

**MERRILL LYNCH PROFESSIONAL CLEARING CORP.**

(S.E.C. I.D. No. 8-33359)

**BALANCE SHEET (Unaudited)**

**June 30, 2020**

**Merrill Lynch Professional Clearing Corp.**

**Table of Contents**

**June 30, 2020**

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	<b>Pages</b>
Balance Sheet (Unaudited).....	1
Notes to Balance Sheet (Unaudited).....	2 - 17

**Merrill Lynch Professional Clearing Corp.**  
**Balance Sheet (Unaudited)**  
**As of June 30, 2020**

(Dollars in thousands except share and per share amounts)

<b>ASSETS</b>	
Cash	\$ 22,686
Cash and securities segregated for regulatory purposes or deposited with clearing organizations	438,549
Securities financing transactions	
Receivables under resale agreements	12,146,093
Receivables under securities borrowed transactions	51,897,806
	<u>64,043,899</u>
Other receivables	
Customers	9,088,825
Brokers and dealers	9,712,503
Interest and other	324,816
	<u>19,126,144</u>
Goodwill	72,000
Other assets	3,824
<b>Total Assets</b>	<b><u><u>\$ 83,707,102</u></u></b>
 <b>LIABILITIES</b>	
Securities financing transactions	
Payables under securities loaned transactions	\$ 28,371,615
Other payables	
Customers	30,163,729
Brokers and dealers	10,508,211
Loans due to affiliates	5,757,361
Interest and other	539,689
	<u>46,968,990</u>
<b>Commitments, contingencies and guarantees</b> (See note 8)	
Subordinated borrowings (see note 6)	4,500,000
<b>Total Liabilities</b>	<b><u><u>79,840,605</u></u></b>
 <b>STOCKHOLDER'S EQUITY</b>	
Preferred stock, \$1,000 liquidation preference per share; par value \$1 per share; 10,000 shares authorized; 1,065 shares issued and outstanding	1,065
Common stock, par value \$1 per share; 50,000 shares authorized; 2,000 shares issued and outstanding	2
Paid-in capital	2,120,701
Retained earnings	1,744,729
<b>Total Stockholder's Equity</b>	<b><u><u>3,866,497</u></u></b>
<b>Total Liabilities and Stockholder's Equity</b>	<b><u><u>\$ 83,707,102</u></u></b>

The accompanying notes are an integral part of this Balance Sheet

1. **Organization**

**Description of Business**

Merrill Lynch Professional Clearing Corp. (the “Company”) is registered as a broker-dealer with the Securities and Exchange Commission (“SEC”) and is a member firm of the Financial Industry Regulatory Authority (“FINRA”). The Company is also registered as a futures commission merchant with the Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association (“NFA”) and the Securities Investor Protection Corporation (“SIPC”). The Company provides prime brokerage services such as margin lending, securities financing, and clearing and settlement to broker-dealers, introducing broker-dealers and other professional trading entities on a fully disclosed basis. The Company is guaranteed by, and is a wholly-owned subsidiary of BofA Securities, Inc. (“BofAS”), a broker-dealer. Additionally BofAS is a wholly-owned direct subsidiary of NB Holdings Corporation (“NB Holdings”), which is a wholly-owned subsidiary of Bank of America Corporation (“Bank of America”).

2. **Summary of Significant Accounting Policies**

**Basis of Presentation**

The Balance Sheet is presented in accordance with United States Generally Accepted Accounting Principles (“U.S. GAAP”). The Balance Sheet is presented in U.S. dollars.

**Use of Estimates**

In presenting the Balance Sheet, management makes estimates including the following:

- Valuations of assets and liabilities requiring fair value estimates;
- The outcome of pending litigation;
- The calculation of and ability to realize deferred tax assets and the recognition and measurement of uncertain tax positions;
- The carrying amount of goodwill; and
- Other matters that affect the reported amounts and disclosure of contingencies in the Balance Sheet.

Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ from those estimates and could have a material impact on the Balance Sheet and it is possible that such changes could occur in the near term. A discussion of certain areas in which estimates could be a significant component of the amounts reported in the Balance Sheet is as follows:

**Fair Value of Financial Instruments**

The Company had no assets and liabilities measured at fair value on a recurring basis as of June 30, 2020.

Accounting Standards Codification (“ASC”) 825-10-50 - *Financial Instruments*, requires disclosure of the fair value of certain financial instruments that are not carried at fair value in the Balance Sheet. The Company classifies its fair value measurements of financial instruments based on the three-level fair value hierarchy in ASC 820, *Fair Value Measurements and Disclosures*: Level 1 consist of unadjusted quoted prices in active markets for identical assets or liabilities, Level 2 consist of

observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities, and Level 3 consist of unobservable inputs that are supported by little or no market activity and that are significant to the overall fair value of the assets or liabilities. The level in the fair value hierarchy in which the Company's financial instruments are categorized is disclosed in the Balance Sheet Captions section in this note.

