

100070 / 20 -

DRW Investments, LLC

Financial Report
December 31, 2018 and 2017

Company Number: FC026974

FRIDAY



L8XTJ2WH
LD6 31/01/2020 #47
COMPANIES HOUSE

Contents

Independent Auditor's Report	1
Financial Statements	
Statements of financial condition	2
Statements of operations	3
Statements of changes in member's equity	4
Statements of cash flows	5 – 6
Notes to financial statements	7 – 22



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, 2018 and 2017, 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, 2018 and 2017, 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, 2019

DRW Investments, LLC

**Statements of Financial Condition
December 31, 2018 and 2017**

	2018	2017
Assets		
Cash in bank	\$ 8,346,849	\$ 17,255,273
Securities purchased under agreements to resell	145,986,120	903,087,855
Securities owned, at fair value	23,985,185,341	13,548,091,018
Derivative financial instruments owned, at fair value	1,707,512,023	1,655,162,771
Receivables from clearing brokers, net	3,814,470,261	3,451,097,888
Stock and memberships in exchanges, at cost (fair value of \$13,255,883 for 2018 and \$12,058,209 for 2017)	5,482,089	5,250,089
Promissory notes receivable - affiliates	-	9,855,000
Receivable from affiliate	2,509,664	50,250
Other assets	5,524,755	4,386,105
Total assets	\$ 29,675,017,102	\$ 19,594,236,249
Liabilities and Members' Equity		
Liabilities		
Securities sold under agreements to repurchase	\$ 4,589,072,195	\$ 128,461,434
Securities sold, not yet purchased, at fair value	22,869,615,466	17,349,557,529
Derivative financial instruments sold, at fair value	1,283,584,332	1,265,218,153
Payables to clearing brokers, net	105,546,712	99,854,574
Borrowings	275,837,940	129,691,134
Promissory note payable - affiliate	17,047,000	59,900,000
Payables to affiliates	70,263,567	49,932,751
Accrued expenses	14,002,007	21,761,348
Total liabilities	29,224,969,219	19,104,376,923
Member's Equity	450,047,883	489,859,326
Total liabilities and member's equity	\$ 29,675,017,102	\$ 19,594,236,249

These financial statements were approved by the directors and authorized for issue on March 29, 2019 and are signed on their behalf by:

D R Wilson Jnr
Director

See Notes to Financial Statements.

DRW Investments, LLC

Statements of Operations

Years Ended December 31, 2018 and 2017

	2018	2017
Revenue:		
Proprietary trading, net	\$ 369,574,741	\$ 483,881,387
Interest and dividends	6,484,870	3,074,999
Other	138,471	209,724
Total revenue	<u>376,198,082</u>	<u>487,166,110</u>
Expenses:		
Trading expenses:		
Commissions, trade execution and related fees	65,207,251	72,404,555
Interest	18,411,486	9,588,936
Other	452,968	248,055
Total trading expenses	<u>84,071,705</u>	<u>82,241,546</u>
Operating expenses:		
Employee compensation and benefits	91,051,563	66,928,500
Networking, data and technology costs	43,412,562	30,538,214
Administrative support services	21,602,776	24,180,771
Occupancy	4,027,890	2,833,701
Other	806,376	10,893,725
Total operating expenses	<u>160,901,167</u>	<u>135,374,911</u>
Total expenses	<u>244,972,872</u>	<u>217,616,457</u>
Net income	<u>\$ 131,225,210</u>	<u>\$ 269,549,653</u>

See Notes to Financial Statements.

DRW Investments, LLC

**Statements of Changes in Member's Equity
Years Ended December 31, 2018 and 2017**

Balance, December 31, 2016	\$ 440,866,530
Capital contributions	617,136,468
Capital withdrawals	(837,693,325)
Net income	<u>269,549,653</u>
Balance, December 31, 2017	489,859,326
Capital contributions	661,720,117
Capital withdrawals	(832,756,770)
Net income	<u>131,225,210</u>
Balance, December 31, 2018	<u>\$ 450,047,883</u>

See Notes to Financial Statements.

