfer of goods and services. The ASU also provides guidance on accounting for certain contract costs, and requires new disclosures. ASU No. 2014-09, as amended by ASU No. 2015-14, ASU No. 2016-08, ASU No. 2016-10 and ASU No. 2016-12, is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period under a modified retrospective approach or retrospectively to all periods presented. Any transition adjustment resulting from the adoption of ASU 2014-09 would be reflected in Partners' capital at the date of adoption. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. The firm is still evaluating the effect of the ASU on its financial condition.

Note 4.

Financial Instruments Owned, at Fair Value and Financial Instruments Sold, But Not Yet Purchased, at Fair Value

Financial instruments owned, at fair value and financial instruments sold, but not yet purchased, at fair value are accounted for at fair value either under the fair value option or in accordance with other U.S. GAAP. See Note 7 for further information about other financial assets and financial liabilities accounted for at fair value primarily under the fair value option.

The table below presents the firm's financial instruments owned, at fair value, and financial instruments sold, but not yet purchased, at fair value.

	As of June 2016	
$ in thousands	Financial Instruments Owned	Financial Instruments Sold, But Not Yet Purchased
Equities	$ 2,311	$ 873
Derivatives	124	–
Total	**$ 2,435**	**$ 873**

In the table above, all derivative assets are exchange traded and have been classified in level 2 of the firm's fair value hierarchy.

Note 5.

Fair Value Measurements

The fair value of a financial instrument is the amount 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. Financial assets are marked to bid prices and financial liabilities are marked to offer prices. Fair value measurements do not include transaction costs.

The best evidence of fair value is a quoted price in an active market. If quoted prices in active markets are not available, fair value is determined by reference to prices for similar instruments, quoted prices or recent transactions in less active markets, or internally developed models that primarily use market-based or independently sourced parameters as inputs including, but not limited to, interest rates, volatilities, equity or debt prices, foreign exchange rates, commodity prices, credit spreads and funding spreads (i.e., the spread, or difference, between the interest rate at which a borrower could finance a given financial instrument relative to a benchmark interest rate).

U.S. GAAP has a three-level fair value hierarchy for disclosure of fair value measurements. The fair value hierarchy prioritizes inputs to the valuation techniques used to measure fair value, giving the highest priority to level 1 inputs and the lowest priority to level 3 inputs. A financial instrument's level in the fair value hierarchy is based on the lowest level of input that is significant to its fair value measurement. The fair value hierarchy is as follows:

Level 1. Inputs are unadjusted quoted prices in active markets to which the firm had access at the measurement date for identical, unrestricted assets or liabilities.

Level 2. Inputs to valuation techniques are observable, either directly or indirectly.

Level 3. One or more inputs to valuation techniques are significant and unobservable.

The fair values for substantially all of the firm's financial assets and financial liabilities are based on observable prices and inputs and are classified in levels 1 and 2 of the fair value hierarchy. Certain level 2 and level 3 financial assets and financial liabilities may require appropriate valuation adjustments that a market participant would require to arrive at fair value for factors such as counterparty and the firm's credit quality, funding risk, transfer restrictions, liquidity and bid/offer spreads. Valuation adjustments are generally based on market evidence.

See Note 6 and 7 for further information about fair value measurements of cash instruments and other financial assets and financial liabilities accounted for at fair value primarily under the fair value option, respectively.

The table below presents financial assets and financial liabilities accounted for at fair value under the fair value option or in accordance with other U.S. GAAP.

$ in thousands	As of June 2016
Total level 1 financial assets	$ 2,304
Total level 2 financial assets	196,387
Total level 3 financial assets	7
Total financial assets at fair value	**$198,698**
Total assets [1]	$443,743
Total level 1 financial liabilities	$ 873
Total level 2 financial liabilities	–
Total level 3 financial liabilities	–
Total financial liabilities at fair value	**$ 873**

1. Substantially all assets are carried at fair value or at amounts that generally approximate fair value.

Note 6.

Cash Instruments

Cash instruments are primarily comprised of equities. See below for cash instruments included in each level of the fair value hierarchy and the valuation techniques and significant inputs used to determine their fair values. See Note 5 for an overview of the firm's fair value measurement policies.

