

# LPL Financial LLC

(SEC I.D. No. 8-17668)

## Statement of Financial Condition

June 30, 2023

Unaudited

**LPL FINANCIAL LLC**  
**Statement of Financial Condition**  
**June 30, 2023**  
**(in thousands)**

**ASSETS**

Cash and equivalents	\$ 630,997
Cash and equivalents segregated under federal or other regulations	1,548,065
Restricted cash	2,150
Receivables from clients, net	579,143
Receivables from brokers, dealers and clearing organizations	69,581
Advisor loans, net	1,151,446
Other receivables, net	657,691
Trading securities — at fair value	34,732
Property and equipment, net	690,258
Goodwill	323,755
Other intangibles, net	416,247
Due from affiliates	22,709
Other assets	340,372
Total assets	<u>\$ 6,467,146</u>

**LIABILITIES AND MEMBER'S EQUITY**

**LIABILITIES:**

Client payables	\$ 2,088,669
Payables to brokers, dealers and clearing organizations	155,985
Accrued advisory and commission expenses payable	202,451
Accounts payable and accrued liabilities	257,060
Due to affiliates	18,256
Other liabilities	320,106
Total liabilities	<u>3,042,527</u>
Commitments and contingencies (Note 10)	
MEMBER'S EQUITY	<u>3,424,619</u>
Total liabilities and member's equity	<u>\$ 6,467,146</u>

See notes to the financial statement.

## LPL FINANCIAL LLC

### NOTES TO THE FINANCIAL STATEMENT

#### NOTE 1 - ORGANIZATION AND DESCRIPTION OF THE COMPANY

LPL Financial LLC (“LPL Financial” or the “Company”) provides an integrated platform of brokerage and investment advisory services to independent financial advisors and financial advisors at enterprises (collectively, “advisors”) in the United States. Through its custody and clearing platform, using both proprietary and third-party technology, the Company provides access to diversified financial products and services, enabling its advisors to offer personalized financial advice and brokerage services to retail investors (their “clients”). LPL Financial is a wholly owned subsidiary of LPL Holdings, Inc. (“LPLH”), a Massachusetts holding corporation, which is a wholly owned subsidiary of LPL Financial Holdings Inc. (“LPLFH” or the “Parent”), a Delaware holding corporation.

LPL Financial is a clearing broker-dealer registered with the Securities and Exchange Commission (“SEC”) pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), an investment advisor registered with the SEC pursuant to the Investment Advisers Act of 1940 and a member of the Financial Industry Regulatory Authority (“FINRA”). The Company has primary offices in Fort Mill, South Carolina; San Diego, California; Boston, Massachusetts; and Austin, Texas. The Company is registered as an introducing broker-dealer with the Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association (“NFA”).

#### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### ***Basis of Presentation***

This financial statement is prepared in accordance with accounting principles generally accepted in the United States (“GAAP”), which require the Company to make estimates and assumptions regarding the valuation of certain financial instruments, goodwill and other intangibles, allowance for credit losses on receivables, accruals for liabilities, and other matters that affect the financial statement and related disclosures. Actual results could differ from those estimates under different assumptions or conditions and the differences may be material to the financial statement.

##### ***Reportable Segment***

Management has determined that the Company operates in one segment, given the similarities in economic characteristics between its operations and the common nature of its products and services, production and distribution process and regulatory environment.

##### ***Cash and Equivalents***

Cash equivalents are highly liquid investments with an original maturity of 90 days or less that are not required to be segregated under federal or other regulations. The Company’s cash and equivalents are composed of interest and non-interest-bearing deposits and money market funds.

##### ***Cash and Equivalents Segregated Under Federal or Other Regulations***

As a broker-dealer carrying client accounts, the Company is required to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of its customers in accordance with Rule 15c3-3 of the Exchange Act and other regulations. At June 30, 2023, this line item included interest-bearing deposits, U.S. treasury bills with original maturities of 90 days or less and approximately \$150,000 of cash for the proprietary accounts of introducing broker-dealers.

**LPL FINANCIAL LLC**

**NOTES TO THE FINANCIAL STATEMENT**

***Receivables from Clients, Net and Client Payables***

Receivables from clients include amounts due on cash and margin transactions. The Company extends credit to clients of its advisors to finance their purchases of securities on margin and receives income from interest charged on such extensions of credit. Client payables represent credit balances in client accounts arising from deposits of funds, proceeds from sales of securities, and dividend and interest payments received on securities held in client accounts. The Company pays interest on certain client payable balances.

