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# DRW Investments, LLC

Financial Report  
December 31, 2017 and 2016

Company Number: FC026974

MONDAY



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28/01/2019  
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## Independent Auditor's Report

RSM US LLP

To the Member  
DRW Investments, LLC

### Report on the Financial Statements

We have audited the accompanying financial statements of DRW Investments, LLC, which comprise the statements of financial condition as of December 31, 2017 and 2016, the related statements of operations, changes in member's equity and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of DRW Investments, LLC as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*RSM US LLP*

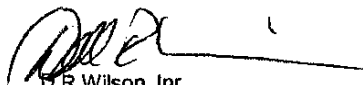
Chicago, Illinois  
March 29, 2018

DRW Investments, LLC

Statements of Financial Condition  
December 31, 2017 and 2016

	2017	2016
<b>Assets</b>		
Cash in bank	\$ 17,255,273	\$ 39,751,040
Securities purchased under agreements to resell	16,755,920,351	13,801,929,959
Securities owned, at fair value	13,548,091,018	12,589,009,731
Derivative financial instruments owned, at fair value	1,655,162,771	2,471,685,958
Receivables from clearing brokers, net	3,451,097,888	801,666,511
Stock and memberships in exchanges, at cost (fair value of \$12,058,209 for 2017 and \$9,180,795 for 2016)	5,250,089	5,830,389
Promissory notes receivable - affiliates	9,855,000	36,705,000
Receivables from affiliates	50,250	12,004
Other assets	4,386,105	5,074,126
<b>Total assets</b>	<b>\$ 35,447,068,745</b>	<b>\$ 29,751,664,718</b>
<b>Liabilities and Member's Equity</b>		
<b>Liabilities</b>		
Securities sold under agreements to repurchase	\$ 15,981,293,930	\$ 11,839,696,896
Securities sold, not yet purchased, at fair value	17,349,557,529	14,834,034,815
Derivative financial instruments sold, at fair value	1,265,218,153	2,264,471,944
Payables to clearing brokers, net	99,854,574	132,682,336
Borrowings	129,691,134	127,784,667
Promissory note payable - affiliate	59,900,000	45,250,000
Payables to affiliates	45,362,087	51,093,482
Accrued expenses	26,332,012	15,784,048
<b>Total liabilities</b>	<b>34,957,209,419</b>	<b>29,310,798,188</b>
<b>Member's Equity</b>	<b>489,859,326</b>	<b>440,866,530</b>
<b>Total liabilities and member's equity</b>	<b>\$ 35,447,068,745</b>	<b>\$ 29,751,664,718</b>

These financial statements were approved by the directors and authorized for issue on March 29, 2018 and are signed on their behalf by:

  
D R Wilson Jr  
Director

See Notes to Financial Statements.

**DRW Investments, LLC**

**Statements of Operations**

**Years Ended December 31, 2017 and 2016**

	2017	2016
Revenue:		
Proprietary trading, net	\$ 483,881,387	\$ 452,126,130
Interest and dividends	3,074,999	2,604,796
Other	209,724	93,318
Total revenue	487,166,110	454,824,244
Expenses:		
Trading expenses:		
Commissions, trade execution and related fees	72,404,555	69,287,074
Interest and dividends	9,588,936	5,794,074
Other	248,055	910,969
Total trading expenses	82,241,546	75,992,117
Operating expenses:		
Employee compensation and benefits	66,928,500	62,258,100
Networking, data and technology costs	30,538,214	33,000,244
Administrative support services	24,180,771	20,018,932
Occupancy	2,833,701	3,256,029
Other	10,893,725	14,703,308
Total operating expenses	135,374,911	133,236,613
Total expenses	217,616,457	209,228,730
Net income	\$ 269,549,653	\$ 245,595,514

See Notes to Financial Statements.

**DRW Investments, LLC**

**Statements of Changes in Member's Equity  
Years Ended December 31, 2017 and 2016**

Balance, December 31, 2015	\$ 311,103,007
Capital contributions	1,419,523,976
Capital withdrawals	(1,535,355,967)
Net income	<u>245,595,514</u>
Balance, December 31, 2016	440,866,530
Capital contributions	617,136,468
Capital withdrawals	(837,693,325)
Net income	<u>269,549,653</u>
<b>Balance, December 31, 2017</b>	<b><u>\$ 489,859,326</u></b>

See Notes to Financial Statements.

