

**FUTU Clearing Inc.**

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**Statement of Financial Condition and Notes to the Financial Statement**

**For the period ended June 30, 2023**

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**FUTU Clearing Inc.**

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Statement of Financial Condition  
June 30, 2023

**ASSETS**

Cash and cash equivalents	\$	231,262,369
Cash and cash equivalents - segregated for regulatory purposes		12,825,984
Customer debit balance		2,088,916,467
Deposits in and receivables from clearing organizations		72,655,593
Stock borrowed		1,022,013,639
Prepaid expenses and other assets		1,245,150
Receivables from brokers or dealers		12,135,369
Receivable from affiliates		3,118,736
Right of use-asset		728,377
Fixed assets, less accumulated depreciation of \$34,856		85,409
Securities long		160,959,843
Customer fails to deliver		918,937

**TOTAL ASSETS** \$ 3,606,865,873

**LIABILITIES AND SHAREHOLDER'S EQUITY**

**LIABILITIES**

Stock loan	\$	2,265,986,857
Payable to customer		675,465,759
Accounts payable and accrued expenses		7,022,402
Payables to brokers or dealers & clearing organizations		5,948,241
Payable to affiliate		22,071,486
PAB payable		2,556,879
Operating lease liability		823,916
Customer fails to receive		25,268

**TOTAL LIABILITIES** 2,979,900,808

**Shareholder's Equity**

Common stock (1,000 shares authorized, issued and outstanding at \$.0001 par value)	-
Additional paid in capital	481,739,497
Retained earnings	145,225,568

**TOTAL SHAREHOLDER'S EQUITY** 626,965,065

**TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY** \$ 3,606,865,873

The accompanying notes are an integral part of these financial statements

## **FUTU Clearing Inc.**

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Notes to Financial Statement  
For the Period Ended June 30, 2023

### **1. Organization and Nature of Business**

FUTU Clearing Inc. (the "Company") was incorporated in the state of Delaware on August 13, 2018. The Company is a wholly owned subsidiary of FUTU US Inc. (the Parent). The Company is a broker dealer registered with the Securities and Exchange Commission ("SEC") and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company provides execution, settlement and clearance services of equities and options for institutional and correspondent clients. The Company received its Broker Dealer approval from SEC and FINRA on May 28, 2019.

### **2. Summary of Significant Accounting Policies**

#### **a) Basis of Presentation**

The financial statement has been prepared in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

#### **b) Cash and Cash Equivalents and Concentrations of Credit Risk**

The Company considers money market funds and all investments purchased with an original maturity of three months or less to be cash equivalents. The Company's cash is held at three financial institutions which are insured by the Federal Deposit Insurance Corporation and at times may exceed federally insured limits. The Company has not experienced losses in such accounts and believes it is not subject to any significant credit risk on cash. The Company sweeps excess cash into an FDIC Insured Network Deposit Sweep provided by East West Bank.

#### **c) Cash and Cash Equivalents - Segregated for Regulatory Purposes**

The Company, as a regulated broker-dealer, is subject to the Customer Protection Rule, and is required by its primary regulators, the SEC and FINRA, to segregate cash to satisfy rules regarding the protection of client assets under SEC Act of 1934 rule 15c3-3 ("Rule 15c3-3") which is subject to withdrawal restrictions.

#### **d) Restricted Collateral Held in Trust**

The Company provides a 'fully-paid securities lending program' to its customers, under which enrolled customers loan their fully paid and excess margin securities to the Company who in turn lends those securities to various market participants. Under the requirements of Rule 15c3-3, the Company fully collateralized these loans with cash and/or cash equivalents.

#### **e) Revenue Recognition**

The Company follows Financial Accounting Standards Board (FASB) ASC Topic 606, Revenue from Contracts with Customers ("ASC Topic 606"). The revenue recognition guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance requires an entity to follow a five step model to (a) identify the contract(s) with a customer, (b) identify the performance obligations in the contract, (c) determine the transaction price, (d) allocate the transaction price to the performance obligations in the contract, and (e) recognize revenue when (or as) the entity satisfies a performance obligation. In determining the transaction price, an entity may include variable consideration only to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized would not occur when the uncertainty associated with the variable consideration is resolved. The revenue recognition guidance does not apply to revenue associated with financial instruments, interest income and expense, leasing and insurance contracts.

