INTL FCSTONE INC.
Form 10-Q
August 08, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Transition Period From to
Commission File Number 000-23554

INTL FCStone Inc.
(Exact name of registrant as specified in its charter)

Delaware	59-2921318
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

708 Third Avenue, Suite 1500
New York, NY 10017
(Address of principal executive offices) (Zip Code)
(212) 485-3500
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	o
		Emerging growth company	o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).   Yes o No x

As of August 7, 2017, there were 18,719,538 shares of the registrant's common stock outstanding.

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Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2017
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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements
INTL FCStone Inc.
Condensed Consolidated Balance Sheets
(Unaudited)

(in millions, except par value and share amounts)	June 30, 2017	September 30, 2016
ASSETS		
Cash and cash equivalents	$306.1	$ 316.2
Cash, securities and other assets segregated under federal and other regulations (including $241.8 and $618.8 at fair value at June 30, 2017 and September 30, 2016, respectively)	678.7	1,136.3
Securities purchased under agreements to resell	521.7	609.6
Securities borrowed	119.6	—
Deposits with and receivables from:		
Exchange-clearing organizations (including $232.5 and $868.5 at fair value at June 30, 2017 and September 30, 2016, respectively)	1,988.6	1,524.4
Broker-dealers, clearing organizations and counterparties (including $22.5 and $(15.2) at fair value at June 30, 2017 and September 30, 2016, respectively)	177.7	237.0
Receivables from customers, net	251.5	194.5
Notes receivable, net	9.1	18.9
Income taxes receivable	1.4	1.1
Financial instruments owned, at fair value (includes securities pledged as collateral that can be sold or repledged of $171.4 and $47.2 at June 30, 2017 and September 30, 2016, respectively)	1,779.1	1,606.1
Physical commodities inventory (including $84.4 and $71.2 at fair value at June 30, 2017 and September 30, 2016, respectively)	172.5	123.8
Deferred income taxes, net	40.4	34.5
Property and equipment, net	33.1	29.4
Goodwill and intangible assets, net	60.5	56.6
Other assets	55.9	61.9
Total assets	$6,195.9	$ 5,950.3
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and other accrued liabilities (including $0.9 and $0.8 at fair value at June 30, 2017 and September 30, 2016, respectively)	$142.5	$ 161.3
Payables to:		
Customers	2,799.5	2,854.2
Broker-dealers, clearing organizations and counterparties (including $3.4 and $3.5 at fair value at June 30, 2017 and September 30, 2016, respectively)	182.3	260.1
Lenders under loans	244.7	182.8
Senior unsecured notes	—	44.5
Income taxes payable	8.6	7.1
Securities sold under agreements to repurchase	1,458.3	1,167.1
Securities loaned	148.0	—
Financial instruments sold, not yet purchased, at fair value	742.9	839.4
Total liabilities	5,726.8	5,516.5
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
	—	—

Preferred stock, $0.01 par value. Authorized 1,000,000 shares; no shares issued or outstanding		
Common stock, $0.01 par value. Authorized 30,000,000 shares; 20,825,712 issued and 18,703,755 outstanding at June 30, 2017 and 20,557,175 issued and 18,435,218 outstanding at September 30, 2016	0.2	0.2
Common stock in treasury, at cost - 2,121,957 shares at June 30, 2017 and September 30, 2016	(46.3)	(46.3)
Additional paid-in capital	256.8	249.4
Retained earnings	285.1	255.1
Accumulated other comprehensive loss, net	(26.7)	(24.6)
Total stockholders' equity	469.1	433.8
Total liabilities and stockholders' equity	$6,195.9	$ 5,950.3