**DRW Investments, LLC**

**Statements of Cash Flows**

**Years Ended December 31, 2017 and 2016**

	2017	2016
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 269,549,653	\$ 245,595,514
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gain) loss on sale of memberships in an exchange	(209,700)	142,000
Changes in operating assets and liabilities:		
Securities purchased under agreements to resell	(2,953,990,392)	64,079,156
Securities owned	(959,081,287)	3,211,970,032
Derivative financial instruments owned	816,523,187	(211,991,320)
Receivables from clearing brokers, net	(2,649,431,377)	903,981,422
Receivables from affiliates	(38,246)	370,704
Other assets	688,021	(1,363,530)
Securities sold under agreements to repurchase	4,141,597,034	(3,460,451,767)
Securities sold, not yet purchased	2,515,522,714	140,040,800
Derivative financial instruments sold	(999,253,791)	645,585,245
Payables to clearing brokers, net	(32,827,762)	(1,473,241,999)
Payables to affiliates	44,605,265	73,297,819
Accrued expenses	10,547,964	(5,757,891)
<b>Net cash provided by operating activities</b>	<b>204,201,283</b>	<b>132,256,185</b>
<b>Cash Flows from Investing Activities</b>		
Proceeds from sale of memberships in an exchange	790,000	408,000
Purchase of membership in an exchange	-	(1,008,000)
<b>Net cash provided by (used in) investing activities</b>	<b>790,000</b>	<b>(600,000)</b>
<b>Cash Flows from Financing Activities</b>		
Proceeds received from borrowings	1,235,749,234	1,383,223,993
Repayments of borrowings	(1,233,842,767)	(1,329,468,825)
Payments received (advances on) promissory notes receivable - affiliate, net	26,850,000	(18,827,652)
Advances received on promissory note payable - affiliate, net	14,650,000	43,580,000
Capital contributions	549,610,471	1,332,631,012
Capital withdrawals	(820,503,988)	(1,521,714,490)
<b>Net cash used in financing activities</b>	<b>(227,487,050)</b>	<b>(110,575,961)</b>
<b>Net (decrease) increase in cash</b>	<b>(22,495,767)</b>	<b>21,080,224</b>
<b>Cash:</b>		
Beginning of year	39,751,040	18,670,816
End of year	\$ 17,255,273	\$ 39,751,041

(Continued)

**DRW Investments, LLC**

**Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2017 and 2016**

	2017	2016
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	<u>\$ 9,588,936</u>	<u>\$ 5,794,074</u>
Supplemental Schedule of Operating and Noncash Financing Activities		
During the year, the Company's parent forgave certain amounts due for expenses paid on the Company's behalf and such amounts were treated as capital contributions, net of noncash capital withdrawals \$17,189,337 for 2017 and \$13,641,477 for 2016.	<u>\$ 84,715,334</u>	<u>\$ 86,892,964</u>



## DRW Investments, LLC

### Notes to Financial Statements

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#### **Note 1. Nature of Business and Significant Accounting Policies**

**Nature of business:** DRW Investments, LLC (the Company) is an Illinois limited liability company and wholly-owned subsidiary of DRW Holdings, LLC (DRWH). The Company engages in proprietary trading activities. The Company is a member of several exchanges including the Chicago Board of Trade, Chicago Mercantile Exchange, ICE Futures Europe, ICE Futures US and Eurex.

On August 31, 2006, the Company established DRW Investments, LLC (UK Branch) (the Branch), a branch of the Company registered in England and Wales. The Branch is regulated by the Financial Conduct Authority of the United Kingdom (FCA). The activities of the Branch are included with the Company for financial presentation.

The following is a summary of the Company's significant accounting policies:

The Company follows United States Generally Accepted Accounting Principles (GAAP), as established by the Financial Accounting Standards Board (the FASB), to ensure consistent reporting of financial condition, results of operations, and cash flows.

**Use of estimates:** The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**Foreign currency transactions:** The Company's functional currency is the U.S. dollar; however, it transacts business in currencies other than the U.S. dollar. Assets and liabilities denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the rates in effect at the date of the statements of financial condition. Income and expense items denominated in currencies other than the U.S. dollar are translated into U.S. dollars at the rates in effect during the period. Gains and losses resulting from the translation of transactions denominated in foreign currencies to U.S. dollars are reported in proprietary trading, net on the statements of operations.

**Securities and derivatives transactions:** Securities and derivatives transactions and related revenues and expenses are recorded at fair value on a trade-date basis as if they had settled. Realized gains and losses and change in unrealized gains and losses are reflected in proprietary trading, net in the statements of operations. Related trading expenses are recorded on a trade-date basis as transactions occur. Futures contracts are recorded in receivables from/payables to clearing brokers in the statements of financial condition, netted by clearing broker. The remaining derivatives are classified as derivative financial instruments in the statements of financial condition.

The Company recognizes interest paid and earned on the accrual basis and dividend income is recognized on the ex-dividend date. The Company accounts for its secured financing activities on an accrual basis with related interest income and expense recorded in proprietary trading revenue, net in the statements of operations.

Proprietary trading, net includes interest and dividend income and interest and dividend expense related to the Company's trading activities of approximately (\$12,036,000) and \$6,268,000 for the years ended December 31, 2017 and 2016, respectively.

**Receivables from and payables to clearing brokers:** Receivables and payables relating to trades pending settlement are netted in receivables from and payables to clearing brokers in the statements of financial condition, netted by clearing broker.

## DRW Investments, LLC

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

Additionally, when the requirements are met, the Company offsets certain amounts recognized for receivables from or payables to clearing brokers against fair value amounts recognized for net derivative positions held at the same clearing broker.

**Resale and repurchase agreements:** Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements) or securities sold under agreements to repurchase (repurchase agreements), comprised primarily of government obligations, are accounted for as collateralized financings except where the Company does not have an agreement to sell (or purchase) the same or substantially the same securities before maturity at a fixed or determinable price. It is the practice of the Company to have the clearing broker hold possession of collateral, on the Company's behalf, with a fair value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate. Reverse repurchases agreements and repurchase agreements are carried at their contracted amounts as specified in the respective agreements. Interest on such contract amounts is accrued and is included in the statements of financial condition in securities purchased under agreements to resell and securities sold under agreements to repurchase.