### **Legal Reserves**

The Company is occasionally a party in various actions, some of which involve claims for substantial amounts. Amounts are accrued for the financial resolution of claims that have either been asserted or are deemed probable of assertion if, in the opinion of management, it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. In many cases, it is not possible to determine whether a liability has been incurred or to estimate the maximum or minimum amount of that liability until the case is close to resolution, in which case no accrual is made until that time. Accruals are subject to significant estimation by management with input from outside counsel handling the matter. See Note 8 for further information.

### **Income Taxes**

The Company provides for income taxes on all transactions that have been recognized in the Balance Sheet in accordance with ASC 740, *Income Taxes* ("Income Tax Accounting"). Accordingly, deferred taxes are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are recognized in net earnings in the period during which such changes are enacted.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts that are more-likely-than-not to be realized. Pursuant to Income Tax Accounting, the Company may consider various sources of evidence in assessing the necessity of valuation allowances to reduce deferred tax assets to amounts more-likely-than-not to be realized, including the following: 1) past and projected earnings, including losses, of the Company and Bank of America, as certain tax attributes such as U.S. net operating losses ("NOLs"), U.S. capital loss carryforwards and foreign tax credit carryforwards can be utilized by Bank of America in certain income tax returns, 2) tax carryforward periods, and 3) tax planning strategies and other factors of the legal entities, such as the intercompany tax allocation agreement. The Company has concluded that these net deferred tax assets are more-likely-than-not to be fully utilized, based on the projected level of future taxable income of the Company and Bank of America, which is relevant due to the intercompany tax allocation agreement. For this purpose, future taxable income was projected based on forecasts, historical earnings after adjusting for past market disruptions and the anticipated impact of the differences between pre-tax earnings and taxable income.

The Company recognizes and measures its unrecognized tax benefits ("UTBs") in accordance with Income Tax Accounting. The Company estimates the likelihood, based on technical merits, that tax positions will be sustained upon examination considering the facts and circumstances and information available at the end of each period. The Company adjusts the level of unrecognized tax benefits when there is more information available, or when an event occurs requiring a change. In accordance with Bank of America's policy, any new or subsequent change in an unrecognized tax benefit related to a

Bank of America state consolidated, combined or unitary return in which the Company is a member will generally not be reflected in the Company's balance sheet. However, upon Bank of America's resolution of the item, any material impact determined to be attributable to the Company will be reflected in the Company's Balance Sheet.

Under the intercompany allocation agreements, tax benefits associated with NOLs (or other tax attributes) of the Company are payable to the Company generally upon utilization in Bank of America's tax returns.

In addition, under these agreements, substantially all current income taxes (federal, combined and unitary state) are recorded as income tax payable due to affiliate, which are included on the Balance Sheet within *Interest and other payables* and settled on at least an annual basis. See Note 9 for further discussion of income taxes.

### **Balance Sheet Captions**

The following are descriptions related to specific consolidated balance sheet captions, and the company estimates the carrying value of these items approximates their fair value. Assets and liabilities including segregated securities, securities financing transactions, other receivables and payables from and to customers, brokers and dealers, and affiliates, interest and other receivables and payables, and subordinated borrowings are considered level 2. Cash and cash equivalents are considered level 1.

### ***Cash***

The Company defines cash as demand deposits with banks or other financial institutions. The amounts recognized on the balance sheet approximates fair value.

### ***Cash and Securities Segregated for Regulatory Purposes or Deposited with Clearing Organizations***

The Company maintains relationships with clients and therefore is obligated by rules, which have been promulgated to protect client assets mandated by its primary regulators, including the SEC and the CFTC, to segregate client funds or set aside cash and/or qualified securities to satisfy these regulations. Included in *Cash and securities segregated for regulatory purposes or deposited with clearing organizations* as of June 30, 2020 was immaterial cash that is considered restricted cash by the Company. In addition, the Company is a member of various clearing organizations at which it maintains cash required to conduct its day-to-day clearance activities, including clearing fund deposits held at the Options Clearing Corporation ("OCC"). The OCC maintains a clearing fund to cover possible losses in the event of default of a clearing member (see Note 8 for additional information). Substantially all amounts included in Cash and Securities segregated for regulatory purposes or deposited with clearing organizations on the Balance Sheet consist of cash deposits held at clearing organizations.