Receivables from clients are generally fully secured by securities held in the clients' accounts. To the extent that margin loans and other receivables from clients are not fully collateralized by client securities, the Company establishes an allowance for credit losses that it believes is sufficient to cover expected credit losses. When establishing this allowance for credit losses, the Company considers a number of factors, including its ability to collect from the client or the client's advisor and its historical experience in collecting on such transactions.

The following table reflects a roll-forward of the allowance for credit losses on receivables from clients for the six months ended June 30, 2023 (in thousands):

Beginning balance — January 1	\$	909
Provision for credit losses		127
Charge-offs, net of recoveries		—
Ending balance — June 30	\$	<u>1,036</u>

***Advisor Loans, Net***

Advisor loans, net include loans made to new and existing advisors and enterprises to facilitate their partnership with the Company, transition to the Company's platform or fund business development activities. The decision to extend credit to an advisor or enterprise is generally based on their credit history and ability to generate future revenue. Loans made can be either repayable or forgivable over terms generally up to ten years provided that the advisor or enterprise remains licensed through LPL Financial. Forgivable loans are not repaid in cash and are amortized over the term of the loan. If an advisor or enterprise terminates their arrangement with the Company prior to the loan maturity date, the remaining balance becomes repayable immediately. An allowance for credit losses is recorded at the inception of a repayable loan or upon conversion to a repayable loan upon termination or change in agreed upon terms using estimates and assumptions based on historical lifetime loss experience and expectations of future loss rates based on current facts. Advisor repayable loans, net totaled \$217.7 million as of June 30, 2023.

The following table reflects a roll-forward of the allowance for credit losses on advisor loans for the six months ended June 30, 2023 (in thousands):

Beginning balance — January 1	\$	13,350
Provision for credit losses		2,785
Charge-offs, net of recoveries		(5,839)
Ending balance — June 30	\$	<u>10,296</u>

***Other Receivables, Net***

Other receivables, net primarily consist of receivables due from product sponsors and others and miscellaneous receivables. An allowance for credit losses is recorded at inception using estimates and assumptions based on historical experience, current facts and other factors. Management monitors the adequacy of these estimates through periodic evaluations against actual trends experienced.

The following table reflects a roll-forward of the allowance for credit losses on other receivables for the six months ended June 30, 2023 (in thousands):

Beginning balance — January 1	\$	1,653
Provision for credit losses		3,186
Charge-offs, net of recoveries		(3,494)
Ending balance — June 30	\$	<u>1,345</u>

## LPL FINANCIAL LLC

### NOTES TO THE FINANCIAL STATEMENT

#### ***Trading Securities***

The Company generally classifies its investments in debt and equity instruments (including U.S. treasury obligations, mutual funds and money market funds) as trading securities, which are carried at fair value. The Company has not classified any investments as available-for-sale or held-to-maturity.

The Company uses prices obtained from independent third-party pricing services to measure the fair value of its trading securities. Prices received from the pricing services are validated using various methods including comparison to prices received from additional pricing services, comparison to available quoted market prices and review of other relevant market data including implied yields of major categories of securities. In general, these quoted prices are derived from active markets for identical assets or liabilities. When quoted prices in active markets for identical assets and liabilities are not available, the quoted prices are based on similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. For certificates of deposit and treasury securities, the Company utilizes market-based inputs, including observable market interest rates that correspond to the remaining maturities or the next interest reset dates.

#### ***Securities Borrowed***

The Company borrows securities from other broker-dealers to make deliveries or to facilitate customer short sales. Securities borrowed are accounted for as collateralized borrowings and are recorded at contract value, representing the amount of cash provided for securities borrowed transactions (generally in excess of market values). The adequacy of the collateral deposited, which is determined by comparing the market value of the securities borrowed to the cash loaned, is continuously monitored and is adjusted when considered necessary to minimize the risk associated with this activity. Securities borrowed are included in other assets on the statement of financial condition.

As of June 30, 2023, the contract and collateral market values of borrowed securities were \$13.3 million and \$13.1 million, respectively.