**Stock and memberships in exchanges:** The Company's stock and memberships in exchanges, which represent ownership interest in exchanges and provide the right to conduct business on such exchanges, are recorded at cost, or if any other-than-temporary impairment in value has occurred, at a value that reflects management's estimate of the impairment. Management believes no such impairment in value existed at December 31, 2017 or 2016.

Gains and losses on stock and memberships in exchanges are computed based on specific identification and included in other revenue in the statements of operations.

**Income taxes:** The Company is a single member limited liability company and is treated as a disregarded entity for federal tax purposes. Accordingly, it does not file any tax returns, but its taxable income is reported as part of DRWH's tax returns. DRWH is a limited liability company whose income or loss is includable in the tax returns of its members. Additionally, the Branch is subject to taxation in its respective jurisdiction and, accordingly, files a separate return.

For the years ended December 31, 2017 and 2016, the Branch recorded a tax provision of approximately \$6,787,000 and \$2,789,000, respectively, which is included in other operating expenses on the statements of operations. As of December 31, 2017 and 2016, the Branch has recorded a payable of approximately \$6,787,000 and \$1,753,000, respectively, which is included in accrued expenses in the statements of financial condition and will be used to offset the remaining liability after considering estimated payments made during the years ended December 31, 2017 and 2016.

FASB guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing DRWH's tax returns to determine whether the tax positions are "more-likely-than-not" of being sustained "when challenged" or "when examined" by the applicable tax authority. Tax positions not deemed to meet the more-likely-than-not threshold would be recorded as a tax benefit or expense and liability in the current year. Through December 31, 2017, management has determined that there are no material uncertain income tax positions. DRWH files income tax returns in U.S. federal jurisdiction, and in various states. DRWH is generally not subject to examination by United States federal or state taxing authorities for tax years before 2014. The Branch is not subject to examination by HM Revenue and Customs (HMRC) for tax years before 2014.

## DRW Investments, LLC

### Notes to Financial Statements

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#### Note 1. Nature of Business and Significant Accounting Policies (Continued)

**Recently issued accounting pronouncements:** In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)* (ASU 2016-02), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Under ASU 2016-02, a lessee will recognize in the statement of financial condition a liability to make lease payments (the lease liability) and a right-to-use asset representing its right to use the underlying asset for the lease term. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed from current U.S. GAAP. ASU 2016-02 retains a distinction between finance leases (i.e. capital leases under current U.S. GAAP) and operating leases. The classification criteria for distinguishing between finance leases and operating leases will be substantially similar to the classification criteria for distinguishing between capital leases and operating leases under current U.S. GAAP. The amendments are effective for fiscal years beginning after December 15, 2018 and interim periods within fiscal period beginning after December 15, 2019. Early adoption is permitted. The Company is evaluating the impact this ASU will have on the Company's statements of financial condition.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Company for fiscal years beginning after December 15, 2017. The Company does not believe the adoption of the new financial instruments standard will have a material impact on its financial statements.

In June 2014, the FASB issued ASU No. 2014-11, *Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures* (ASU 2014-11). ASU 2014-11 aligns the accounting for repurchase-to-maturity transactions and repurchase financing arrangements with the accounting for other typical repurchase agreements, i.e., these transactions will be accounted for as secured borrowings. The ASU also requires additional disclosures about repurchase agreements and similar transactions. The requirements of ASU 2014-11 are effective for fiscal years that begin after December 15, 2015. The Company has evaluated the impact, if any, that these updates will have on its consolidated financial condition or consolidated results of operations.

**Subsequent events:** The Company has evaluated subsequent events for potential recognition and/or disclosure through March 29, 2018, the date these financial statements were available to be issued.

#### Note 2. Receivable from and Payable to Clearing Brokers

Amounts receivable from and payable to clearing brokers at December 31, 2017 and 2016, consist of the following:

	2017	
	Receivable	Payable
Clearing brokers	\$ 230,850,781	\$ 99,726,878
Unsettled transactions	3,298,853,030	-
Interest	(10,924,309)	127,696
Exchange-traded futures contracts - open trade equity	(67,681,614)	-
	<u>\$ 3,451,097,888</u>	<u>\$ 99,854,574</u>

## DRW Investments, LLC

### Notes to Financial Statements

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#### Note 2. Receivable from and Payable to Clearing Brokers (Continued)

	2016	
	Receivable	Payable
Clearing brokers	\$ 99,511,165	\$ 131,443,834
Unsettled transactions	524,919,896	-
Interest	(8,279,261)	69,292
Exchange-traded futures contracts - open trade equity	185,514,712	1,169,210
	<u>\$ 801,666,511</u>	<u>\$ 132,682,336</u>

Payable to clearing brokers relates to the proprietary transactions cleared through such clearing brokers, which amounts are collateralized by securities and derivative financial instruments owned by the Company.

Per the Company's agreements with its clearing brokers, the Company must maintain a certain total net liquidating value (NLV) and may be required to deposit additional funds, should it become necessary, in order to bring NLV above the minimum requirements.

#### Note 3. Fair Value of Financial Instruments

Fair value is the price that would be received to sell an asset and paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets and liabilities recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability.

The three levels of the fair value hierarchy are described below:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3: Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

**DRW Investments, LLC**

**Notes to Financial Statements**

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**Note 3. Fair Value of Financial Instruments (Continued)**

The following describes the valuation techniques used by the Company to measure different financial instruments at fair value and includes the level within the fair value hierarchy in which the financial instrument is categorized.