### ***Securities Financing Transactions***

All resale agreements are transacted with affiliates, accounted for as collateralized financing transactions and are recorded at their contractual amounts, which approximate fair value. The fair value of these items is not materially sensitive to shifts in market interest rates because of the short-term nature of the instruments and/or their variable interest rates or to credit risk because the resale agreements are substantially collateralized.

The Company uses qualifying securities received as collateral for resale agreements to meet client cash segregation requirements pursuant to Rule 15c3-3 of the Securities Exchange Act of 1934 (“SEA Rule 15c3-3”). As of June 30, 2020, \$1.1 billion of securities acquired through agreements to resell were deposited in a separate bank account for the exclusive benefit of customers in accordance with SEA Rule 15c3-3. See Note 10 for further information.

All securities borrowed and loaned transactions are transacted with affiliates and are recorded at the amount of cash collateral advanced or received. The carrying value of securities borrowed and loaned transactions approximates fair value as these items are not materially sensitive to shifts in market interest rates because of their short-term nature and/or variable interest rates or to credit risk because securities borrowed and loaned transactions are substantially collateralized.

For securities financing transactions, the Company’s policy is to monitor the fair value of the underlying securities as compared with the amount of cash advanced or received, and the Company may obtain additional collateral from or return collateral pledged to counterparties when appropriate. Securities financing agreements do not create material credit risk due to these collateral provisions; therefore, an allowance for loan losses is only required in rare circumstances.

All securities financing activities are transacted under master repurchase agreements or master securities lending agreements that give the Company the right, in the event of default, to liquidate collateral held and to offset receivables and payables with the same counterparty. See Note 5 for additional information on securities financing arrangements.

***Other Receivables and Payables-Customers and Brokers and Dealers Balances***

Customers and brokers and dealers securities transactions are recorded on a settlement date basis. Receivables from and payables to customers and brokers and dealers include amounts due on cash and margin accounts, primarily comprised of margin loans and client cash balances held by the Company. In accordance with SEA Rule 15c3-3, client cash and margin balances are classified as customer or non-customer and are recorded in receivables from and payables to customers or brokers and dealers, respectively.

Receivables from and payables to brokers and dealers also include amounts due on clients’ futures accounts and unsettled trades (e.g., failed to deliver and failed to receive). In addition, receivables from brokers and dealers reflect customer related cash held in omnibus accounts, net of omnibus financing transactions.

Customer and broker and dealer margin loan transactions are those in which the Company makes a loan to a client to finance the client’s purchase of securities. These transactions are conducted through margin accounts. In these transactions, the customers and brokers and dealers are required to post collateral in excess of the value of the loan and the collateral must meet marketability criteria. Collateral is valued daily and must be maintained over the life of the loan. Given that these loans are fully collateralized by marketable securities, credit risk is negligible and reserves for loan losses are only required in rare circumstances. As of June 30, 2020, there were no loan loss reserves recorded.

Securities owned by customers and brokers and dealers, including those that collateralize margin loans or other similar transactions, are not reflected on the balance sheet of the Company.

***Other Receivables and Payables-Interest and Other***

Interest and other receivables include interest receivable on customers and brokers and dealers margin account balances and securities financing transactions. Also included are commissions and fees to be collected from clients, receivables from dividends and other receivables. Interest and other payables primarily includes interest payable on client margin account balances and securities financing transactions. Also included are amounts payable for dividends, taxes, exchange fees, and accrued expenses.

***Other Payables-Loans Due to Affiliates***

The Company maintains multiple unsecured revolving senior credit facilities with two affiliates, Bank of America and NB Holdings, to meet funding needs. See Note 3 for more information.

***Goodwill***

Goodwill is the purchase premium after adjusting for the fair value of net assets acquired. Goodwill is not amortized but is reviewed for potential impairment on an annual basis, or when events or circumstances indicate a potential impairment.

The Company assesses its fair value against its carrying value, including goodwill, as measured by equity. In performing its goodwill impairment testing, the Company first assesses qualitative factors to determine whether it is more likely than not that the Company's fair value is less than its carrying value. Qualitative factors include, among other things, macroeconomic conditions, industry and market considerations, financial performance and other relevant entity specific considerations. If the Company concludes it is more likely than not that its fair value is less than its carrying value, a quantitative assessment is performed. The Company has an unconditional option to bypass the qualitative assessment in any period and proceed directly to performing the quantitative goodwill impairment test. The Company may resume performing the qualitative assessment in any subsequent period.