#### ***Fractional Shares***

The Company acts in a principal capacity in respect of fractional shares resulting from the dividend reinvestment program that is offered to clients by aggregating dividends received by clients, executing purchases of whole shares and allocating the whole shares to clients on a fractional basis based on the dividend amounts that are reinvested. Shares remaining after this process and fractional shares purchased by the Company in client liquidations are included in the Company's inventory and reflected as trading securities on the Company's statement of financial condition. Fractional shares that have been allocated to clients do not meet the criteria for sale accounting in Accounting Standards Codification 860, *Transfers and Servicing*, and are accounted for as a secured borrowing (repurchase obligation related to shares held by clients) with a corresponding investment in fractional shares. These are reflected in other assets and other liabilities, respectively, on the Company's statement of financial condition. The Company has elected the fair value option to measure these financial assets and the corresponding repurchase obligation and determines fair value based on quoted prices in active markets.

#### ***Property and Equipment, Net***

Internally developed software, leasehold improvements, computers, software and furniture and equipment are recorded at historical cost, net of accumulated depreciation and amortization. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets. The Company expenses software development costs as incurred during the preliminary project stage while capitalizing costs at the point at which the conceptual formulation, design and testing of possible software project alternatives are complete and management authorizes and commits to funding the project. The costs of internally developed software that qualify for capitalization are included in property and equipment, net and subsequently amortized over the estimated useful life of the software, which is generally 3 to 5 years. The Company does not capitalize pilot projects or projects for which it believes that the future economic benefits are less than probable. Leasehold improvements are amortized over the lesser of their useful lives or the terms of the underlying leases. Computers and software are depreciated over a period of 3 to 5 years. Furniture and equipment are depreciated over a period of 3 to 7 years.

Management reviews property and equipment for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. No impairment of property and equipment occurred as of June 30, 2023.

## LPL FINANCIAL LLC

### NOTES TO THE FINANCIAL STATEMENT

#### ***Acquisitions***

Accounting for business combinations requires the Company to make significant estimates and assumptions with respect to intangible assets, liabilities assumed and pre-acquisition contingencies. These assumptions include, but are not limited to, future expected cash flows and discount rates, and are based in part on historical experience, market data and information obtained from the management of the acquired companies.

When acquiring companies in business combinations, the Company recognizes separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill is recognized for business combinations as of the acquisition date and is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed with the corresponding offset to goodwill.

The Company also enters into asset acquisitions for single identifiable assets. Accounting for asset acquisitions requires the Company to make significant estimates and assumptions with respect to the useful life of the asset purchased. These assumptions are based in part on historical experience and market data.

#### ***Goodwill and Other Intangibles, Net***

Goodwill and other indefinite-lived intangibles are evaluated annually for impairment in the fourth fiscal quarter and between annual tests if certain events occur indicating that the carrying amounts may be impaired. If a qualitative assessment is used and the Company determines that the fair value of a reporting unit or indefinite-lived intangible is more likely than not (i.e., a likelihood of more than 50%) less than its carrying amount, a quantitative impairment analysis will be performed. An impairment loss will be recognized if a reporting unit's carrying amount exceeds its fair value, to the extent that it does not exceed the total carrying amount of goodwill. No impairment of goodwill or other indefinite-lived intangibles was recognized as of June 30, 2023.

Intangibles that are deemed to have definite lives are amortized over their useful lives, generally ranging from 5 to 20 years. They are reviewed for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount to the estimated undiscounted future cash flows expected to be generated. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the estimated fair value. There was no impairment of definite-lived intangibles recognized as of June 30, 2023.

#### ***Debt Issuance Costs***

Debt issuance costs for the Company's revolving credit facility have been capitalized and are being amortized as additional interest expense over the expected term of the agreement. These costs are included in other assets on the statement of financial condition and are subsequently amortized ratably over the term of the revolving credit facility regardless of whether there are any outstanding borrowings.

#### ***Commitments and Contingencies***

The Company recognizes a liability for loss contingencies when it believes it is probable a liability has occurred and the amount can be reasonably estimated. If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, the Company accrues that amount. When no amount within the range is a better estimate than any other amount, the Company accrues the minimum amount in the range.