Exchange-traded funds, equity options, futures contracts, and options on futures contracts are recorded at fair value based on quoted market prices, which are generally the exchange settlement prices. These financial instruments are classified as Level 1 in the fair value hierarchy.

Government securities are generally valued using a model that incorporates market observable data such as reported sales of similar securities, broker quotes, yields, bids, offers, and reference data. Certain securities are valued principally using dealer quotations. Government securities are categorized in Level 1 or Level 2 of the fair value hierarchy depending on the inputs used and market activity levels for specific securities. *The Company has determined that government securities are classified as Level 1 in the fair value hierarchy based on broker quotes for identical securities with an active market.*

Over-the-counter (OTC) derivative contracts include currency forwards, currency options, swaps and swaption contracts. Fair value of these OTC derivative products is determined using models that take into account the terms of the transactions and the counterparties' creditworthiness. Certain swap contracts are cleared at designated clearing organizations or central counterparties rather than remaining bilateral agreements; however, the designated clearing organizations or central counterparties generally utilize pricing models to price these cleared swaps. Generally, the inputs for models to value swaps and swaptions do not have a material amount of subjectivity. Pricing inputs, such as relevant interest rates and yield curves, are observed from actively quoted markets.

The OTC derivatives products valued by the Company using pricing models fall into this category and are categorized within Level 2 of the fair value hierarchy.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2017:

# DRW Investments, LLC

## Notes to Financial Statements

### Note 3. Fair Value of Financial Instruments (Continued)

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Securities owned				
Exchanged-traded funds	\$ 13,650	\$ 13,650	\$ -	\$ -
Government securities	13,548,077,368	13,548,077,368	-	-
Derivative financial instruments owned				
Options on futures contracts	1,554,239,748	1,554,239,748	-	-
Currency forwards	3,105,860	-	3,105,860	-
Currency options	4,663,496	-	4,663,496	-
Swaps	91,952,506	-	91,952,506	-
Swaptions	1,201,161	-	1,201,161	-
Receivable from clearing brokers				
Futures contracts	221,721	221,721	-	-
	<u>\$ 15,203,475,510</u>	<u>\$ 15,102,552,487</u>	<u>\$ 100,923,023</u>	<u>\$ -</u>
<b>Liabilities</b>				
Securities sold, not yet purchased				
Government securities	\$ 17,349,557,529	\$ 17,349,557,529	\$ -	\$ -
Derivative financial instruments sold				
Options on futures contracts	1,118,473,333	1,118,473,333	-	-
Currency forwards	9,838,026	-	9,838,026	-
Swaps	12,002,727	-	12,002,727	-
Swaptions	124,904,067	-	124,904,067	-
Receivable from clearing brokers				
Futures contracts	67,903,335	67,903,335	-	-
	<u>\$ 18,682,679,017</u>	<u>\$ 18,535,934,198</u>	<u>\$ 146,744,820</u>	<u>\$ -</u>

## DRW Investments, LLC

### Notes to Financial Statements

#### Note 3. Fair Value of Financial Instruments (Continued)

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2016:

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Securities owned				
Exchanged-traded funds	\$ 43,504	\$ 43,504	\$ -	\$ -
Government securities	12,588,966,228	12,588,966,228	-	-
Derivative financial instruments owned				
Equity options	140,423,929	140,423,929	-	-
Options on futures contracts	1,980,777,262	1,980,777,262	-	-
Currency forwards	2,882,539	-	2,882,539	-
Currency options	372,236,422	-	372,236,422	-
Swaps	230,307,410	-	230,307,410	-
Swaptions	1,381,395	-	1,381,395	-
Receivable from clearing brokers				
Futures contracts	186,118,893	186,118,893	-	-
	<u>\$ 15,503,137,582</u>	<u>\$ 14,896,329,816</u>	<u>\$ 606,807,766</u>	<u>\$ -</u>
<b>Liabilities</b>				
Securities sold, not yet purchased				
Government securities	\$ 14,834,034,815	\$ 14,834,034,815	\$ -	\$ -
Derivative financial instruments sold				
Equity options	125,907,232	125,907,232	-	-
Options on futures contracts	2,081,734,504	2,081,734,504	-	-
Currency forwards	14,892,642	-	14,892,642	-
Currency options	246,309,307	-	246,309,307	-
Swaps	34,986,153	-	34,986,153	-
Swaptions	16,965,106	-	16,965,106	-
Receivable from clearing brokers				
Futures contracts	604,181	604,181	-	-
Payable to clearing brokers				
Futures contracts	1,169,210	1,169,210	-	-
	<u>\$ 17,356,603,150</u>	<u>\$ 17,043,449,942</u>	<u>\$ 313,153,208</u>	<u>\$ -</u>

The Company assesses the levels of its investments at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that cause the transfer in accordance with the Company's accounting policy. There were no transfers among Levels 1, 2 and 3 during the years ended December 31, 2017 and 2016.

Substantially all of the Company's assets and liabilities are considered financial instruments and are reported in the statements of financial condition at fair value, or at carrying amounts that approximate value.