When performing the quantitative assessment, if the Company's fair value exceeds its carrying value, goodwill would not be considered impaired. If the carrying value of the Company exceeds its fair value, a goodwill impairment loss would be recognized for the amount by which equity exceeds its fair value. An impairment loss recognized cannot exceed the amount of the Company's goodwill. An impairment loss establishes a new basis in the goodwill, and subsequent reversals of goodwill impairment losses are not permitted under applicable accounting guidance.

The Company completed its annual goodwill impairment test as of June 30, 2020 using a quantitative assessment.

***Other Assets***

Other assets consist primarily of equipment and other investments and receivables.

Depreciation is computed using the straight-line method. Equipment is depreciated over its estimated useful life.

***Subordinated Borrowings***

Funding is obtained through loans from NB Holdings. See Note 6 for more information.

*New Accounting Pronouncements*

***Reference Rate Reform***

In March 2020, the FASB issued a new accounting standard related to contracts or hedging relationships that reference LIBOR or other reference rates that are expected to be discontinued due to reference rate reform. The new standard provides for optional expedients and other guidance regarding the accounting related to modifications of contracts, hedging relationships and other transactions affected by reference rate reform. The Company has elected to retrospectively adopt the new standard as of January 1, 2020 which resulted in no immediate impact. While reference rate reform is not expected to have a material accounting impact on the Company's Balance Sheet, the standard will ease the administrative burden in accounting for the future effects of reference rate reform.

### **3. Related Party Transactions**

The Company has entered into various transactions with BofAS, Bank of America, NB Holdings, and other companies affiliated by common ownership.

The Company enters into receivables under resale agreements and securities borrowed transactions with affiliates to satisfy the reserve requirements of SEA Rule 15c3-3, to meet daily margin and clearing fund requirements at clearing organizations, to facilitate the settlement of short sale transactions by clients, and to maintain liquidity.

In addition, the Company maintains omnibus and settlement accounts at BofAS to facilitate the clearing, settlement, custody, and financing of clients' securities and futures transactions. These account balances are included within *Other Receivables - Brokers and Dealers*.

Related party payables primarily consist of securities loaned transactions with BofAS and other affiliates to finance client activities, unsecured lines of credit (described below), subordinated borrowings with NB Holdings (see Note 6 for more information), and other payables to affiliates, which includes income taxes. It also includes omnibus accounts maintained at BofAS, which are included within *Other Payables - Brokers and Dealers*.

The Company has established unsecured borrowing agreements with Bank of America and NB Holdings in the normal course of business. Amounts outstanding under these arrangements are included within *Loans due to affiliates* on the Company's balance sheet. The arrangements are summarized below:

The Company has a \$1.5 billion committed six month revolving senior unsecured line of credit with NB Holdings. Interest on this line of credit is based on prevailing short-term market rates. This facility will mature on February 1, 2021 and will automatically be extended semi-annually unless specific actions are taken 180 days prior to the maturity date. At June 30, 2020, there were no amounts outstanding on this line of credit.

The Company has an \$32.0 billion uncommitted six month revolving senior unsecured line of credit with NB Holdings. Interest on this line of credit is based on prevailing short-term market rates. This facility will mature on February 1, 2021 and will automatically be extended semi-annually unless specific actions are taken 180 days prior to the maturity date. At June 30, 2020, \$5.6 billion was outstanding on this line of credit.

The Company has a \$1.0 billion uncommitted six month revolving senior unsecured line of credit with Bank of America. Interest on this line of credit is based on prevailing short-term market rates. This facility will mature on February 1, 2021 and will automatically be extended semi-annually unless specific actions are taken 180 days prior to the maturity date. At June 30, 2020, there were no material amounts outstanding on this line of credit.

The Company has a \$2.2 billion committed intra-day unsecured line of credit with Bank of America, National Association ("BANA"). The intraday liquidity is provided through daylight overdraft of the demand deposit accounts held by the Company at BANA. The annual intraday loan rate is 15 basis points. At June 30, 2020, there were no amounts outstanding on this line of credit.

**Merrill Lynch Professional Clearing Corp.**  
**Notes to Balance Sheet (Unaudited)**  
**As of June 30,2020**

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The following tables summarize related party balances included in the respective Balance Sheet statement captions.

**(Dollars in thousands)**

<b>Assets:</b>	
Cash	\$ 4,231
Receivables under resale agreements	12,146,093
Receivables under securities borrowed transactions	51,897,806
Receivables from brokers and dealers	5,731,455
Interest and other	4,490
	<u>\$ 69,784,075</u>
<b>Liabilities:</b>	
Payables under securities loaned transactions	\$ 28,371,615
Payables to brokers and dealers	1,725,046
Loans due to affiliates	5,757,361
Interest and other	212,846
Subordinated borrowings	4,500,000
	<u>\$ 40,566,868</u>

#### **4. Trading Activities**

In connection with its prime brokerage business, the Company's trading activities consist primarily of the clearance, settlement, and financing of clients' securities and futures transactions.