Level 1 Cash Instruments

Level 1 cash instruments include actively traded listed equities. These instruments are valued using quoted prices for identical unrestricted instruments in active markets.

The firm defines active markets for equity instruments based on the average daily trading volume both in absolute terms and relative to the market capitalization for the instrument.

Level 2 Cash Instruments

Valuations of level 2 cash instruments can be verified to quoted prices, recent trading activity for identical or similar instruments, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. Consideration is given to the nature of the quotations (e.g., indicative or firm) and the relationship of recent market activity to the prices provided from alternative pricing sources.

Valuation adjustments are typically made to level 2 cash instruments (i) if the cash instrument is subject to transfer restrictions and/or (ii) for other premiums and liquidity discounts that a market participant would require to arrive at fair value. Valuation adjustments are generally based on market evidence.

As of June 2016, the firm did not have any level 2 cash instruments.

Level 3 Cash Instruments

Level 3 cash instruments have one or more significant valuation inputs that are not observable. Absent evidence to the contrary, level 3 cash instruments are initially valued at transaction price, which is considered to be the best initial estimate of fair value. Subsequently, the firm uses other methodologies to determine fair value, which vary based on the type of instrument. Valuation inputs and assumptions are changed when corroborated by substantive observable evidence, including values realized on sales of financial assets.

As of June 2016, the firm's level 3 cash instruments were not material.

Fair Value of Cash Instruments by Level

The table below presents cash instrument assets and liabilities at fair value by level within the fair value hierarchy. In the table below:

- Cash instrument assets and liabilities are included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value," respectively.
- Cash instrument assets are shown as positive amounts and cash instrument liabilities are shown as negative amounts.

	As of June 2016			
$ in thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Equities	**$2,304**	**$ –**	**$ 7**	**$2,311**
Total cash instrument assets	**$2,304**	**$ –**	**$ 7**	**$2,311**
Liabilities				
Equities	**$(873)**	**$ –**	**$ –**	**$(873)**
Total cash instruments liabilities	**$(873)**	**$ –**	**$ –**	**$(873)**

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. There were no transfers of cash instruments between level 1 and level 2 or between level 2 and level 3 during the six months ended June 2016.

Note 7.

Fair Value Option

Other Financial Assets at Fair Value

In addition to all cash and derivative instruments included in "Financial instruments owned, at fair value" and "Financial instruments sold, but not yet purchased, at fair value," the firm accounts for certain of its other financial assets at fair value primarily under the fair value option. The primary reasons for electing the fair value option are to:

- Reflect economic events in earnings on a timely basis; and
- Mitigate volatility in earnings from using different measurement attributes.

Other financial assets accounted for at fair value under the fair value option include resale agreements.

Fair Value of Other Financial Assets by Level

The table below presents, by level within the fair value hierarchy, other financial assets accounted for at fair value primarily under the fair value option.

	As of June 2016			
$ in thousands	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets				
Securities segregated for regulatory and other purposes	**$ –**	**$191,284**	**$ –**	**$191,284**
Securities purchased under agreements to resell	**–**	**4,979**	**–**	**4,979**
Total	**$ –**	**$196,263**	**$ –**	**$196,263**

In the table above, securities segregated for regulatory and other purposes include segregated securities accounted for at fair value under the fair value option, which consists of resale agreements with GS&Co.

Valuation Techniques and Significant Inputs

Other financial assets at fair value are generally valued based on discounted cash flow techniques, which incorporate inputs with reasonable levels of price transparency, and are generally classified as level 2 because the inputs are observable. Valuation adjustments may be made for liquidity and for counterparty and the firm's credit quality.

See below for information about the significant inputs used to value other financial assets at fair value.

Resale Agreements. The significant inputs to the valuation of resale agreements are funding spreads, the amount and timing of expected future cash flows and interest rates. As of June 2016, the firm had no level 3 resale agreements. See Note 8 for further information about collateralized agreements and financings.

Transfers Between Levels of the Fair Value Hierarchy

Transfers between levels of the fair value hierarchy are reported at the beginning of the reporting period in which they occur. There were no transfers of other financial assets and financial liabilities between level 1 and level 2 or between level 2 and level 3 during the six months ended June 2016.