## **DRW Investments, LLC**

### **Notes to Financial Statements**

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#### **Note 4. Borrowings**

The Company has a risk-based margin finance demand loan facility in the amount of \$130,000,000 with an affiliate of one of its clearing brokers which matures on March 31, 2018. The borrowing with this facility accrues interest at a rate based on the one-month London Interbank Offered Rate, as defined. The borrowing is secured by the assets of the Company that are on deposit with the related clearing broker. As of December 31, 2017 and 2016, the Company had drawn approximately \$129,691,000 and \$127,785,000, respectively, on this demand loan facility. This arrangement requires the Company to satisfy certain financial reporting and other covenants, as defined.

The Company has a margin loan facility in the amount of \$50,000,000 with an affiliate of another clearing broker that accrues interest at a rate based on the ninety-day London Interbank Offered Rate, as defined. The borrowing is secured by the assets of the Company that are on deposit with the related clearing broker. At December 31, 2017 and 2016, the Company had no outstanding amounts drawn. This arrangement requires the Company to satisfy certain financial reporting and other covenants, as defined.

The Company may also obtain other financing against its positions.

#### **Note 5. Related Party Transactions**

The Company pays all direct expenses associated with its trading activities. The Company has an agreement with DRWH whereby certain operating expenses, approximately \$102,350,000 and \$114,365,000, respectively, for the years ended December 31, 2017 and 2016, were paid by DRWH and charged to the Company based on a series of usage factors. At December 31, 2017 and 2016, payable to affiliates of approximately \$39,499,000 and \$39,810,000, respectively, is related to these activities. The Branch has an agreement with an affiliate whereby certain operating expenses, approximately \$20,653,000 and \$17,385,000, respectively, for the years ended December 31, 2017 and 2016, are paid and charged to the Branch on performance fee and series of usage factors. At December 31, 2017 and 2016, payable to affiliates of approximately \$4,817,000 and \$8,278,000, respectively, is related to expense reimbursements.

Additionally, the Company transacts business with and incurs amounts due from and payable to other affiliates in the ordinary course of business. At December 31, 2017, approximately \$50,000 and \$1,046,000 represents receivables from and payables to affiliates, respectively, in connection with such transactions. At December 31, 2016, approximately \$12,000 and \$3,006,000 represent receivables from and payables to affiliates, respectively, in connection with such transactions.

The Company has an unsecured demand loan facility (Revolver) with an affiliated entity. The outstanding amount receivable under the Revolver at December 31, 2017 and 2016, is approximately \$9,855,000 and \$3,704,000, respectively, and is included in promissory notes receivable – affiliates in the statements of financial condition. The loan is non-interest bearing. Due to the demand nature of the Revolver, carrying value approximates fair value as of December 31, 2017 and 2016.

The Company has an interest bearing unsecured promissory note receivable with an affiliated entity. The promissory note accrues interest at an annual rate of 1.5%. The promissory note matures on February 10, 2021 and its carrying value approximates fair value as of December 31, 2017 and 2016. At December 31, 2017 and 2016, the Company has no amounts due from the affiliate in connection with this promissory note.

The Company has an interest bearing unsecured promissory note receivable with an affiliated entity. The promissory note accrues interest at an annual rate of 0.93% and the promissory note matures on September 17, 2021. Its carrying value approximates fair value as of December 31, 2017 and 2016.



## **DRW Investments, LLC**

### **Notes to Financial Statements**

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#### **Note 5. Related Party Transactions (Continued)**

As of December 31, 2017 and 2016, the Company has \$0 and \$33,000,000, respectively, due from the affiliate in connection with this promissory note.

The Company has a non-interest bearing unsecured promissory note payable with an affiliated entity totaling \$59,900,000 and \$45,250,000 for the years ended December 31, 2017 and 2016, respectively, which is included in promissory note payable – affiliate in the statement of financial condition. The promissory note matures on September 17, 2021, and the carrying value approximates fair value as of December 31, 2017 and 2016, due to the demand nature of the note.

The Branch has an interest bearing unsecured demand promissory note receivable from an affiliated entity. The promissory note accrues interest at an annual rate of 1% plus the federal short-term rate compounded semiannually. Due to the demand nature of the note, carrying value approximates fair value as of December 31, 2017 and 2016. At December 31, 2017 and 2016, the Company has no amounts due from this affiliate in connection with this promissory note.

#### **Note 6. Risks and Guarantees**

In the normal course of business, the Company enters into transactions in financial instruments with varying degrees of market and credit risk. These financial instruments include U.S. government obligations, foreign government obligations, and derivatives such as equity options, futures contracts, options on futures contracts, swaps, currency forwards, and currency options. A significant portion of the trading of these financial instruments is generally conducted on securities and futures exchanges throughout the United States and Europe. Settlement of these transactions generally takes place through clearing brokers utilized by the Company. These instruments involve elements of market and credit risk that may exceed the amounts reflected in the statements of financial condition.

The Company's market risk is attributable to potential changes in the market value of portfolios of financial instruments and is affected by various factors including the size and composition of positions held, interest rates, volatility and liquidity. Theoretically, the Company's exposure is equal to the cost of securities or contracts purchased and unlimited on securities or contracts sold short. The Company's overall exposure to market risk is impacted by its use of hedging strategies. The Company controls its exposure to market risk through various hedging strategies, analytical measures and techniques.

Purchased options on securities or futures contracts may provide the Company with the opportunity to deliver or to take delivery of the assets underlying the options at a contracted price. Options written on securities or futures contracts may obligate the Company to deliver or to take delivery of futures contracts at a contracted price in the event the option is exercised by the holder. This may result in market risk not reflected in the statements of financial condition to the extent that the Company is obligated to purchase or sell the underlying securities or futures contracts in the open market. To minimize these risks, the Company may be long or short the underlying instrument, which can be used to settle these transactions.