#### **f) Income Taxes**

The Company is included in the consolidated federal and state income tax returns filed by the Parent. Pursuant to an expense sharing agreement, the Parent allocates to the Company its share of the consolidated federal and state income tax expense or benefit based upon statutory rates applied to the Company's earnings as if it were filing a separate income tax return.

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## FUTU Clearing Inc.

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Notes to Financial Statement  
For the Period Ended June 30, 2023

### **f) Income Taxes (continued)**

Deferred tax assets and deferred tax liabilities are recognized for temporary differences between the financial reporting and tax bases of the Company's assets and liabilities. Deferred taxes are measured 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 assets and deferred tax liabilities, as well as other changes in income tax laws are recognized in the period during which such changes are enacted. As of June 30, 2023, there were no temporary differences between financial reporting and tax reporting bases.

Valuation allowances are established when necessary to reduce deferred tax assets to an amount that in the opinion of management, is more likely than not to be realized.

The guidance on accounting for uncertainty in income taxes describes how uncertain tax positions should be recognized, measured, presented and disclosed in the Financial Statements. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's financial statements to determine whether the tax positions are more likely than not to be realized as a tax benefit or expense in the current year. After-tax interest and penalties, as well as the related unrecognized tax benefits, are recognized in income tax expense. There were no uncertain positions as of June 30, 2023.

### **g) Use of Estimates**

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

### **h) Financial Instruments-Credit Losses**

In June 2016, the FASB issued Accounting Standards Update "ASU" No. 2016-13, Financial Instruments - Credit Losses (Topic 326). The ASU provides credit loss methodology, Current Expected Credit Losses (CECL), which requires earlier recognition of credit losses, while also providing additional transparency about credit risk. Since its original issuance in 2016, the FASB has issued several updates to the original ASU. The CECL methodology utilizes a lifetime "expected credit loss" measurement objective for the recognition of credit losses for loans, held-to-maturity securities and other receivables at the time the financial asset is originated or acquired. The expected credit losses are adjusted each period for changes in expected lifetime credit losses.

### **i) Deposits with Clearing Organizations**

Deposits with clearing organizations represent cash and treasuries deposited with central clearing agencies for the purposes of supporting clearing and settlement activities.

Receivables from clearing organizations include amounts due from the Depository Trust Company ("DTC"), National Securities Clearing Corporation ("NSCC"), Options Clearing Corporation ("OCC") and Commodity Futures Trading Commission ("CFTC"). Each has specific industry standard daily reconciliations of their securities activity, net settlements, and a daily update of margin and clearing fund requirements for NSCC, OCC and CFTC. DTC's clearing fund requirement is updated monthly. There is no prior loss history with these clearing organizations. Risk of loss from clearing organizations is expected to be immaterial over the life of these receivables.

### **j) Receivable from and Payable to Broker-Dealers**

Receivables include amounts receivable relating to open transactions, non-customer receivables, and amounts related to unsettled securities activities. Payables include amounts payable relating to open transactions, non-customer payables, and amounts related to unsettled securities activities. These balances are reported net by counterparty when the right of offset exists. Receivable from and Payable to Broker-Dealers are included in the accompanying Statement of Financial Condition.

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## FUTU Clearing Inc.

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Notes to Financial Statement  
For the Period Ended June 30, 2023

### **j) Receivable from and Payable to Broker-Dealers (continued)**

The Company conducts business with other brokers and Receivables from brokers refers to brokers' proprietary activity and correspondent brokers' clients' activity. Risks and the assessment of ASC 326 for correspondent brokers are addressed in Customer receivables.

All other broker receivables risk and ASC 326 assessments are addressed in separate sections as they relate to specific transactions elsewhere.