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Income Statements
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions, except share and per share amounts)	2017	2016	2017	2016
Revenues:				
Sales of physical commodities	$5,317.0	$ 4,703.2	$16,486.3	$ 11,503.8
Trading gains, net	79.9	83.4	246.9	243.8
Commission and clearing fees	73.0	58.2	212.5	159.4
Consulting and management fees	16.3	8.0	47.5	27.3
Interest income	19.6	15.6	47.7	42.8
Other income	0.1	0.1	0.2	0.2
Total revenues	5,505.9	4,868.5	17,041.1	11,977.3
Cost of sales of physical commodities	5,308.3	4,693.5	16,462.2	11,484.9
Operating revenues	197.6	175.0	578.9	492.4
Transaction-based clearing expenses	33.9	35.2	101.2	97.9
Introducing broker commissions	29.2	14.8	86.1	40.8
Interest expense	11.2	7.7	30.1	20.8
Net operating revenues	123.3	117.3	361.5	332.9
Compensation and other expenses:				
Compensation and benefits	75.5	69.4	222.7	197.7
Communication and data services	9.8	7.9	29.6	23.1
Occupancy and equipment rental	3.9	3.2	11.1	9.7
Professional fees	3.7	3.3	11.9	8.9
Travel and business development	3.0	2.9	9.6	8.4
Depreciation and amortization	2.4	2.1	7.2	6.2
Bad debts	0.1	—	3.9	4.6
Other	9.9	7.1	27.8	20.8
Total compensation and other expenses	108.3	95.9	323.8	279.4
Income before tax	15.0	21.4	37.7	53.5
Income tax expense	2.3	6.8	7.7	15.6
Net income	$12.7	$ 14.6	$30.0	$ 37.9
Earnings per share:				
Basic	$0.67	$ 0.79	$1.59	$ 2.03
Diluted	$0.66	$ 0.78	$1.58	$ 2.00
Weighted-average number of common shares outstanding:				
Basic	18,447,053	18,138,754	18,365,939	18,461,063
Diluted	18,702,128	18,322,451	18,659,138	18,655,672

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Statements of Comprehensive Income
(Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions)	2017	2016	2017	2016
Net income	$12.7	$14.6	$30.0	$37.9
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(1.9)	(0.1)	(2.1)	(7.0)
Pension liabilities adjustment	—	—	—	(0.2)
Reclassification of adjustments included in net income:				
Periodic pension costs (included in compensation and benefits)	—	—	—	0.4
Reclassification adjustment included in net income:	—	—	—	0.4
Other comprehensive loss	(1.9)	(0.1)	(2.1)	(6.8)
Comprehensive income	$10.8	$14.5	$27.9	$31.1

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Cash Flows Statements
(Unaudited)

(in millions)	Nine Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net income	$30.0	$37.9
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	7.2	5.8
Bad debts	3.9	4.6
Deferred income taxes	(5.8)	0.9
Amortization of debt issuance costs and debt discount	1.7	0.7
Amortization of share-based compensation	4.6	3.8
(Gain) loss on sale of property and equipment	(0.3)	0.4
Changes in operating assets and liabilities, net:		
Cash, securities and other assets segregated under federal and other regulations	458.8	(218.0)
Securities purchased under agreements to resell	87.9	(301.3)
Securities borrowed	(112.7)	—
Deposits with and receivables from exchange-clearing organizations	(462.3)	51.5
Deposits with and receivables from broker-dealers, clearing organizations, and counterparties	30.2	96.1
Receivables from customers, net	(87.2)	101.8
Notes receivable, net	9.8	28.5
Income taxes receivable	(0.4)	1.4
Financial instruments owned, at fair value	(174.6)	(562.4)
Physical commodities inventory	(48.9)	(73.8)
Other assets	0.5	(7.1)
Accounts payable and other accrued liabilities	(13.3)	(2.3)
Payables to customers	(4.8)	75.6
Payables to broker-dealers, clearing organizations and counterparties	(65.4)	(8.9)
Income taxes payable	1.7	—
Securities sold under agreements to repurchase	291.2	429.0
Securities loaned	130.5	—
Financial instruments sold, not yet purchased, at fair value	(97.2)	304.0
Net cash used in operating activities	(14.9)	(31.8)
Cash flows from investing activities:		
Cash paid for acquisitions, net	(6.0)	—
Purchase of property and equipment	(8.6)	(12.1)
Net cash used in investing activities	(14.6)	(12.1)
Cash flows from financing activities:		
Net change in payable to lenders under loans	62.5	170.6
Repayment of senior unsecured notes	(45.5)	—
Payments of note payable	(0.6)	(0.6)
Deferred payments on acquisitions	—	(2.7)
Debt issuance costs	(0.3)	(1.9)
Exercise of stock options	3.1	2.3
Share repurchases	—	(19.5)
Income tax (shortfall) benefit on stock options and awards	(0.2)	0.7
Net cash provided by financing activities	19.0	148.9