Securities sold, not yet purchased represent obligations of the Company to deliver specific securities and thereby create a liability to purchase these instruments in the open market at prevailing prices. These transactions may result in market risk not reflected in the statements of financial condition as the Company's ultimate obligation may exceed the amount reflected in the statements of financial condition. To minimize this risk, the Company may hold other financial instruments which can be used to hedge or settle these obligations.

## **DRW Investments, LLC**

### **Notes to Financial Statements**

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#### **Note 6. Risks and Guarantees (Continued)**

Since the Company does not clear its own securities or derivatives positions, it has established accounts with clearing brokers for this purpose. This can and often does result in concentrations of credit risk with these firms. Such risk, however, is mitigated by each clearing broker's obligation to comply with rules and regulations governing clearing brokers in the United States and Europe, as well as the Company's periodic monitoring of each clearing broker's creditworthiness.

The Company maintains certain cash deposits with a financial institution. These deposits regularly exceed the maximum insurance level provided by the Federal Deposit Insurance Corporation.

In accordance with GAAP, a company is required to disclose information about its obligations under certain guarantee arrangements. Guarantees are also defined 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.

The Company has provided a letter of support on behalf of DRW Strategies (DRWST) in order to enable the affiliate to qualify as an Eligible Contract Participant, as defined by Section 1a(18)(A)(v)(II) of the Commodity Exchange Act (CEA) and enter into swap transactions with certain counterparties. In accordance with this letter of support, the Company has agreed to make payments directly to the counterparty for any swap transaction if DRWST fails to make such payments in an amount up to \$10,000,000. The letter of support will continue in effect for the duration of the agreements with the counterparties.

The Company and DRWST have provided guarantees to clearing firms and certain other related parties of the clearing firms. In these arrangements, the Company and DRWST cross-guarantee each other's indebtedness and monetary and other obligations as it relates to the specified clearing firms and their related parties. The guarantees will continue in effect for the duration of the agreements with the clearing firms and are limited by the terms of the agreement.

The Company has provided a guarantee to a financial institution on behalf of an affiliate. The Company has agreed to make payments of the Guaranteed Obligations to the financial institution in the event the affiliate fails to make such payments. The guarantee will remain in effect until one (1) year after the termination of the Agreement, provided that all Guaranteed Obligations have been met, and is limited by the terms of the agreement.

The Company has provided a guarantee to a third party in accordance with a lease agreement between such third party and an affiliate of the Company. The Company has agreed to guarantee payment and performance of the lease obligations in the event such affiliate fails to perform any obligations. The guarantee will continue in effect for the duration of the lease and is limited to all future rent payments.

The Company has provided a guarantee to a third party in accordance with a lease agreement between such third party and an affiliate of the Company. The Company has agreed to guarantee payment and performance of the lease obligations in the event such affiliate fails to perform any obligations in an amount up to \$10,000,000.

As of and for the years ended December 31, 2017 and 2016, the Company has not been required to fund any obligations under its letter of support or guarantees.

## DRW Investments, LLC

### Notes to Financial Statements

#### Note 7. Derivative Instruments and Hedging Activities and Netting

The Company's activities may result in notional value of open derivative positions that is not representative of the risk in the outstanding derivatives contracts. The Company's trading activities may involve the use of hedging strategies to reduce directional and non-directional risks. There is no guarantee that the hedging strategies will achieve their desired result. The Company does not consider any derivative instruments to be hedging instruments, as those terms are generally understood under GAAP.

Derivative contracts are recorded on the statements of financial condition as assets or liabilities measured at fair value or as a component of receivables from or payables to clearing brokers and the related realized and unrealized gains or losses associated with these derivatives are reported in proprietary trading, net on the statements of operations.

As of December 31, 2017 and 2016, and for the years then ended, the Company's derivative activities had the following impact on the statements of financial condition and the statements of operations:

Contract Type	2017					
	Gross Asset Derivatives at Fair Value December 31, 2017		Gross Liability Derivatives at Fair Value December 31, 2017		Gains/(Losses) on Derivatives for the Year Ended December 31, 2017	
Fixed income contracts						
Futures	\$	166,682,559 (3)	\$	228,006,532 (3)	\$	(319,774,295)
Swaps		86,396,141 (1)		12,002,727 (2)		32,983,552
Swaptions		1,201,161 (1)		124,904,067 (2)		99,490,023
Options on futures		1,017,900,343 (1)		826,706,715 (2)		329,273,318
Equity index contracts						
Equity options		- (1)		- (2)		(22,745,579)
Futures		350,096 (3)		214,642 (3)		3,175,235,151
Swaps		5,556,366 (1)		- (2)		80,339,940
Options on futures		309,607,560 (1)		149,736,208 (2)		(3,184,955,077)
Energy contracts						
Futures		163,654 (3)		2,503 (3)		716,935
Options on futures		39,980,000 (1)		8,000 (2)		(392,030)
Agriculture contracts						
Futures		6,201,398 (3)		7,937,435 (3)		55,519,110
Options on futures		115,846,183 (1)		107,902,941 (2)		(28,437,552)
Precious metals contracts						
Futures		200 (3)		838,340 (3)		1,946,717
Options on futures		3,441,710 (1)		2,816,710 (2)		(356,210)
Currency contracts						
Futures		4,658,133 (3)		8,738,201 (3)		(2,296,695)
Currency forwards		3,105,860 (1)		9,838,026 (2)		68,175,210
Options on futures		67,463,952 (1)		31,302,760 (2)		358,775,050
Currency options		4,663,497 (1)		- (2)		(360,246,786)
	\$	1,833,218,813	\$	1,510,955,807	\$	283,250,782 (4)