##### **Trading Risk Management**

Trading activities subject the Company to market and credit risks. These risks are managed in accordance with Bank of America's established risk management policies and procedures. Bank of America's risk management structure as applicable to the Company is described below.

Global Risk Management is responsible for providing senior management with a clear and comprehensive understanding of the trading risks to which Bank of America is exposed. These responsibilities include owning the market risk policy, developing and maintaining quantitative risk models, calculating aggregated risk measures, establishing and monitoring position limits consistent with risk appetite, conducting daily reviews and analysis of trading inventory, approving material risk exposures and fulfilling regulatory requirements.

Bank of America conducts its business operations through many subsidiaries. The subsidiaries are established to fulfill a wide range of legal, regulatory, tax, licensing and other requirements. As such, to ensure a consistent application of minimum levels of controls and processes across its subsidiaries, Bank of America has in place a Subsidiary Governance Policy, to which the Company complies. This policy outlines the minimum required governance, controls, management reporting, financial and regulatory reporting and risk management practices for Bank of America's subsidiaries.

##### **Market Risk**

Market risk is the risk that changes in market conditions may adversely impact the value of assets or liabilities.

The majority of this risk is generated by the services the Company provides to its prime brokerage clients, including margin lending and securities financing. In addition, the value of assets and liabilities could change due to market liquidity, correlations across markets and expectations of market volatility. The Company seeks to manage these risk exposures by using a variety of techniques that encompass a broad range of financial instruments.

##### **Market Liquidity Risk**

Market liquidity risk represents the risk that the level of expected market activity changes dramatically and, in certain cases, may even cease. This exposes the Company to the risk that the Company will not be able to transact business in an orderly manner, which may impact results. This impact could be further exacerbated if expected hedging or pricing correlations are compromised by disproportionate demand or lack of demand for certain instruments.

##### **Liquidity Risk**

Liquidity Risk is the inability to meet expected or unexpected cash flow and collateral needs while continuing to support the Company's business and customer needs, under a range of economic conditions. The Company's primary liquidity risk management objective is to meet all contractual and contingent financial obligations at all times, including during periods of stress. To achieve that objective, the Company analyzes and monitors its liquidity risk under expected and stressed conditions, maintains liquidity and access to diverse funding sources and seeks to align liquidity-related incentives and risks.

Liquidity is defined as readily available assets, limited to cash and high-quality, liquid, unencumbered securities that the Company can use to meet contractual and contingent financial obligations as those obligations arise. As of June 30, 2020, the Company maintains unencumbered liquid securities, which includes securities purchased under resale agreements.

In addition, the Company is supported through committed and uncommitted borrowing arrangements with various affiliates (see Note 3 for more information).

### **Interest Rate Risk**

Interest rate risk represents exposures to instruments whose values vary with the level or volatility of interest rates. The Company's exposure to changes in interest rates arises primarily in connection with financing client transactions. The Company's earnings are not significantly exposed to interest rate movements due to the short-term nature of these exposures; additionally, the benchmark interest rates on the Company's interest bearing assets and liabilities are generally matched.

### **Foreign Exchange Risk**

Foreign exchange risk arises from the possibility that fluctuations in foreign exchange rates will impact the value of financial instruments and future cash flows denominated in currencies other than the U.S. dollar. The type of instruments exposed to this risk primarily includes foreign currency denominated margin loans and client cash balances. Hedging instruments used to mitigate this risk includes foreign currency denominated debt and foreign exchange spot contracts.

### **Counterparty Credit Risk**

The Company is exposed to risk of loss if an issuer or a counterparty fails to perform its obligations under contractual terms ("default risk"). The Company has established policies and procedures for mitigating credit risk, including reviewing and establishing limits for credit exposure, limiting transactions with specific counterparties, maintaining qualifying collateral and continually assessing the creditworthiness of counterparties.

In the normal course of business, the Company clears, settles, and finances various customer and brokers and dealers securities and futures transactions. These activities may expose the Company to default risk arising from the potential that a client, or counterparty may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to its customers, brokers and dealers or counterparties. The Company seeks to control the risks associated with its customer and brokers and dealers' margin activities by requiring customers and brokers and dealers to maintain collateral in compliance with regulatory and internal guidelines.