Effect of exchange rates on cash and cash equivalents	0.4	(8.5)
Net (decrease) increase in cash and cash equivalents	(10.1)	96.5
Cash and cash equivalents at beginning of period	316.2	268.1
Cash and cash equivalents at end of period	$306.1	$364.6
Supplemental disclosure of cash flow information:		
Cash paid for interest	$27.2	$18.9
Income taxes paid, net of cash refunds	$12.4	$12.4
Supplemental disclosure of non-cash investing and financing activities:		
Identified intangible assets from asset acquisitions	$6.0	$—
Additional consideration payable related to acquisitions, net	$—	$0.3

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Statement of Stockholders' Equity
(Unaudited)

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total
Balances as of September 30, 2016	$ 0.2	$ (46.3)	$ 249.4	$ 255.1	$ (24.6)	$ 433.8
Net income				30.0		30.0
Other comprehensive loss					(2.1)	(2.1)
Exercise of stock options			2.8			2.8
Share-based compensation			4.6			4.6
Balances as of June 30, 2017	$ 0.2	$ (46.3)	$ 256.8	$ 285.1	$ (26.7)	$ 469.1

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1 – Basis of Presentation and Consolidation and Accounting Standards Adopted

INTL FCStone Inc., a Delaware corporation, and its consolidated subsidiaries (collectively “INTL” or “the Company”), is a diversified global financial services organization providing execution, risk management and advisory services, market intelligence, and clearing services across asset classes and markets around the world. The Company’s services include comprehensive risk management advisory services for commercial customers; execution of listed futures and options on futures contracts on all major commodity exchanges; structured over-the-counter (“OTC”) products in a wide range of commodities; physical trading and hedging of precious metals and select other commodities; trading of more than 140 foreign currencies; market-making in international equities; fixed income; debt origination and asset management.

The Company provides these services to a diverse group of more than 20,000 predominantly wholesale organizations located throughout the world, including producers, processors and end-users of nearly all widely-traded physical commodities to manage their risks and enhance margins; to commercial counterparties who are end-users of the Company’s products and services; to governmental and non-governmental organizations; and to commercial banks, brokers, institutional investors and major investment banks.

Basis of Presentation and Consolidation

The accompanying condensed consolidated balance sheet as of September 30, 2016, which has been derived from audited consolidated financial statements, and the unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and note disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the condensed consolidated financial statements for the interim periods presented have been reflected as required by Rule 10-01 of Regulation S-X. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. These interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes contained in the Company’s Form 10-K for the fiscal year ended September 30, 2016 filed with the SEC.

These condensed consolidated financial statements include the accounts of INTL FCStone Inc. and all other entities in which the Company has a controlling financial interest. All material intercompany transactions and balances have been eliminated in consolidation.

The Company’s fiscal year end is September 30, and the fiscal quarters end on December 31, March 31, June 30 and September 30. Unless otherwise stated, all dates refer to fiscal years and fiscal interim periods.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as of the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates and assumptions relate to fair value measurement for financial instruments and investments, revenue recognition, the provision for potential losses from bad debts, valuation of inventories, valuation of goodwill and intangible assets, incomes taxes, and contingencies. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

In the condensed consolidated income statements, the total revenues reported combine gross revenues for the physical commodities business and net revenues for all other businesses. The subtotal ‘operating revenues’ in the condensed consolidated income statements is calculated by deducting physical commodities cost of sales from total revenues. The subtotal ‘net operating revenues’ in the condensed consolidated income statements is calculated as operating revenues less transaction-based clearing expenses, introducing broker commissions and interest expense.

Transaction-based clearing expenses represent variable expenses paid to executing brokers, exchanges, clearing organizations and banks in relation to transactional volumes. Introducing broker commissions include commission paid to non-employee third parties that have introduced customers to the Company. Net operating revenues represent revenues available to pay variable compensation to risk management consultants and traders and direct non-variable expenses, as well as variable and non-variable expenses of operational and administrative employees.

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During the quarter ended March 31, 2017, the Company’s Securities reportable segment established a securities lending business. Securities borrowed and loaned are accounted for as collateralized financings. Securities borrowed and loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed and loaned are reported on a gross basis as the Company has determined that the right of offset does not exist. Interest income and interest expense are recognized over the life of the arrangements.