(1) - Included in Derivative financial instruments owned, at fair value on the statements of financial condition

(2) - Included in Derivative financial instruments sold, at fair value on the statements of financial condition

(3) - Included in either Receivables from clearing broker, net or Payables to clearing broker, net on the statements of financial condition

(4) - Included in Proprietary trading, net on the statements of operations

**DRW Investments, LLC**

**Notes to Financial Statements**

**Note 7. Derivative Instruments and Hedging Activities and Netting (Continued)**

Contract Type	2016					
	Gross Asset Derivatives at Fair Value December 31, 2016			Gross Liability Derivatives at Fair Value December 31, 2016		Gains/(Losses) on Derivatives for the Year Ended December 31, 2016
Fixed income contracts						
Futures	\$ 363,375,988	(3)	\$	194,964,752	(3)	\$ (408,815,744)
Swaps	226,882,024	(1)		34,334,730	(2)	106,194,280
Swaptions	1,381,395	(1)		16,965,106	(2)	7,355,531
Options on futures	1,208,137,781	(1)		1,677,047,609	(2)	140,557,777
Equity index contracts						
Equity options	140,423,929	(1)		125,907,232	(2)	(9,731,771)
Futures	16,424,714	(3)		2,331,878	(3)	4,616,631,438
Swaps	3,425,387	(1)		651,423	(2)	61,775,293
Options on futures	509,628,241	(1)		69,496,483	(2)	(4,624,185,353)
Energy contracts						
Futures	600	(3)		198,121	(3)	2,287,947
Options on futures	260,290	(1)		172,520	(2)	(1,222,600)
Agriculture contracts						
Futures	7,444,893	(3)		4,319,418	(3)	96,284,737
Options on futures	135,286,216	(1)		147,840,215	(2)	(63,405,772)
Precious metals contracts						
Futures	198,086	(3)		8,270	(3)	989,445
Options on futures	55,530	(1)		12,310	(2)	233,090
Currency contracts						
Futures	186,485	(3)		1,462,825	(3)	65,062,735
Currency forwards	2,882,539	(1)		14,892,642	(2)	(4,900,505)
Options on futures	127,409,204	(1)		187,165,368	(2)	18,945,520
Currency options	372,236,422	(1)		246,309,307	(2)	(30,414,632)
	<u>\$ 3,115,639,724</u>		<u>\$</u>	<u>2,724,080,209</u>		<u>\$ (26,358,584)</u> (4)

(1) - Included in Derivative financial instruments owned, at fair value on the statements of financial condition

(2) - Included in Derivative financial instruments sold, at fair value on the statements of financial condition

(3) - Included in either Receivables from clearing broker, net or payables to clearing broker, net on the statements of financial condition

(4) - Included in Proprietary trading, net on the statements of operations

## DRW Investments, LLC

### Notes to Financial Statements

#### Note 7. Derivative Instruments and Hedging Activities and Netting (Continued)

The Company does not net securities purchased under agreements to resell and securities sold under agreements to repurchase. These financial instruments are presented on a gross basis in the statements of financial condition. In the tables below, the amounts of financial instruments owned that are not offset in the statement of financial condition, but could be netted against financial liabilities, are presented to provide the Company's estimate of its net exposure for these financial instruments as of December 31, 2017 and 2016:

2017						
	Gross Amounts Recognized	Gross Amounts Offset In the Statement of Financial Condition	Net Amounts Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition Financial Instruments	Cash Collateral Received	Net Amount
<b>Assets</b>						
Securities purchased under agreements to resell	\$ 16,755,920,351	\$ -	\$ 16,755,920,351	\$ (13,548,077,368)	\$ -	\$ 3,207,842,983
	<u>\$ 16,755,920,351</u>	<u>\$ -</u>	<u>\$ 16,755,920,351</u>	<u>\$ (13,548,077,368)</u>	<u>\$ -</u>	<u>\$ 3,207,842,983</u>
<b>Liabilities</b>						
Securities sold under agreements to repurchase	\$ 15,981,293,930	\$ -	\$ 15,981,293,930	\$ (14,034,312,380)	\$ -	\$ 1,946,981,550
	<u>\$ 15,981,293,930</u>	<u>\$ -</u>	<u>\$ 15,981,293,930</u>	<u>\$ (14,034,312,380)</u>	<u>\$ -</u>	<u>\$ 1,946,981,550</u>
2016						
	Gross Amounts Recognized	Gross Amounts Offset In the Statement of Financial Condition	Net Amounts Presented in the Statement of Financial Condition	Gross Amounts Not Offset in the Statement of Financial Condition Financial Instruments	Cash Collateral Received	Net Amount
<b>Assets</b>						
Securities purchased under agreements to resell	\$ 13,801,929,959	\$ -	\$ 13,801,929,959	\$ (11,552,765,956)	\$ -	\$ 2,249,164,003
	<u>\$ 13,801,929,959</u>	<u>\$ -</u>	<u>\$ 13,801,929,959</u>	<u>\$ (11,552,765,956)</u>	<u>\$ -</u>	<u>\$ 2,249,164,003</u>
<b>Liabilities</b>						
Securities sold under agreements to repurchase	\$ 11,839,696,896	\$ -	\$ 11,839,696,896	\$ (11,839,696,896)	\$ -	\$ -
	<u>\$ 11,839,696,896</u>	<u>\$ -</u>	<u>\$ 11,839,696,896</u>	<u>\$ (11,839,696,896)</u>	<u>\$ -</u>	<u>\$ -</u>