The Company has established an accrual for those legal proceedings and regulatory matters for which a loss is both probable and the amount can be reasonably estimated. The Company maintains insurance coverage for certain of these matters through third-party insurance companies and a related party captive insurance subsidiary of the Parent. The estimated losses on many of the pending matters are less than the applicable deductibles of the insurance policies. Assessing the probability of a loss occurring and the timing and amount of any loss related to a legal proceeding or regulatory matter is inherently difficult and requires management to make significant judgments. For additional information, see Note 10 - *Commitments and Contingencies*.

## LPL FINANCIAL LLC

### NOTES TO THE FINANCIAL STATEMENT

#### ***Recently Issued or Adopted Accounting Pronouncements***

There are no relevant recently issued accounting pronouncements that would materially impact the Company's financial statement and related disclosures. There were no new accounting pronouncements adopted during the six months ended June 30, 2023 that materially impacted the Company's financial statement and related disclosures.

#### **NOTE 3 - FAIR VALUE MEASUREMENTS**

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Inputs used to measure fair value are prioritized within a three-level fair value hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

*Level 1* — Quoted prices in active markets for identical assets or liabilities.

*Level 2* — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

*Level 3* — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

There have been no transfers of assets or liabilities between these fair value measurement classifications during the six months ended June 30, 2023.

The Company's fair value measurements are evaluated within the fair value hierarchy based on the nature of inputs used to determine the fair value at the measurement date. At June 30, 2023, the Company had the following financial assets and liabilities that are measured at fair value on a recurring basis:

*Cash Equivalents* — The Company's cash equivalents include money market funds, which are short term in nature with readily determinable values derived from active markets.

*Cash Equivalents Segregated Under Federal or Other Regulations* — The Company's cash equivalents segregated under federal or other regulations include U.S. treasury bills, which are short term in nature with readily determinable values derived from active markets.

*Trading Securities and Securities Sold, But Not Yet Purchased* — The Company's trading securities consist of house account model portfolios established and managed for the purpose of benchmarking the performance of its fee-based advisory platforms and temporary positions resulting from the processing of client transactions.

The Company uses prices obtained from independent third-party pricing services to measure the fair value of its trading securities. Prices received from the pricing services are validated using various methods including comparison to prices received from additional pricing services, comparison to available quoted market prices and review of other relevant market data including implied yields of major categories of securities. In general, these quoted prices are derived from active markets for identical assets or liabilities. When quoted prices in active markets for identical assets and liabilities are not available, the quoted prices are based on similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. For negotiable certificates of deposit and treasury securities, the Company utilizes market-based inputs, including observable market interest rates that correspond to the remaining maturities or the next interest reset dates. At June 30, 2023, the Company did not adjust prices received from the independent third-party pricing services.

*Other Assets* — The Company's other assets include investments in mutual funds, annuities and non-traded real estate investment trusts, which are valued using quoted prices for identical or similar securities and other inputs that are observable or can be corroborated by observable market data.

*Fractional Shares* — The Company's investment in fractional shares held by customers is reflected in other assets while the related purchase obligation for such shares is reflected in other liabilities. The Company uses

## LPL FINANCIAL LLC

### NOTES TO THE FINANCIAL STATEMENT

prices obtained from independent third-party pricing services to measure the fair value of its investment in fractional shares held by customers and the related repurchase obligations. Prices received from the pricing services are validated using various methods including comparison to prices received from additional pricing services, comparison to available quoted market prices and review of other relevant market data including implied yields of major categories of securities. At June 30, 2023, the Company did not adjust prices received from the independent third-party pricing services.

#### Recurring Fair Value Measurements

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at June 30, 2023 (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 500	\$ —	\$ —	\$ 500
Cash equivalents segregated under federal or other regulations	546,614	—	—	546,614
Investment securities - trading:				
U.S. treasury obligations	24,367	—	—	24,367
Mutual funds	9,059	—	—	9,059
Equity securities	1,096	—	—	1,096
Money market funds	109	—	—	109
Debt securities	—	101	—	101
Total investment securities - trading	34,631	101	—	34,732
Other assets:				
Fractional shares - investment <sub>(1)</sub>	147,084	—	—	147,084
Other investments	—	1,065	—	1,065
Total other assets	147,084	1,065	—	148,149
Total assets at fair value	\$ 728,829	\$ 1,166	\$ —	\$ 729,995
<b>Liabilities</b>				
Other liabilities:				
Securities sold, but not yet purchased:				
Mutual funds	\$ 45	\$ —	\$ —	\$ 45
Debt securities	—	41	—	41
Equity securities	16	—	—	16
Total securities sold, but not yet purchased	61	41	—	102
Fractional shares - repurchase obligation <sub>(1)</sub>	147,084	—	—	147,084
Total other liabilities	147,145	41	—	147,186
Total liabilities at fair value	\$ 147,145	\$ 41	\$ —	\$ 147,186