Note 8.

Collateralized Agreements and Financings

Collateralized agreements represent securities purchased under agreements to resell (resale agreements) and securities borrowed transactions. Collateralized financings represent securities loaned transactions. The firm enters into these transactions in order to, among other things, facilitate client activities, invest excess cash, acquire securities to cover short positions and finance certain firm activities.

Collateralized agreements and financings are presented on a net-by-counterparty basis when a legal right of setoff exists. Interest on collateralized agreements and collateralized financings is recognized over the life of the transaction.

The table below presents the carrying value of resale agreements and securities borrowed and loaned transactions.

$ in thousands	**As of June 2016**
Securities purchased under agreements to resell	**$ 4,979**
Securities borrowed	**3,244**
Securities loaned	**1,944**

In the table above, resale agreements are carried at fair value under the fair value option. See Note 7 for further information about the valuation techniques and significant inputs used to determine fair value.

Resale Agreements

A resale agreement is a transaction in which the firm purchases financial instruments from a seller, typically in exchange for cash, and simultaneously enters into an agreement to resell the same or substantially the same financial instruments to the seller at a stated price plus accrued interest at a future date. The firm enters into all of its resale agreements with GS&Co.

Even though resale agreements involve the legal transfer of ownership of financial instruments, they are accounted for as financing arrangements because they require the financial instruments to be resold at the maturity of the agreement. The financial instruments purchased in resale agreements typically include U.S. government and federal agency obligations.

To mitigate credit exposure on the financial instruments received under resale agreements, the firm monitors the market value of these financial instruments on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the financial instruments, as appropriate. For resale agreements, the firm typically requires collateral with a fair value approximately equal to the carrying value of the relevant assets in the statement of financial condition.

Securities Borrowed and Loaned Transactions

In a securities borrowed transaction, the firm borrows securities from a counterparty in exchange for cash. When the firm returns the securities, the counterparty returns the cash. Interest is generally paid periodically over the life of the transaction. The firm enters into substantially all of its securities borrowed and loaned transactions with GS&Co.

In a securities loaned transaction, the firm lends securities to a counterparty in exchange for cash. When the counterparty returns the securities, the firm returns the cash posted as collateral. Interest is generally paid periodically over the life of the transaction.

The firm receives securities borrowed and makes delivery of securities loaned. To mitigate credit exposure, the firm monitors the market value of these securities on a daily basis, and delivers or obtains additional collateral due to changes in the market value of the securities, as appropriate. For securities borrowed transactions, the firm typically requires collateral with a fair value approximately equal to the carrying value of the securities borrowed transaction.

Securities borrowed and loaned are recorded based on the amount of cash collateral advanced or received plus accrued interest. As these arrangements generally can be terminated on demand, they exhibit little, if any, sensitivity to changes in interest rates. Therefore, the carrying value of such arrangements approximates fair value. While these arrangements are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 5 and 7. Had these arrangements been included in the firm's fair value hierarchy, they would have been classified in level 2 as of June 2016.

Offsetting Arrangements

The table below presents the gross and net resale agreements and securities borrowed and loaned transactions, and the related amount of counterparty netting included in the statement of financial condition. The table below also presents the amounts not offset in the statement of financial condition including counterparty netting that does not meet the criteria for netting under U.S. GAAP and the fair value of cash or securities collateral received or posted subject to enforceable credit support agreements.

	As of June 2016		
	Assets		Liabilities
$ in thousands	Resale agreements	Securities borrowed	Securities loaned
Included in the statement of financial condition			
Gross carrying value	**$ 196,263**	**$ 3,244**	**$ 1,944**
Counterparty netting	**–**	**–**	**–**
Total	**196,263**	**3,244**	**1,944**
Amounts not offset			
Counterparty netting	**–**	**(1,920)**	**(1,920)**
Collateral	**(196,034)**	**(1,094)**	**–**
Total	**$ 229**	**$ 230**	**$ 24**

In the table above:

- Gross carrying values of these arrangements are subject to enforceable netting agreements.
- Where the firm has received or posted collateral under credit support agreements, but has not yet determined such agreements are enforceable, the related collateral has not been netted.
- The firm had $191.3 million of securities received under resale agreements that were segregated to satisfy regulatory requirements. These securities are included in "Cash and securities segregated for regulatory and other purposes."
- The collateral related to the gross carrying value of securities loaned consisted entirely of equities.
- The gross carrying value of securities loaned had no stated maturity.