### **k) Securities Financing Transactions**

Stock borrowed and stock loaned transactions are recorded at the amount of cash collateral advanced or received, respectively, with all related securities, collateral, and cash both held at and moving through DTC as appropriate for each counterparty. All collateral is marked to market daily and in the event of a deficiency the Company will call additional collateral as necessary. Stock borrowed transactions require the Company to deposit cash or other collateral with the lender. Stock loaned transactions require the receipt of collateral by the Company in the form of cash in an amount generally in excess of the fair value of stock loaned.

The carrying value of stock 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 stock 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 amounts 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 and the allowance for credit losses is not material. The collateral maintenance provisions consisting of daily margining of collateral is expected to be maintained into the foreseeable future and any expected losses are assumed to not have a material impact to the Company's statement of financial condition.

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.

### **l) Securities Failed to Deliver and Securities Failed to Receive**

Securities failed to deliver or securities failed to receive represent sales and purchases of securities by the Company, respectively, either for its account or for the accounts of its customers or other brokers and dealers, which were not delivered or received on settlement date. Such transactions are initially measured at their contracted value. These amounts are reported in the accompanying Statement of Financial Condition as Receivable from and Payable to broker-dealers.

Securities failed to deliver are subject to losses due to counterparty risk as well as market risk through buy-ins. The Company is a participant in Continuous Net Settlement ("CNS"), the process used by NSCC that guarantees and nets street-wide activity, confirms all activity and ending positions, and marks them to market daily. The Company also participates in Obligation Warehouse, who reprices and attempts to settle certain outstanding fails through the automated CNS process. Broker fails outside of CNS and Obligation Warehouse occur infrequently and are immaterial.

Risk of loss of CNS fails is very low as they are marked to market daily and guaranteed by NSCC. Non-CNS fails receivable are collateralized by securities. The Company's use of Obligation Warehouse reduces overall non-CNS fails coupled with continuous monitoring has resulted in minimal losses over the past three years. Based on the above factors, there is no material current expected credit loss under ASC 326 for Securities failed to deliver at June 30, 2023.

## FUTU Clearing Inc.

Notes to Financial Statement  
For the Period Ended June 30, 2023

### m) Lines of Credit

As of June 30, 2023, the Company had short-term credit facilities with the parent and two financial institutions with available borrowing capacity of \$425 million at variable terms. The credit lines are intended to be a liquidity option to address any short term need for liquid capital to fund the Company's operations. The credit lines can be drawn on at any time up to a specified amount for each separate line of credit agreement. Interest will accrue at a specified annual rate for any period in which the Company borrows funds. As of June 30, 2023, the Company has no outstanding liability associated with any of its lines of credit.

	<b>Committed Unsecured</b>	<b>Uncommitted Secured</b>	<b>Total Facility Size</b>	<b>Interest Rate</b>	<b>Collateral</b>	<b>Committed</b>	<b>Expiration</b>
Facility 1	\$ 200,000,000	\$ -	\$ 200,000,000	0.00%	Unsecured	Committed	December 31, 2023
Facility 2	\$ -	\$ 150,000,000	\$ 150,000,000	1.5% plus overnight rate	Secured	Uncommitted	None
Syndicate line	\$ 75,000,000	\$ -	\$ 75,000,000	2.5% plus overnight rate	Unsecured	Committed	January 23, 2024
	<u>\$ 275,000,000</u>	<u>\$ 150,000,000</u>	<u>\$ 425,000,000</u>				

### n) 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 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 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. 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.

### 3. Concentrations of Credit Risk

During the period ended June 30, 2023, the Company's revenues were derived primarily from transactions related to four customers. Additionally, one counterparty made up 100% of the outstanding Customer Debit balance.

### 4. Indemnifications

In the normal course of its business, the Company indemnifies and guarantees certain service providers 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 statement for these indemnifications.

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. 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 statement for these indemnifications.