(1) Investment in and related repurchase obligation for fractional shares resulting from the Company's dividend reinvestment program.



**LPL FINANCIAL LLC**

**NOTES TO THE FINANCIAL STATEMENT**

**Fair Value of Financial Instruments Not Measured at Fair Value**

The following table summarizes the carrying values, fair values and fair value hierarchy level classification of financial instruments that are not measured at fair value at June 30, 2023 (in thousands):

	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
<b>Assets</b>					
Cash	\$ 630,497	\$ 630,497	\$ —	\$ —	\$ 630,497
Cash segregated under federal or other regulations	1,001,451	1,001,451	—	—	1,001,451
Restricted cash	2,150	2,150	—	—	2,150
Receivables from clients, net	579,143	—	579,143	—	579,143
Receivables from brokers, dealers and clearing organizations	69,581	—	69,581	—	69,581
Advisor repayable loans, net <sub>(1)</sub>	217,651	—	—	168,423	168,423
Other receivables, net	657,691	—	657,691	—	657,691
Other assets:					
Securities borrowed	13,331	—	13,331	—	13,331
Other investments <sub>(2)</sub>	4,241	—	4,241	—	4,241
Total other assets	17,572	—	17,572	—	17,572
<b>Liabilities</b>					
Client payables	\$ 2,088,669	\$ —	\$ 2,088,669	\$ —	\$ 2,088,669
Payables to brokers, dealers and clearing organizations	155,985	—	155,985	—	155,985

(1) Includes repayable loans and forgivable loans which have converted to repayable upon advisor termination or change in agreed upon terms.

(2) Other investments consist of Depository Trust Company common shares.

**NOTE 4 - RECEIVABLES FROM AND PAYABLES TO BROKERS, DEALERS AND CLEARING ORGANIZATIONS**

At June 30, 2023, receivables from and payables to brokers, dealers and clearing organizations were as follows (in thousands):

<b>Receivables:</b>	
Receivables from clearing organizations	\$ 56,934
Securities failed-to-deliver	11,334
Receivables from brokers and dealers	1,313
Total receivables	<u>\$ 69,581</u>
<b>Payables:</b>	
Payables to brokers and dealers	\$ 61,819
Securities failed-to-receive	57,959
Payables to clearing organizations	36,207
Total payables	<u>\$ 155,985</u>

LPL FINANCIAL LLC

NOTES TO THE FINANCIAL STATEMENT

NOTE 5 - PROPERTY AND EQUIPMENT, NET

The components of property and equipment, net were as follows at June 30, 2023 (in thousands):

	Historical Cost	Accumulated Depreciation and Amortization	Net Carrying Value
Internally developed software	\$ 1,010,668	\$ (508,841)	\$ 501,827
Computers and software	320,793	(221,028)	99,765
Leasehold improvements	1,997	(1,972)	25
Furniture and equipment	1,710	(1,710)	—
Construction in progress <sup>(1)</sup>	88,641	—	88,641
Total property and equipment, net	<u>\$ 1,423,809</u>	<u>\$ (733,551)</u>	<u>\$ 690,258</u>

(1) Construction in progress includes \$45.1 million of internal software in development and \$43.5 million of purchased hardware and software at June 30, 2023.

NOTE 6 - OTHER INTANGIBLES, NET

The components of other intangibles, net were as follows at June 30, 2023 (dollars in thousands):

	Weighted-Average Life Remaining (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Advisor and enterprise relationships	5.9	\$ 470,210	\$ (238,786)	\$ 231,424
Client relationships	14.5	202,893	(23,772)	179,121
Product sponsor relationships	3.6	31,088	(25,386)	5,702
Total other intangibles, net <sup>(1)</sup>		<u>\$ 704,191</u>	<u>\$ (287,944)</u>	<u>\$ 416,247</u>

(1) During the six months ended June 30, 2023, the Company allocated \$171.1 million to intangible assets acquired under its Liquidity & Succession solution and the acquisition of Boenning & Scattergood's Private Client Group. These intangible assets were comprised primarily of customer relationships with an assigned useful life of 14 years.