Liabilities to clients related to unsettled transactions (i.e., failed to receive) are recorded at the amount for which the securities were acquired, and are paid upon receipt of the securities from the counterparty. In the case of aged securities failed to receive, the Company may purchase the underlying securities in the market and seek reimbursement for any losses from the counterparty.

### **Concentrations of Credit Risk**

The Company's exposure to credit risk associated with its prime brokerage activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To

reduce the potential for risk concentration, credit limits are established and monitored in light of changing counterparty and market conditions.

**Concentration of Risk to the U.S. Government and its Agencies**

At June 30, 2020, the Company's significant concentration of credit risk was with the U.S. Government and its agencies. The Company's indirect exposure primarily results from maintaining U.S. Government and agencies securities as collateral for resale agreements and margin loans. The Company's direct credit exposure on these transactions is with the counterparty; thus the Company has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default. Securities issued by the U.S. Government and its agencies held as collateral as of June 30, 2020 totaled \$16.2 billion, which was primarily received from affiliated companies.

**5. Securities Financing Transactions**

The Company enters into resale agreements, securities borrowed and securities loaned transactions, which are all transacted with affiliates, primarily to meet the financing needs of its clients, to satisfy daily margin and clearing fund requirements of clearing organizations, to meet its regulatory reserve requirements under SEA Rule 15c3-3, and to maintain liquidity.

***Collateral Received and Pledged***

The Company receives securities, including U.S. Government and agency securities, corporate debt, and equity securities as collateral in connection with resale agreements, securities borrowed transactions, and client margin loans. Under most agreements, the Company is permitted to sell or repledge the securities received (e.g., to use these securities to secure repurchase agreements, enter into securities lending transactions or to deliver these securities to counterparties in order to settle client short sale transactions).

At June 30, 2020, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was \$238.6 billion, of which \$129.3 billion was received from affiliated companies. The fair value of these securities that had been sold or repledged was \$209.4 billion, of which \$112.1 billion have been sold or repledged to affiliated companies.

***Offsetting of Securities Financing Agreements***

All resale activities are transacted with affiliates and are under legally enforceable master repurchase agreements that give the Company, in the event of default by the counterparty, the right to liquidate securities held.

All securities borrowing and lending activities are transacted with affiliates and are under legally enforceable master securities lending agreements that give the Company, in the event of default by the counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty. In certain instances, the Company offsets securities borrowing and lending transactions with the same counterparty on the Company's balance sheet where it has such legally enforceable master netting agreement and the transactions have the same maturity date.

The table below presents the securities financing agreements included on the Company's balance sheet at June 30, 2020. Balances are presented on a gross basis, prior to the application of counterparty netting. Gross assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements.

**Merrill Lynch Professional Clearing Corp.**  
**Notes to Balance Sheet (Unaudited)**  
**As of June 30,2020**

The column entitled "Financial Instruments" in the tables below includes securities collateral received or pledged under securities financing agreements where there is a legally enforceable master netting agreement. These amounts are not offset on the balance sheet but are shown as a reduction to the net balance sheet amount in the table to derive a net asset or liability.

(Dollars in thousands)

	Assets				
	June 30, 2020				
	Gross Assets	Amounts Offset	Net Balance Sheet Amount	Financial Instruments <sup>(1)</sup>	Net Asset
Receivables under resale agreements	\$ 12,146,093	\$ —	\$ 12,146,093	\$ (12,146,093)	\$ —
Receivables under securities borrowed transactions	116,046,047	(64,148,241)	51,897,806	(51,897,806)	—
<b>Total</b>	<b>\$128,192,140</b>	<b>\$(64,148,241)</b>	<b>\$ 64,043,899</b>	<b>\$ (64,043,899)</b>	<b>\$ —</b>
	Liabilities				
	June 30, 2020				
	Gross Liabilities	Amounts Offset	Net Balance Sheet Amount	Financial Instruments <sup>(1)</sup>	Net Liability
Payables under securities loaned transactions	\$ 92,519,856	\$(64,148,241)	\$ 28,371,615	\$ (28,371,615)	\$ —
<b>Total</b>	<b>\$ 92,519,856</b>	<b>\$(64,148,241)</b>	<b>\$ 28,371,615</b>	<b>\$ (28,371,615)</b>	<b>\$ —</b>

1) These amounts are limited to the securities financing asset/liability balance and accordingly, do not include excess collateral received/pledged.

***Securities Loaned Transactions Accounted for as Secured Borrowings***

All of the Company's securities loaned transactions are contractually overnight or continuous (i.e., no stated term) and transacted with affiliates. Certain agreements contain a right to substitute collateral and/or terminate the agreement prior to maturity at the option of the Company or the counterparty. The table below presents securities loaned transactions by class of collateral pledged.