DRW Investments, LLC

Statements of Cash Flows

Years Ended December 31, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities		
Net income	\$ 131,225,210	\$ 269,549,653
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain on sale of memberships in an exchange	-	(209,700)
Changes in operating assets and liabilities:		
Securities purchased under agreements to resell	757,101,735	(2,953,990,392)
Securities owned	(10,437,094,323)	(959,081,287)
Derivative financial instruments owned	(52,349,252)	816,523,187
Receivables from clearing brokers, net	(363,372,373)	(2,649,431,377)
Receivables from affiliates	(2,459,414)	(38,246)
Other assets	(1,138,650)	688,021
Securities sold under agreements to repurchase	4,460,610,761	4,141,597,034
Securities sold, not yet purchased	5,520,057,937	2,515,522,714
Derivative financial instruments sold	18,366,179	(999,253,791)
Payables to clearing brokers, net	5,692,138	(32,827,762)
Payables to affiliates	76,311,378	44,605,265
Accrued expenses	(7,759,341)	10,547,964
Net cash provided by operating activities	105,191,985	204,201,283
Cash Flows from Investing Activities		
Proceeds from sale of memberships in an exchange	-	790,000
Purchase of membership in an exchange	(232,000)	-
Net cash used in (provided by) investing activities	(232,000)	790,000
Cash Flows from Financing Activities		
Proceeds received from borrowings	1,417,987,880	1,235,749,234
Repayments of borrowings	(1,271,841,074)	(1,233,842,767)
Payments received on promissory notes receivable - affiliate, net	9,855,000	26,850,000
Advances received on promissory note payable - affiliate, net	(42,853,000)	14,650,000
Capital contributions	593,176,076	549,610,471
Capital withdrawals	(820,193,291)	(820,503,988)
Net cash used in financing activities	(113,868,409)	(227,487,050)
Net decrease in cash	(8,908,424)	(22,495,767)
Cash:		
Beginning of year	17,255,273	39,751,040
End of year	\$ 8,346,849	\$ 17,255,273

(Continued)

DRW Investments, LLC

Statements of Cash Flows (Continued)
Years Ended December 31, 2018 and 2017

	2018	2017
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	<u>\$ 18,411,486</u>	<u>\$ 9,588,936</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 \$12,563,479 for 2018 and \$17,189,337 for 2017.	<u>\$ 55,980,562</u>	<u>\$ 84,715,334</u>

See Notes to Financial Statements.

DRW Investments, LLC

Notes to Financial Statements

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.

Certain 2017 financial statement amounts have been reclassified or adjusted to conform to current year presentation.

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 \$82,400,000 and (\$12,036,000) for the years ended December 31, 2018 and 2017, respectively.

DRW Investments, LLC

Notes to Financial Statements

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

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.

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 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, 2018 or 2017.

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, 2018 and 2017, the Branch recorded a tax provision of approximately \$177,930 and \$6,787,000, respectively, which is included in other operating expenses on the statements of operations. As of December 31, 2018 and 2017, the Branch has recorded a payable of approximately \$59,650 and \$6,787,000, 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, 2018 and 2017.

DRW Investments, LLC

Notes to Financial Statements

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

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, 2018, 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 2015. The Branch is not subject to examination by HM Revenue and Customs (HMRC) for tax years before 2015.

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. The Company adopted ASU 2016-02 on January 1, 2019 using a modified retrospective approach in which the cumulative effect of applying the standard will be recognized at the date of adoption. As a result, upon adoption, the company will recognize a right-of-use asset of \$27,964,788 and a lease liability of \$39,158,353.

Change in accounting principle: As of December 31, 2018, the Company elected to change its method of presenting reverse repurchase agreements (reverse repos) and repurchase agreements (repos) on the statement of financial condition by presenting them offset when the criteria is met. Previously, these agreements were not presented offset although the contracts met the criteria for offsetting. Management believes that the netting of repos and reverse repos when the right of offset exists better reflects the nature of how the repos and reverse repos will be settled. See Note 7 for the impact of offsetting on the statement of financial condition as of December 31, 2018 and 2017.