Collateral Received and Pledged

The firm receives cash and securities (e.g., U.S. government and federal agency, other sovereign and corporate obligations, as well as equities and convertible debentures) as collateral, primarily in connection with resale agreements, securities borrowed and customer margin loans. The firm obtains cash as collateral on an upfront basis for collateralized agreements to reduce its credit exposure to individual counterparties.

In many cases, the firm is permitted to deliver or repledge financial instruments received as collateral when entering into securities loaned transactions, primarily in connection with secured client financing activities.

The firm also pledges certain financial instruments owned, at fair value in connection with securities loaned transactions to counterparties who may or may not have the right to deliver or repledge them.

The table below presents financial instruments at fair value received as collateral that were available to be delivered or repledged and were delivered or repledged by the firm.

$ in thousands	As of June 2016
Collateral available to be delivered or repledged	**$ 5,919**
Collateral that was delivered or repledged	**4,860**

In the table above, collateral available to be delivered or repledged excludes $191.3 million of securities received under resale agreements that contractually had the right to be delivered or repledged, but were segregated to satisfy certain regulatory requirements.

The table below presents information about assets pledged.

$ in thousands	As of June 2016
Financial instruments owned, at fair value pledged to counterparties that:	
Had the right to deliver or repledge	**$ 267**
Did not have the right to deliver or repledge	**–**

Note 9.

Other Assets

Other assets are generally less liquid and non-financial assets. The table below presents other assets by type.

$ in thousands	**As of June 2016**
Equity-method investments	**$ 44,050**
Exchange memberships	**7,933**
Tax-related receivable	**7,270**
Identifiable intangible assets	**5,533**
Miscellaneous receivables and other	**5,855**
Total	**$ 70,641**

Identifiable Intangible Assets

Intangible assets in the table above are presented net of accumulated amortization. As of June 2016, the gross carrying amount, related accumulated amortization and net carrying amount of the firm's identifiable intangible assets was $16.6 million, $11.1 million and $5.5 million, respectively.

The firm's identifiable intangible assets are considered to have finite useful lives and are amortized over their estimated useful lives using the straight-line method. The weighted average remaining useful life of the firm's identifiable intangible assets is two years.

Impairments

The firm tests identifiable intangible assets and other assets for impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying value may not be fully recoverable. During the first half of 2016, no impairments were recorded.

Note 10.

Short-Term Borrowings

The firm obtains unsecured short-term borrowings primarily from Group Inc. As of June 2016, these borrowings were $14.5 million. Unsecured short-term borrowings are accounted for at cost plus accrued interest which generally approximates fair value due to the short-term nature of the obligations. While these unsecured short-term borrowings are carried at amounts that approximate fair value, they are not accounted for at fair value under the fair value option or at fair value in accordance with other U.S. GAAP and therefore are not included in the firm's fair value hierarchy in Notes 5 and 7. Had these borrowings been included in the firm's fair value hierarchy, substantially all would have been classified in level 2 as of June 2016.

Note 11.

Long-Term Borrowings

The firm maintains subordinated borrowing agreements with Group Inc., which mature in 2017. Amounts borrowed under these subordinated loan agreements bear interest at a rate of LIBOR plus 0.75% per annum. In conjunction with the migration of the firm's clearing business to GS&Co., the firm repaid all outstanding amounts drawn under these agreements. As of June 2016, the firm had no outstanding subordinated borrowings from Group Inc.

Note 12.

Other Liabilities and Accrued Expenses

The table below presents other liabilities and accrued expenses by type.

$ in thousands	**As of June 2016**
Income tax-related liabilities	**$ 42,376**
Payable to affiliates	**15,897**
Compensation and benefits	**9,081**
Brokerage and clearance payable	**4,399**
Accrued expenses and other	**11,073**
Total	**$ 82,826**

Note 13.