## FUTU Clearing Inc.

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Notes to Financial Statement  
For the Period Ended June 30, 2023

### 5. Net Capital Requirement

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEA Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1 (8 to 1 in the Firm's first year of operations). At June 30, 2023, the Company had net capital of \$603,784,524, which was \$553,419,735 in excess of its required net capital of \$50,364,789.

### 6. Customer and PAB Reserve Requirement

At June 30, 2023 cash and securities segregated in special reserve accounts under the SEC Customer Protection Rule totaled \$12,825,984. Of this amount, \$10,451,913 was for the exclusive benefit of customers and \$2,374,070 was for the exclusive benefit of proprietary accounts of brokers ("PAB").

### 7. Leases

The Company accounts for its leasing obligations under Topic 842, Leases. This standard requires the recognition of lease assets and lease liabilities by lessees for those leases previously classified as operating leases under previous U.S. GAAP. The lease asset would reflect a right-to-use asset and the lease liability would reflect the present value of the future lease payments.

As of June 30, 2023, the Company rents office space under operating leases expiring in 2025, and the Company has no financing leases. The leases call for base rent plus escalations as well as other operating expenses. The following table represents the Company's lease right-of-use assets and lease liabilities on the statement of financial condition.

	<u>As of June 30, 2023</u>
Assets	
Right of use-asset	\$728,377
Liabilities	
Operating lease liability	\$823,916

The lease is secured by a \$18,021 deposit held by the landlord, which is included in the prepaid expenses and other assets on the statement of financial condition. It is accounted for as an operating lease. Maturities of lease liabilities under noncancellable operating leases as of June 30, 2023 are as follows:

2023	102,908
2024	209,103
2025	213,017
2026	220,267
2027	<u>149,032</u>
Total undiscounted lease payments	894,328
Less Imputed Interest	<u>(70,412)</u>
Total lease liability	\$ 823,916

### 8. Related Party Transactions

The Company has entered into an expense sharing arrangements with multiple affiliated entities. There are many vendor relationships that service the Company and its affiliates and as such, these expense sharing arrangements memorialize the sharing of various expenses between the Company and the affiliated entities. The Company both allocates its expenses it pays on behalf of its affiliates and is allocated expenses in which the affiliates pay on its behalf. The terms of these arrangements provide that any expenses paid on behalf of the Company or another entity, for the various operating expenses are to be charged or recharged to at cost.

At June 30, 2023 the Company owed \$22,071,486 to its affiliates for shared expenses, included in payable to affiliate in the accompanying statement of financial condition and was owed \$3,118,736 from its affiliates for shared expenses, which is included in receivable from affiliates in the accompanying statement of financial condition.



## FUTU Clearing Inc.

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Notes to Financial Statement  
For the Period Ended June 30, 2023

### 8. Related Party Transactions (continued)

FUTU US, Inc. ("Parent") - The Company has an expense sharing agreement with the Parent. The Company has its own employees and the Parent pays the payroll for the Company out of its bank account. The Company then reimburses the Parent for its payroll expenses. Some of these employees are shared with other affiliated entities and charged back to the Parent. Additionally, the Company accrues its tax liability to the Parent since the Parent files one consolidated tax return which includes the results of the company. At June 30, 2023, the Company owed \$1,281,112 for shared vendor expenses and \$20,790,373 related to accrued tax liabilities.

Futu Holdings Ltd. ("FUTU Holdings") - The Company has an unsecured revolving line of credit with FUTU Holdings for \$200 million. The interest rate is 0.00% and it matures December 31, 2023 unless either party gives notice of termination at an earlier date.

ShenZhen Futu Network Technology Co., Ltd. ("FUTU SZ") - The Company entered into an agreement with FUTU SZ to license a proprietary order management system owned by FUTU SZ ("The OMS") on July 1, 2022 for annual licensing fee of \$12,000. The OMS provides market data, analytic tools and order entry functions to The Company's clients. The agreement will remain in full force and effect until either party terminates.