**LPL FINANCIAL LLC**

**NOTES TO THE FINANCIAL STATEMENT**

**NOTE 7 - OTHER ASSETS AND OTHER LIABILITIES**

The components of other assets and other liabilities were as follows at June 30, 2023 (in thousands):

<b>Other assets:</b>	
Fractional shares - investment <sub>(1)</sub>	\$ 147,084
Prepaid assets	129,366
Referral bonuses	41,642
Securities borrowed	13,331
Other investments	5,306
Debt issuance costs, net	205
Other	3,438
<b>Total other assets</b>	<b>\$ 340,372</b>

<b>Other liabilities:</b>	
Unearned revenue	\$ 172,957
Fractional shares - repurchase obligation <sub>(1)</sub>	147,084
Other	65
<b>Total other liabilities</b>	<b>\$ 320,106</b>

(1) See Note 2 - *Summary of Significant Accounting Policies* for further information.

**NOTE 8 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

Accounts payable and accrued liabilities were as follows at June 30, 2023 (in thousands):

Accrued compensation	\$ 88,806
Accounts payable	65,408
Other accrued liabilities	102,846
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 257,060</b>

**NOTE 9 - OTHER BORROWINGS**

***Revolving Credit Facility***

On August 4, 2022, the Company entered into a committed senior unsecured revolving credit facility that was due to mature on August 3, 2023 and allows for a maximum borrowing of up to \$1.0 billion. This revolving credit facility replaced the \$300.0 million committed senior unsecured revolving credit facility that was due to mature on July 31, 2024. Borrowings under the credit facility bear interest at a rate per annum equal to 1.25% per annum plus the greatest of (i) the secured overnight financing rate plus 0.10%, (ii) the effective federal funds rate and (iii) the overnight bank funding rate, in each case, as such rate is administered or determined by the Federal Reserve Bank of New York from time to time. In connection with the revolving credit facility, the Company incurred \$1.9 million in costs, which were capitalized as debt issuance costs in the statement of financial condition. The credit agreement subjects the Company to certain financial and non-financial covenants. The Company was in compliance with such covenants as of June 30, 2023. There were no borrowings outstanding under the revolving credit facility as of June 30, 2023.

On July 18, 2023, the Company renewed its revolving credit facility and extended the maturity date to July 16, 2024.

## LPL FINANCIAL LLC

### NOTES TO THE FINANCIAL STATEMENT

#### ***Other External Lines of Credit***

The Company maintained five uncommitted lines of credit as of June 30, 2023. Two of the lines have unspecified limits, which are primarily dependent on the Company's ability to provide sufficient collateral. The other three lines have a total limit of \$200.0 million, which allow for uncollateralized borrowings. There were no balances outstanding under these lines of credit as of June 30, 2023.

#### **NOTE 10 - COMMITMENTS AND CONTINGENCIES**

##### ***Service and Development Contracts***

The Company is party to certain long-term contracts for systems and services that enable back office trade processing and clearing for its product and service offerings. Future minimum payments under service contracts and other contractual obligations with initial terms greater than one year as of June 30, 2023 were as follows (in thousands):

2023	\$	33,751
2024		57,916
2025		23,352
2026		4,629
2027		161
Thereafter		—
Total	\$	<u>119,809</u>

##### ***Guarantees***

The Company occasionally enters into contracts that contingently require it to indemnify certain parties against third-party claims. The terms of these obligations vary and, because a maximum obligation is not explicitly stated, the Company has determined that it is not possible to make an estimate of the amount that it could be obligated to pay under such contracts.

The Company provides guarantees to securities clearing houses and exchanges under their standard membership agreements, which require a member to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearing houses and exchanges, all other members would be required to meet any shortfall. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these agreements is remote. Accordingly, no liability has been recognized for these transactions.