(Dollars in thousands)

**Class of collateral pledged**

	June 30, 2020
U.S. government and agencies	\$ 42,567
Corporate securities and other	3,690,313
Equities	88,786,976
<b>Total</b>	<b>\$ 92,519,856</b>

For securities loaned transactions, the Company receives collateral in the form of cash. The collateral is generally valued daily based on the market value of the securities loaned and the Company may receive or return collateral pledged, when appropriate.

**6. Subordinated Borrowings and Other Financing**

At June 30, 2020, the Company had a committed revolving subordinated line of credit with NB Holdings which has been approved for regulatory capital purposes, bears interest at a variable rate based on three month LIBOR plus a market-based spread. The Company’s revolving subordinated line of credit agreement contains a provision that automatically extends the loan’s maturity by one year unless specified actions are taken 390 days prior to the maturity date.

The following table summarizes subordinated borrowings as of June 30, 2020:

*(dollars in millions)*

	<b>Maturity</b>	<b>Amount Outstanding</b>	<b>Total Credit Facility</b>
Revolving Subordinated Line of Credit	March 21, 2022	\$ 4,500	\$ 8,500

In March 2020, with Board of Directors and FINRA approvals, the Company entered into a new agreement with NB Holdings for an \$8.5 billion revolving subordinated line of credit, and extinguished its pre-existing \$3.0 billion revolving subordinated line of credit facility with NB Holdings.

The Company obtains letters of credit (“LOCs”) from issuing banks to satisfy various counterparty collateral requirements in lieu of depositing cash or securities collateral. LOCs totaled \$215.0 million at June 30, 2020. There were no funds drawn under the LOCs at June 30, 2020.

**7. Stockholders’ Equity**

The Company is authorized to issue 10,000 shares of \$1 par value preferred stock, with a liquidation preference of \$1,000, and 50,000 shares of \$1 par value common stock. The common stock of the Company is entirely held by BofAS. The Company pays annual dividends to its preferred shareholders, which are certain clients of the Company. At June 30, 2020, there were 1,065 preferred and 2,000 common shares issued and outstanding.

**8. Commitments, Contingencies, Guarantees and Other**

**Litigation**

In the ordinary course of business, the Company is occasionally a defendant in or party to pending and threatened legal actions and proceedings. In view of the inherent difficulty of predicting the outcome of such litigation and regulatory matters, particularly where the claimants seek very large or indeterminate damages or where the matters present novel legal theories or involve a large number of parties, the Company cannot predict what the eventual outcome of the pending matters will be, what the timing of the ultimate resolution of these matters will be, or what the eventual loss, fines or penalties related to each pending matter may be.

In accordance with applicable accounting guidance, the Company establishes an accrued liability for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. In such cases, there may be an exposure to loss in excess of any amounts accrued. As a

matter develops, the Company, in conjunction with any outside counsel handling the matter, evaluates on an ongoing basis whether such matter presents a loss contingency that is probable and estimable. Once the loss contingency related to a litigation or regulatory matter is deemed to be both probable and estimable, the Company will establish an accrued liability. The Company continues to monitor the matter for further developments that could affect the amount of the accrued liability that has been previously established.

### **Commitments**

The Company has conditional commitments under which it would provide additional financing to certain counterparties. Such commitments aggregated \$0.4 billion as of June 30, 2020, and would expire within twelve months after certain specified conditions are met. As of June 30, 2020, none of the specified conditions were met that would require the Company to provide additional financing.

### **Guarantees**

The Company is a member of various securities and derivative exchanges and clearinghouses. As a member, the Company may be required to pay a pro-rata share of the losses incurred by some of these organizations as a result of another member's default and under other loss scenarios. The Company's potential obligations may be limited to its membership interests in such exchanges and clearinghouses, to the amount (or multiple) of the Company's contribution to the guarantee fund or, in limited instances, to the full pro-rata share of the residual losses after applying the guarantee fund. The Company's maximum potential exposure under these membership agreements is difficult to estimate; however, the potential for the Company to be required to make these payments is remote.

In connection with its prime brokerage and clearing businesses, the Company performs securities clearance and settlement services with other brokerage firms and clearinghouses on behalf of its clients. Under these arrangements, the Company stands ready to meet the obligations of its clients with respect to securities transactions. The Company's obligations in this respect are secured by the assets in the clients' accounts and the accounts of their customers as well as by any proceeds received from the transactions cleared and settled by the Company on behalf of clients or their customers. The Company's maximum potential exposure under these arrangements is difficult to estimate; however, the potential for the Company to incur material losses pursuant to these arrangements is remote.