Futu Securities International (Hong Kong) Limited ("FUTU HK"), Futu Securities (Australia) Ltd. ("FUTU AU") and Moomoo Financial Singapore Pte. Ltd ("FUTU SG") are Foreign Financial Institution ("FFI") affiliates and have customer accounts that the Company holds. Each FFI affiliate has one FFI account with the Company where it holds cash and securities. The Company is their clearing broker and custodian to custode the assets and clear trades for which the Company charges Clearing Fees. FUTU HK FFI account also borrows money from the Company, pledging its securities as collateral in the form of a margin loan. At June 30, 2023, FUTU HK FFI account has a margin debit balance of \$2,088,916,467. FUTU AU and FUTU SG carried customer credit. Additionally, due to SEC Rule 15c3-3, the Company is required to gross-up certain credit items, or payables, associate with the customer accounts. For the period ended June 30, 2023, the Company has a payable to FFI customer balance in the amount of \$605,768,629 which is reflected in payable to customers in the statement of financial condition.

Moomoo Financial Inc, a U.S. broker-dealer affiliate ("MFI") (formerly FUTU Inc) clears its customers' transactions through the Company on an Omnibus basis through an Omnibus Account for the Exclusive Benefit of MFI's Customers that the Company holds. The account holds cash and securities. At June 30, 2023, MFI's Omnibus Account had free credits of \$69,399,820 which are included in payable to customers in the statement of financial condition.

At June 30, 2023, the Company also held Proprietary Accounts for Broker-Dealers ("PAB") on behalf of its FFI affiliates, FUTU HK, Moomoo Financial Inc, Moomoo Financial Singapore Pte. Ltd and Futu Securities (Australia) Ltd. These amounts were \$283,904, \$1,106,469, \$636,529 and \$529,977, respectively. These amounts have been reserved for in a Special Reserve Account for the Exclusive Benefit for PAB, as required under SEA Rule 15c3-3.

### 9. Income Taxes

The Company is part of a consolidated income tax filing with the Parent. The tax liability owed to the Parent by the Company of \$20,790,373 has been included in the payable to affiliate balance stated on the Statement of Financial Condition.

### 10. Fixed Assets

Fixed assets consisted of the following as of June 30, 2023:

Fixed Assets	\$ 120,265	<u>Useful Life</u> 5 years
Less: Accumulated depreciation	<u>34,856</u>	
<b>Net fixed assets</b>	<b><u>\$ 85,409</u></b>	

## FUTU Clearing Inc.

Notes to Financial Statement  
For the Period Ended June 30, 2023

### 11. Employee Benefit Plan

The Company's parent provides Restricted Stock Units and Options to its employees and the employees of all of its subsidiaries. Under the Plan, the employees earn vested units as throughout the term of their employment. All employees are eligible to participate in the Plan, based on meeting certain age and term of employment requirements. The Company adopted a qualified Defined Contribution Retirement Plan in accordance with Section 401(k) of the Internal Revenue Code (the "Plan").

### 12. Fair Value Measurements

The Company records its financial assets and liabilities at fair value. The accounting standard for fair value provides a framework for measuring fair value that clarifies the definition of fair value and expands disclosures regarding fair value measurements. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the reporting date. The accounting standard establishes a three-tier hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value.

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

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, 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.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets and liabilities. A financial instrument's level within the fair value hierarchy is based on the lowest level within the fair value hierarchy of any input that is significant to the fair value measurement.

The following table represents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at June 30, 2023:

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
U.S. Treasuries	\$ 159,920,936	\$ -	\$ -	\$ 159,920,936
Money Market Instruments	1,038,256			1,038,256
Equities	<u>651</u>	<u>-</u>	<u>-</u>	<u>651</u>
<b>Total Securities, at fair value</b>	<b><u>\$ 160,959,843</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 160,959,843</u></b>
<b>Liabilities</b>				
Equities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Total Securities, at fair value</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>

### 13. Subsequent Events

The Company has evaluated events and transactions that occurred between July 1, 2023 and August 15, 2023, which is the date the financial statement was available to be issued, for possible disclosure and recognition in the financial statement. No subsequent events have been found to require disclosure through the date the financial statement is available for issuance.