##### ***Loan Commitments***

From time to time, the Company makes loans to advisors and enterprises, primarily to newly recruited advisors and enterprises to assist in the transition process, which may be forgivable. Due to timing differences, the Company may make commitments to issue such loans prior to actually funding them. These commitments are generally contingent upon certain events occurring, including but not limited to the advisor or enterprise joining the Company. The Company had no significant unfunded loan commitments at June 30, 2023.

##### ***Legal and Regulatory Matters***

The Company is subject to extensive regulation and supervision by U.S. federal and state agencies and various self-regulatory organizations. The Company and its advisors periodically engage with such agencies and organizations, in the context of examinations or otherwise, to respond to inquiries, informational requests and investigations. From time to time, such engagements result in regulatory complaints or other matters, the resolution of which has in the past and may in the future include fines, customer restitution and other remediation. Assessing the probability of a loss occurring and the timing and amount of any loss related to a legal proceeding or regulatory matter is inherently difficult. While the Company exercises significant and complex judgments to make certain

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### NOTES TO THE FINANCIAL STATEMENT

estimates presented in its financial statement, there are particular uncertainties and complexities involved when assessing the potential outcomes of legal proceedings and regulatory matters. The Company's assessment process considers a variety of factors and assumptions, which may include: the procedural status of the matter and any recent developments; prior experience and the experience of others in similar matters; the size and nature of potential exposures; available defenses; the progress of fact discovery; the opinions of counsel and experts; or the potential opportunities for settlement and the status of any settlement discussions. The Company monitors these factors and assumptions for new developments and re-assesses the likelihood that a loss will occur and the estimated range or amount of loss, if those amounts can be reasonably determined. The Company has established an accrual for those legal proceedings and regulatory matters for which a loss is both probable and the amount can be reasonably estimated.

In October 2022, the Company received a request for information from the SEC in connection with an investigation of the Company's compliance with records preservation requirements for business-related electronic communications stored on personal devices or messaging platforms that have not been approved by the Company. The Company intends to cooperate fully with the SEC's inquiry. The Company has estimated that it is reasonably possible that it could incur losses as a result of this request; however, the Company cannot estimate a possible loss or range of loss at this time. At this time, the Company does not believe that this request will have a material adverse effect on its financial position.

#### *Insurance*

The Company maintains insurance coverage for certain potential legal proceedings and regulatory matters through third-party insurance companies and a related party captive insurance subsidiary of the Parent. The estimated losses on many of the pending matters are less than the applicable deductibles of the insurance policies.

#### **Other Commitments**

As of June 30, 2023, the Company had approximately \$472.0 million of client margin loans that were collateralized with securities having a fair value of approximately \$660.8 million that it can repledge, loan or sell. Of these securities, approximately \$249.9 million were client-owned securities pledged to the Options Clearing Corporation as collateral to secure client obligations related to options positions. As of June 30, 2023, there were no restrictions that materially limited the Company's ability to repledge, loan or sell the remaining \$410.9 million of client collateral.

Trading securities on the statement of financial condition at June 30, 2023 include \$24.4 million pledged to clearing organizations.

#### **NOTE 11 - EMPLOYEE INCENTIVES AND BENEFIT PLANS**

The Company participates in a 401(k) defined contribution plan. All employees meeting minimum age and length of service requirements are eligible to participate. The Company has an employer matching program whereby employer contributions are made to the 401(k) plan, and employees are eligible for matching contributions after completing six months of service. For eligible employees, the Company matches up to 75% of the first 8% of an employee's designated deferral of their eligible compensation.

The Company participates in an Employee Stock Purchase Plan (the "ESPP"), sponsored by LPLFH, as a benefit to enable eligible employees to purchase common stock of LPLFH at a discount from the market price through payroll deductions, subject to limitations. The ESPP provides for a 15% discount on the market value of LPLFH's stock at the lower of the grant date price (first day of the offering period) and the purchase date price (last day of the offering period).

#### **NOTE 12 - RELATED PARTY TRANSACTIONS**

In addition to transactions discussed elsewhere in the notes to this financial statement, the Company has a variety of relationships with LPLFH and its subsidiaries under which it earns revenue for services provided and incurs expense for services received. Unless a right of offset exists, the Company records intercompany transactions on a gross basis and amounts are classified on the statement of financial condition as due from or due to affiliates.