### **Other**

Direct and indirect effects of the COVID-19 outbreak continue to impact the global economy, markets, and the Company's counterparties and clients. The Company has taken actions to mitigate the impacts of COVID-19. Although, the Company cannot predict COVID-19's potential future direct or indirect effects, the Company's results have not been materially negatively impacted by COVID-19's effects.

**Merrill Lynch Professional Clearing Corp.**  
**Notes to Balance Sheet (Unaudited)**  
**As of June 30, 2020**

**9. Income Taxes**

The Company files income tax returns in numerous state and local jurisdictions each year. The Internal Revenue Service ("IRS") and other tax authorities in states and cities in which the Company has significant business operations, examine tax returns periodically (continuously in some jurisdictions). The table below summarizes the status of significant tax examinations, by jurisdiction, for the Company as of June 30, 2020.

Jurisdiction	Years Subject to Examination (1)	Status at June 30, 2020
U.S. Federal	2017 - 2020	Field examination
California	2012 - 2017	Field examination
New York	2016 - 2018	Field examination

<sup>(1)</sup> All tax years subsequent to the above years remain open to examination.

As of June 30, 2020, the Company's accrual for interest and penalties that related to income taxes, net of taxes and remittances, was \$0.4 million.

Current income taxes are recorded as income tax payable due to affiliate, which are included on the Balance Sheet within *Interest and other payables*. Significant components of the Company's deferred tax assets as of June 30, 2020 are presented below.

*(dollars in thousands)*

<b>Deferred tax assets</b>	
Accrued expenses	\$ 990
State tax deduction	254
Loss carryforwards	77
Other	33
Gross deferred tax assets	1,354
<b>Deferred tax liabilities</b>	
Valuation allowance	(8)
Other	(14)
Total deferred tax liabilities	(22)
<b>Net deferred tax asset</b>	<b>\$ 1,332</b>

At June 30, 2020, the Company had U.S. state NOLs and U.S. state capital loss carryforwards, before considering the benefit of federal deductions, of approximately \$0.1 million. The related valuation allowance for U.S. states was approximately nil. Expiration of these losses begins in 2022.

At June 30, 2020, the Company had a current income tax payable due to its affiliates of approximately \$115.2 million as a result of its inclusion in consolidated, combined, and unitary tax return filings with Bank of America as determined under the intercompany tax allocation agreements with Bank of America.

## **10. Regulatory Requirements**

### ***SEC Uniform Net Capital Rule***

As a registered broker-dealer and futures commission merchant, the Company is subject to the net capital requirements of the Securities Exchange Act of 1934 Rule 15c3-1 (“SEA Rule 15c3-1”) and CFTC Regulation 1.17. The Company has elected to compute the minimum capital requirement in accordance with the “Alternative Standard” as permitted by SEA Rule 15c3-1.

At June 30, 2020, the Company’s regulatory net capital as defined by SEA Rule 15c3-1 was \$7.3 billion and exceeded the minimum requirement of \$1.2 billion by \$6.1 billion.

### ***SEC Customer Protection Rule***

The Company is also subject to SEA Rule 15c3-3, which requires, under certain circumstances, that cash or securities be deposited into a special reserve bank account for the exclusive benefit of customers. As of June 30, 2020, the Company had \$1.1 billion of U.S. Government securities segregated in a special reserve bank account for such requirement.

As a clearing broker and in accordance with SEA Rule 15c3-3, the Company computed a reserve requirement for the proprietary accounts of broker dealers. As of June 30, 2020, the Company had \$276.9 million of U.S. Government securities segregated in a special reserve bank account for such requirement.

### ***Commodity Exchange Act (“CEA”) - Regulated Commodities***

As a futures commission merchant, in accordance with the CEA, the Company is required to segregate and hold in separate accounts all monies, securities, and property received to margin and to guaranty or secure the trades or contracts of customers in regulated commodities. As of June 30, 2020, for customers trading on U.S commodity exchanges, pursuant to Section 4d(2) of the CEA, segregated funds exceeded such requirement by \$1.3 billion.

## **11. Subsequent Events**

ASC 855, *Subsequent Events*, requires the Company to evaluate whether events, occurring after the balance sheet date but before the date the Balance Sheet is available to be issued, require accounting as of the Balance Sheet date, or disclosure in the Balance Sheet. The Company has evaluated subsequent events through the date of issuance.

There were no material subsequent events which affected the amounts or disclosures in the Financial Statements through September 3, 2020, which is the issuance date of the Financial Statements.