Offsetting of amounts related to certain contracts: When the requirements are met, the Company offsets certain fair value amounts recognized for cash collateral receivables or payables against fair value amounts recognized for net derivative positions executed with the same counterparty under the same master netting arrangement. In addition, reverse repurchase agreements and repurchase agreements with the same counterparty and maturity are presented net in the statement of financial condition when the terms of the agreements permit netting. See Note 7 for additional details.

Subsequent events: The Company has evaluated subsequent events for potential recognition and/or disclosure through March 29, 2019, the date these financial statements were available to be issued.

DRW Investments, LLC

Notes to Financial Statements

Note 2. Receivable from and Payable to Clearing Brokers

Amounts receivable from and payable to clearing brokers at December 31, 2018 and 2017 consist of the following:

	2018	
	Receivable	Payable
Clearing brokers	\$ 644,730,818	\$ 105,320,925
Unsettled transactions	3,432,397,051	-
Interest	64,206,394	225,787
Exchange-traded futures contracts - open trade equity	(326,864,003)	-
	<u>\$ 3,814,470,260</u>	<u>\$ 105,546,712</u>
	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>

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.

DRW Investments, LLC

Notes to Financial Statements

Note 3. Fair Value of Financial Instruments (Continued)

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.

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, 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, 2018:

DRW Investments, LLC

Notes to Financial Statements

Note 3. Fair Value of Financial Instruments (Continued)

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Securities owned				
Government securities	\$ 23,985,185,341	\$ 23,985,185,341	\$ -	\$ -
Derivative financial instruments owned				
Options on futures contracts	1,608,393,732	1,608,393,732	-	-
Currency forwards	2,482,669	-	2,482,669	-
Currency options	1,514,144	-	1,514,144	-
Swaps	88,634,917	-	88,634,917	-
Swaptions	6,486,561	-	6,486,561	-
Receivable from clearing brokers				
Futures contracts	3,089,009	3,089,009	-	-
	<u>\$ 25,695,786,373</u>	<u>\$ 25,596,668,082</u>	<u>\$ 99,118,291</u>	<u>\$ -</u>
Liabilities				
Securities sold, not yet purchased				
Government securities	\$ 22,869,615,466	\$ 22,869,615,466	\$ -	\$ -
Derivative financial instruments sold				
Options on futures contracts	1,232,571,562	1,232,571,562	-	-
Currency forwards	3,586,304	-	3,586,304	-
Swaps	43,714,129	-	43,714,129	-
Swaptions	3,712,337	-	3,712,337	-
Receivable from clearing brokers				
Futures contracts	329,953,012	329,953,012	-	-
	<u>\$ 24,483,152,810</u>	<u>\$ 24,432,140,040</u>	<u>\$ 51,012,770</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, 2017:

		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)
	Total			
Assets				
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>
Liabilities				
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>

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, 2018 and 2017.

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

Note 4. Borrowings

The Company has a risk-based margin finance demand loan facility in the amount of \$250,000,000 with an affiliate of one of its clearing brokers which matures on March 31, 2020. 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, 2018 and 2017, the Company had drawn approximately \$200,665,000 and \$129,691,000, 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 \$100,000,000 with an affiliate of one of its clearing brokers which matures on June 25, 2021. The loan facility accrues interest at a rate based on the Federal Funds 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, 2018 and 2017, the Company had drawn approximately \$75,173,000 and \$0, respectively, on this margin 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, 2018 and 2017, the Company had no draws outstanding and had outstanding interest of approximately \$3,300 and \$0, respectively, on this margin loan facility. This arrangement requires the Company to satisfy certain financial reporting and other covenants, as defined. This arrangement terminated on March 20, 2019.