Commitments, Contingencies and Guarantees

Contingencies

Legal Proceedings. See Note 17 for information about legal proceedings arising in connection with the conduct of the firm's businesses.

Guarantees

Indemnities and Guarantees of Service Providers. In the ordinary course of business, the firm indemnifies and guarantees certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the firm or its affiliates.

The firm may also be liable to some clients or other parties for losses arising from its custodial role or caused by acts or omissions of third-party service providers, including sub-custodians and third-party brokers. In certain cases, the firm has the right to seek indemnification from these third-party service providers for certain relevant losses incurred by the firm. In addition, the firm is a member of payment, clearing and settlement networks as well as securities exchanges that may require the firm to meet the obligations of such networks and exchanges in the event of member defaults and other loss scenarios.

In the normal course of business, the firm clears and settles transactions on behalf of its clients. The firm's obligations in respect of such transactions are secured by the assets in the client's account as well as any proceeds received from the transactions cleared and settled by the firm on behalf of the client.

The firm is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the firm will have to make any material payments under these arrangements, and no material liabilities related to these guarantees and indemnifications have been recognized in the statement of financial condition as of June 2016.

Note 14.

Transactions with Related Parties

The firm enters into transactions with Group Inc. and affiliates in the normal course of business. Amounts payable to, and receivable from, such affiliates are reflected in the statement of financial condition as set forth below:

$ in thousands	As of June 2016
Assets	
Collateralized agreements:	
Securities purchased under agreements to resell, at fair value	**$ 4,979**
Securities borrowed	**3,224**
Receivables:	
Brokers, dealers and clearing organizations	**16,928**
Other assets	**2,596**
Liabilities	
Collateralized financings:	
Securities loaned	**$ 1,944**
Payables:	
Customers and counterparties	**15,840**
Unsecured short-term borrowings	**14,117**
Other liabilities and accrued expenses	**15,897**

Not included in the above table are resale agreements with GS&Co. of $191.3 million which are included in "Cash and securities segregated for regulatory and other purposes."

Group Inc. has guaranteed the payment obligations of the firm, subject to certain exceptions. The firm receives operational and administrative support and management services from affiliates.

Note 15.

Income Taxes

Provision for Income Taxes

The firm has elected to be taxed as a corporation for U.S. federal income tax purposes. As a corporation for tax purposes, the firm is subject to U.S. federal and various state and local income taxes on its earnings. The firm is included with Group Inc. and subsidiaries in the consolidated corporate federal tax return as well as consolidated combined state and local tax returns. The firm computes its tax liability on a modified separate company basis and settles such liability with Group Inc. pursuant to the tax sharing agreement. To the extent the firm generates tax benefits from losses, it will be reimbursed by Group Inc. pursuant to the tax sharing agreement. The firm's state and local tax liabilities are allocated to reflect its share of the consolidated combined state and local income tax liability.

Income taxes are provided for using the asset and liability method under which deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of assets and liabilities.

Deferred Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the financial reporting and tax bases of assets and liabilities. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that will be in effect when such differences are expected to reverse. Valuation allowances are established to reduce deferred tax assets to the amount that more likely than not will be realized and primarily relate to the ability to utilize losses in various tax jurisdictions. As of June 2016, the firm did not record a valuation allowance to reduce deferred tax assets. Tax assets and liabilities are presented as a component of "Other assets" and "Other liabilities and accrued expenses," respectively.

Unrecognized Tax Benefits

The firm recognizes tax positions in the statement of financial condition only when it is more likely than not that the position will be sustained on examination by the relevant taxing authority based on the technical merits of the position. A position that meets this standard is measured at the largest amount of benefit that will more likely than not be realized on settlement. A liability is established for differences between positions taken in a tax return and amounts recognized in the statement of financial condition. As of June 2016, the firm did not record a liability related to accounting for uncertainty in income taxes.

Regulatory Tax Examinations

The firm is subject to examination by the U.S. Internal Revenue Service (IRS) and other taxing authorities in jurisdictions where the firm has significant business operations such as New York State and City. The tax years under examination vary by jurisdiction.