Excluded from the offsetting tables above at December 31, 2017 and 2016 are net unsettled fair value on long and short futures contracts of \$67,682,000 and \$185,407,000, respectively, which are included within receivables from clearing brokers and \$0 and \$1,169,000, respectively, which are included within payables to clearing brokers on the statements of financial condition, and would be categorized as Level 1.

For non-exchange traded derivatives, under standard derivatives agreements, the Company may be required to post collateral if the Company is in a net liability position with the counterparty exceeding certain amounts. Additionally, counterparties may terminate derivatives contracts if the Company fails to maintain sufficient asset coverage for its contracts or its net assets decline by stated percentages over defined periods of time.

For the years ended December 31, 2017 and 2016, the average number of exchange traded derivative contracts bought and sold per month was approximately 28,452,000 and 28,442,000, respectively.

## DRW Investments, LLC

### Notes to Financial Statements

#### Note 8. Repurchase Agreements

The following tables provide information related to the gross liabilities from secured financing arrangements, presented by class of collateral pledged and remaining contractual maturity of securities sold under agreements to repurchase included in the statements of financial condition as of December 31, 2017 and 2016:

Repurchase agreements	2017				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Government bonds	\$ 11,584,869,465	\$ 870,282,651	\$ 3,166,517,581	\$ 259,249,850	\$ 15,880,919,548
Municipal bonds	100,374,382	-	-	-	100,374,382
<b>Total</b>	<b>\$ 11,685,243,847</b>	<b>\$ 870,282,651</b>	<b>\$ 3,166,517,581</b>	<b>\$ 259,249,850</b>	<b>\$ 15,981,293,930</b>

Repurchase agreements	2016		
	Overnight and Continuous	Up to 30 days	Total
Government bonds	\$ 11,600,810,317	\$ 159,275,797	\$ 11,760,086,114
Municipal bonds	79,610,782	-	79,610,782
<b>Total</b>	<b>\$ 11,680,421,099</b>	<b>\$ 159,275,797</b>	<b>\$ 11,839,696,896</b>

It is the practice of the Company to value collateral daily and, through its clearing broker, the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate.

#### Note 9. Commitments and Contingencies

The Company holds a lease for office space in connection with its operations. The lease for this office space expires in 2029 and provides for payment of base rent plus adjustments for real estate taxes and operating expenses. At December 31, 2017, future minimum lease payments, exclusive of the adjustments for real estate taxes and operating expenses, under the lease are as follows:

	Total Commitment
December 31:	
2018	\$ 4,071,913
2019	2,884,988
2020	4,278,054
2021	4,385,005
2022	4,494,630
Thereafter	35,234,400
	<b>\$ 55,348,990</b>

Rent expense for the years ended December 31, 2017 and 2016, was approximately \$1,227,000 and \$1,391,000, respectively, which is included within occupancy expenses on the statements of operations. During the same period, the Company allocated rent expense of approximately \$5,453,000 and \$5,289,000, respectively, to affiliates. The Company recognizes rent on a straight-line basis over the term of the lease agreement. The difference between recognized rent expense and actual cash payments for rent results in a deferred rent obligation recorded in accrued expenses in the statements of financial condition of approximately \$8,971,000 and \$5,621,000, as of December 31, 2017 and 2016, respectively.

## **DRW Investments, LLC**

### **Notes to Financial Statements**

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#### **Note 9. Commitments and Contingencies (Continued)**

The Company has an irrevocable standby letter of credit in the amount of \$3,200,000 with an affiliate of another clearing broker which matures annually in October of the following year.

In the normal course of business, the Company may be subject to various regulatory examinations.

On November 6, 2013, the U.S. Commodity Futures Trading Commission (CFTC) filed a complaint against the Company and Donald R. Wilson (collectively, the Defendants), alleging manipulation and attempted manipulation in connection with certain interest swap futures. The Defendants contested the claims and the matter was tried before the Honorable Richard J. Sullivan in the U.S. District Court for the Southern District of New York, in December 2016. The Court's decision is pending. The Company believes that, pending the District Court's decision, it is not possible to predict the outcome of the above matter or estimate the possible loss or range of loss, if any. The CFTC is seeking civil monetary penalties, restitution, disgorgement, damages and equitable relief. Although the matter is subject to uncertainties inherent in the process and the ultimate disposition of this matter is not presently determinable, the Company's management believes that the allegations are without merit and the ultimate resolution of the matter will not have a material impact to the ongoing operations of the Company.

#### **Note 10. Indemnifications**

In the normal course of its business, the Company indemnifies certain service providers, such as clearing brokers, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company. 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.

Additionally, the Company enters into contracts and agreements that contain a variety of representations and warranties. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. The Company expects the risk of any future obligations under these representation and warranties to be remote.