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 \$113,273,000 and \$102,350,000, respectively, for the years ended December 31, 2018 and 2017, were paid by DRWH and charged to the Company based on a series of usage factors. At December 31, 2018 and 2017, payable to affiliates of approximately \$40,743,000 and \$39,499,000, respectively, is related to these activities. The Branch has an agreement with an affiliate whereby certain operating expenses, approximately \$19,280,000 and \$20,653,000, respectively, for the years ended December 31, 2018 and 2017, are paid and charged to the Branch on performance fee and series of usage factors. At December 31, 2018 and 2017, payable to affiliates of approximately \$1,180,600 and \$4,817,000, 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, 2018, approximately \$2,510,000 and \$1,619,000 represent receivables from and payables to affiliates, respectively, in connection with such transactions. At December 31, 2017, approximately \$50,000 and \$1,046,000 represents 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 loan is non-interest bearing. Due to the demand nature of the Revolver, carrying value approximates fair value as of December 31, 2018 and 2017. The outstanding amount due from affiliate in connection with Revolver at December 31, 2018 and 2017, is approximately \$0 and \$9,855,000, respectively, and is included in promissory notes receivable – affiliates in the statements of financial condition.

DRW Investments, LLC

Notes to Financial Statements

Note 5. Related Party Transactions (Continued)

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, 2018 and 2017. At December 31, 2018 and 2017, 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, 2018 and 2017. As of December 31, 2018 and 2017, the Company has no amounts due from this affiliate in connection with this promissory note.

The Company has a non-interest bearing unsecured promissory note payable with an affiliated entity totaling \$17,047,000 and \$59,900,000 for the years ended December 31, 2018 and 2017, respectively, which is included in promissory note payable – affiliate in the statements of financial condition. The promissory note matures on September 17, 2021, and the carrying values approximate fair value as of December 31, 2018 and 2017.

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. This note was cancelled in June 2018, and at December 31, 2017, the Company had no amounts due from this affiliate in connection with this promissory note.

The Company has agreements with affiliated entities whereby the Company will reimburse the affiliates a transfer pricing fee in connection with business operations. As of December 31, 2018 and 2017, the company had incurred expenses of \$26,721,000 and \$4,570,000, respectively, in relation to these agreements.

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, swaptions, 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.

DRW Investments, LLC

Notes to Financial Statements

Note 6. Risks and Guarantees (Continued)

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 financial instruments 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 financial instruments 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.

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 an affiliate enabling 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 the affiliate 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 the affiliate have provided guarantees to clearing firms and certain other related parties of the clearing firms. In these arrangements, the Company and the affiliate 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.

DRW Investments, LLC

Notes to Financial Statements

Note 6. Risks and Guarantees (Continued)

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 \$9,000,000.

As of and for the years ended December 31, 2018 and 2017, the Company has not been required to fund any obligations under its letter of support or guarantees.

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, 2018 and 2017, 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:

DRW Investments, LLC

Notes to Financial Statements

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

Contract Type	2018		
	Gross Asset Derivatives at Fair Value December 31, 2018	Gross Liability Derivatives at Fair Value December 31, 2018	Gains/(Losses) on Derivatives for the Year Ended December 31, 2018
Fixed income contracts			
Futures	\$ 126,772,627 (3)	\$ 449,793,850 (3)	\$ 327,108,640
Swaps	88,348,035 (1)	43,714,129 (2)	(173,619,305)
Swaptions	6,486,561 (1)	3,712,337 (2)	117,268,816
Options on futures	946,892,280 (1)	970,936,447 (2)	229,752,944
Equity index contracts			
Equity options	-	-	774,800
Futures	374,055 (3)	375 (3)	1,494,626,155
Swaps	286,882 (1)	-	2,864,006
Options on futures	329,392,175 (1)	61,727,712 (2)	(1,475,331,473)
Energy contracts			
Futures	53,680 (3)	761,250 (3)	5,966,218
Options on futures	134,909,862 (1)	24,940,152 (2)	694,500
Agriculture contracts			
Futures	6,383,224 (3)	15,082,995 (3)	5,630,587
Options on futures	125,792,039 (1)	110,527,217 (2)	38,510,273
Precious metals contracts			
Futures	4,125 (3)	1,224,160 (3)	(1,106,101)
Options on futures	5,142,317 (1)	2,261,975 (2)	56,205
Currency contracts			
Futures	7,266,624 (3)	855,706 (3)	86,564,792
Currency forwards	2,482,669 (1)	3,586,304 (2)	(16,279,089)
Options on futures	66,265,060 (1)	62,178,060 (2)	(89,453,675)
Currency options	1,514,144 (1)	-	(286,835,572)
	<u>\$ 1,848,366,359</u>	<u>\$ 1,751,302,669</u>	<u>\$ 267,192,721</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 Receivables from 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	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)
	<u>\$ 1,833,218,813</u>		<u>\$</u>	<u>1,510,955,807</u>		<u>\$ 283,250,782</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 following tables provide disclosure regarding the effects of offsetting of recognized assets and liabilities presented in the statements of financial condition:

2018						
	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	Cash Collateral Received	Net Amount
Assets						
Securities purchased under agreements to resell	\$ 21,521,722,545	\$ 21,375,736,425	\$ 145,986,120	\$ 145,986,120	\$ -	\$ -
Futures contracts	140,854,334	140,854,334	-	-	-	-
	<u>\$ 21,662,576,879</u>	<u>\$ 21,516,590,759</u>	<u>\$ 145,986,120</u>	<u>\$ 145,986,120</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities						
Securities sold under agreements to repurchase	\$ 25,964,808,620	\$ 21,375,736,425	\$ 4,589,072,195	\$ 4,589,072,195	\$ -	\$ -
Futures contracts	467,718,337	140,854,334	326,864,003	-	-	326,864,003
	<u>\$ 26,432,526,957</u>	<u>\$ 21,516,590,759</u>	<u>\$ 4,915,936,198</u>	<u>\$ 4,589,072,195</u>	<u>\$ -</u>	<u>\$ 326,864,003</u>
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	Cash Collateral Received	Net Amount
Assets						
Securities purchased under agreements to resell	\$ 16,755,920,351	\$ 15,852,832,496	\$ 903,087,855	\$ 903,087,855	\$ -	\$ -
Futures contracts	178,056,040	178,056,040	-	-	-	-
	<u>\$ 16,933,976,390</u>	<u>\$ 16,030,888,536</u>	<u>\$ 903,087,855</u>	<u>\$ 903,087,855</u>	<u>\$ -</u>	<u>\$ -</u>
Liabilities						
Securities sold under agreements to repurchase	\$ 15,981,293,930	\$ 15,852,832,496	\$ 128,461,434	\$ 128,461,434	\$ -	\$ -
Futures contracts	245,737,653	178,056,040	67,681,614	-	-	67,681,614
	<u>\$ 16,227,031,583</u>	<u>\$ 16,030,888,536</u>	<u>\$ 196,143,048</u>	<u>\$ 128,461,434</u>	<u>\$ -</u>	<u>\$ 67,681,614</u>

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, 2018 and 2017, the average number of exchange traded derivative contracts bought and sold per month was approximately 31,654,000 and 28,452,000, 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, 2018 and 2017:

2018					
Repurchase agreements	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Government bonds	\$ 11,604,539,092	\$ 11,682,160,266	\$ 1,044,346,500	\$ 1,633,762,763	\$ 25,964,808,621
Total	\$ 11,604,539,092	\$ 11,682,160,266	\$ 1,044,346,500	\$ 1,633,762,763	\$ 25,964,808,621

2017					
Repurchase agreements	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
Total	\$ 11,685,243,847	\$ 870,282,651	\$ 3,166,517,581	\$ 259,249,850	\$ 15,981,293,930

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, 2018, 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:	
2019	\$ 2,787,109
2020	4,282,689
2021	4,389,640
2022	4,499,265
2023	4,611,631
Thereafter	30,655,214
	<u>\$ 51,225,548</u>

Rent expense for the years ended December 31, 2018 and 2017, was approximately \$970,000 and \$1,227,000, respectively, which is included within occupancy expenses on the statements of operations. During the same periods, the Company allocated rent expense of approximately \$6,119,000 and \$5,453,000, 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 \$8,617,000 and \$8,971,000, as of December 31, 2018 and 2017, respectively.

The Company has an irrevocable standby letter of credit with a bank in connection with one of the Company's clearing arrangements. As of December 31, 2018 and 2017, the amount of the letter of credit was \$2,000,000 and \$3,200,000, respectively. The letter of credit matures on December 13, 2019.

DRW Investments, LLC

Notes to Financial Statements

Note 9. Commitments and Contingencies (Continued)

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

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.