During the second quarter of 2016, the Joint Committee on Taxation finalized its review of the U.S. Federal examinations of fiscal 2008 through calendar 2010. The completion of the review did not have a material impact on the firm's effective income tax rate. The examinations of 2011 and 2012 began in 2013.

Group Inc. has been accepted into the Compliance Assurance Process program by the IRS for each of the tax years from 2013 through 2016. This program allows Group Inc. to work with the IRS to identify and resolve potential U.S. federal tax issues before the filing of tax returns. The 2013 tax year is the first year that was examined under the program, and 2013 and 2014 remain subject to post-filing review.

New York State and City examinations of fiscal 2007 through calendar 2010 began in 2013.

All years including and subsequent to 2007 for New York State and City and for all other significant states remain open to examination by the taxing authorities. The firm believes that the liability for unrecognized tax benefits it has established is adequate in relation to the potential for additional assessments.

Note 16.

Credit Concentrations

Credit concentrations may arise from client facilitation and collateralized transactions and may be impacted by changes in economic, industry or political factors. The firm seeks to mitigate credit risk by actively monitoring exposures and obtaining collateral from counterparties as deemed appropriate.

The firm executes and clears client transactions on major stock exchanges, primarily with broker-dealers, institutional investors and affiliates.

In the ordinary course of business, the firm may also be subject to a concentration of credit risk to a particular counterparty, or to a particular clearing house or exchange. As of June 2016, the firm had credit exposure representing 12% of total assets to a clearing corporation. The firm did not have credit exposure to any other external counterparty that exceeded 5% of total assets.

To reduce credit exposures, the firm may enter into agreements with counterparties that permit the firm to offset receivables and payables with such counterparties and/or enable the firm to obtain collateral on an upfront or contingent basis. Collateral obtained by the firm related to resale agreements transactions is primarily U.S. government and federal agency obligations. See Note 8 for further information about collateralized agreements and financings.

The table below presents U.S. government and federal agency obligations that collateralize resale agreements (including those in "Cash and securities segregated for regulatory and other purposes"). Because the firm's primary credit exposure on such transactions is to the counterparty to the transaction, the firm would be exposed to the collateral issuer only in the event of counterparty default.

$ in thousands	**As of June 2016**
U.S. government and federal agency obligations	**$196,034**

Note 17.

Legal Proceedings

The firm is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of the firm's businesses. Many of these proceedings are in early stages, and many of these cases seek an indeterminate amount of damages.

With respect to material proceedings, management is generally unable to estimate a range of reasonably possible loss for matters, including where (i) actual or potential plaintiffs have not claimed an amount of money damages, except in those instances where management can otherwise determine an appropriate amount, (ii) matters are in early stages, (iii) matters relate to regulatory investigations or reviews, except in those instances where management can otherwise determine an appropriate amount, (iv) there is uncertainty as to the likelihood of a class being certified or the ultimate size of the class, (v) there is uncertainty as to the outcome of pending appeals or motions, (vi) there are significant factual issues to be resolved, and/or (vii) there are novel legal issues presented.

Management does not believe, based on currently available information, that the outcomes of any matters will have a material adverse effect on the firm's financial condition, though the outcomes could be material to the firm's operating results for any particular period, depending, in part, upon the operating results for such period.

Note 18.

Net Capital Requirements

The firm is a registered U.S. broker-dealer and futures commission merchant subject to Rule 15c3-1 of the SEC and Rule 1.17 of the CFTC, which specify uniform minimum net capital requirements, as defined, for their registrants, and also effectively require that a significant part of the registrants' assets be kept in relatively liquid form. The firm has elected to compute its minimum capital requirements in accordance with the "Alternative Net Capital Requirement" as permitted by Rule 15c3-1. As of June 2016, the firm had regulatory net capital, as defined by Rule 15c3-1, of $237 million, which exceeded the amount required by $236 million.

Note 19.

Subsequent Events

In connection with the migration of the firm's clearing business to GS&Co. described in Note 1, the firm withdrew its registration as a futures commission merchant effective August 27, 2016. Management has determined that there were no other material events or transactions which occurred subsequent to the date of the statement of financial condition and through September 1, 2016 that would require recognition or disclosure in this statement of financial condition.