## LPL FINANCIAL LLC

### NOTES TO THE FINANCIAL STATEMENT

The Company has intercompany service agreements to provide various infrastructure and broker-dealer support services to affiliates that are subsidiaries of LPLFH. As part of the agreements, the Company also receives client support services.

Included in the intercompany service agreements are other transactions that create additional intercompany balances. The Company has related party transactions with certain significant stockholders of the Parent's common stock. Additionally, the Company provides services and charitable contributions to the LPL Financial Charitable Foundation, Inc., a charitable organization that provides volunteer and financial support within the Company's local communities. As of June 30, 2023 the Company had a \$21.9 million insurance receivable from the Parent's captive insurance subsidiary.

#### NOTE 13 - NET CAPITAL AND REGULATORY REQUIREMENTS

The Company operates in a highly regulated industry. Applicable laws and regulations restrict permissible activities and investments and require compliance with various financial and customer-related regulations. The consequences of non-compliance can include substantial monetary and non-monetary sanctions. In addition, the Company is also subject to comprehensive examinations and supervision by various governmental and self-regulatory agencies. These regulatory agencies generally have broad discretion to prescribe greater limitations on the operations of a regulated entity for the protection of investors or public interest. Furthermore, where the agencies determine that such operations are unsafe or unsound, fail to comply with applicable law, or are otherwise inconsistent with the laws and regulations or with the supervisory policies, greater restrictions may be imposed.

The Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1 under the Exchange Act), which requires the maintenance of minimum net capital. The net capital rules also provide that the Company's capital may not be withdrawn if the resulting net capital would be less than minimum requirements. Additionally, certain withdrawals require the approval of the SEC and FINRA to the extent they exceed defined levels, even though such withdrawals would not cause net capital to be less than minimum requirements. Net capital and the related net capital requirement may fluctuate on a daily basis. The Company is a clearing broker-dealer and, as of June 30, 2023, has met all capital adequacy requirements to which it is subject.

The following table presents the net capital position of the Company (in thousands):

	<b>June 30, 2023</b>
Net capital	\$ 279,982
Less: required net capital	16,154
Excess net capital	<u>\$ 263,828</u>

#### NOTE 14 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK

The Company may offer loans to new and existing advisors and enterprises to facilitate their partnership with the Company, transition to the Company's platform or fund business development activities. The Company may incur losses if advisors or enterprises do not fulfill their obligations with respect to these loans. To mitigate this risk, the Company evaluates the performance and creditworthiness of the advisor or enterprise prior to offering repayable loans.

The Company's client securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to the advisor's client, subject to various regulatory and internal margin requirements, which is collateralized by cash and securities in the client's account. As clients write options contracts or sell securities short, the Company may incur losses if the clients do not fulfill their obligations and the collateral in the clients' accounts is not sufficient to fully cover losses that clients may incur from these strategies. To control this risk, the Company monitors margin levels daily and clients are required to deposit additional collateral, or reduce positions, when necessary.

## LPL FINANCIAL LLC

### NOTES TO THE FINANCIAL STATEMENT

The Company is obligated to settle transactions with brokers and other financial institutions even if its advisors' clients fail to meet their obligation to the Company. Clients are required to complete their transactions on the settlement date, generally two business days after the trade date. If clients do not fulfill their contractual obligations, the Company may incur losses. In addition, the Company occasionally enters into certain types of contracts to fulfill its sale of when, as and if issued securities. When, as and if issued securities have been authorized but are contingent upon the actual issuance of the security. The Company has established procedures to reduce this risk by generally requiring that clients deposit cash or securities into their account prior to placing an order.

The Company may at times hold equity securities on both a long and short basis that are recorded on the statement of financial condition at market value. While long inventory positions represent the Company's ownership of securities, short inventory positions represent obligations of the Company to deliver specified securities at a contracted price, which may differ from market prices prevailing at the time of completion of the transaction. Accordingly, both long and short inventory positions may result in losses or gains to the Company as market values of securities fluctuate. To mitigate the risk of losses, long and short positions are marked-to-market daily and are continuously monitored by the Company.

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Statement of Financial Condition filed pursuant to Rule 17a-5(e)(3) under the Exchange Act is available for inspection at the principal office of the Company and at the Atlanta Regional Office of the SEC.