Accounting Standards Adopted

In April 2015, the FASB issued Accounting Standards Update (“ASU”) No. 2015-03, Interest – Imputation of Interest (Subtopic 835-30). ASU 2015-03 requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. In June 2015, the FASB issued ASU 2015-15 as an amendment to this guidance to address the absence of authoritative guidance for debt issuance costs related to line-of-credit arrangements. The SEC staff stated that they would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. ASU 2015-03 required retrospective application to all prior periods presented in the consolidated financial statements. This new guidance was effective for the Company in the first quarter of 2017. As a result of adopting this standard on October 1, 2016, deferred financing costs of $1.0 million as of September 30, 2016, previously reported within other assets, were reclassified to senior unsecured notes in the consolidated balance sheet. As of December 31, 2016, there were no deferred financing costs as the senior unsecured notes were redeemed during the three months ended December 31, 2016, as discussed in Note 9.

In January 2017, the FASB issued ASU 2017-01, Business Combinations - Clarifying the Definition of a Business, which clarifies the definition of a business for determining whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company early adopted this guidance effective October 1, 2016, and applied the guidance in determining whether the acquisition discussed in Note 16 is the acquisition of an asset or of a business.

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Note 2 – Earnings per Share

The Company presents basic and diluted earnings per share ("EPS") using the two-class method which requires all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends and therefore participate in undistributed earnings with common stockholders be included in computing earnings per share. Under the two-class method, net earnings are reduced by the amount of dividends declared in the period for each class of common stock and participating security. The remaining undistributed earnings are then allocated to common stock and participating securities, based on their respective rights to receive dividends. Restricted stock awards granted to certain employees and directors contain non-forfeitable rights to dividends at the same rate as common stock, and are considered participating securities. Basic EPS has been computed by dividing net income by the weighted-average number of common shares outstanding.

The following is a reconciliation of the numerator and denominator of the diluted earnings per share computations for the periods presented below.

	Three Months Ended June 30,		Nine Months Ended June 30,	
(in millions, except share amounts)	2017	2016	2017	2016
Numerator:				
Net income	$12.7	$ 14.6	$30.0	$ 37.9
Less: Allocation to participating securities	(0.3)	(0.3)	(0.6)	(0.6)
Net income allocated to common stockholders	$12.4	$ 14.3	$29.4	$ 37.3
Denominator:				
Weighted average number of:				
Common shares outstanding	18,447,053	18,138,754	18,365,913	18,461,063
Dilutive potential common shares outstanding:				
Share-based awards	255,075	183,697	293,199	194,609
Diluted weighted-average shares	18,702,128	18,322,451	18,659,113	18,655,672

The dilutive effect of share-based awards is reflected in diluted earnings per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense required under the Compensation – Stock Compensation Topic of the ASC.

Options to purchase 210,543 and 1,009,055 shares of common stock for the three months ended June 30, 2017 and 2016, respectively, and options to purchase 242,778 and 933,678 shares of common stock for the nine months ended June 30, 2017 and 2016, respectively, were excluded from the calculation of diluted earnings per share as they would have been anti-dilutive.

Note 3 – Assets and Liabilities, at Fair Value

The Company's financial and non-financial assets and liabilities reported at fair value on a recurring basis are included in the following captions on the condensed consolidated balance sheets:

- Cash and cash equivalents
- Cash, securities and other assets segregated under federal and other regulations
- Deposits with and receivables from exchange-clearing organizations
- Deposits with and receivables from broker-dealers, clearing organizations and counterparties
- Financial instruments owned
- Physical commodities inventory
- Accounts payable and other accrued liabilities
- Payables to broker-dealers, clearing organizations and counterparties
- Financial instruments sold, not yet purchased

Fair Value Hierarchy

The majority of financial assets and liabilities on the condensed consolidated balance sheets are reported at fair value. Cash is reported at the balance held at financial institutions. Cash equivalents includes money market funds, which are valued at period-end at the net asset value provided by the fund's administrator, and certificates of deposit, which are stated at cost plus accrued interest, which approximates fair value. Cash, securities and other assets segregated under federal and other regulations include the value of cash collateral as well as the value of other pledged investments, primarily U.S. Treasury bills, obligations issued by government sponsored entities, and commodities warehouse receipts. Deposits with and receivables from exchange-clearing organizations, broker-dealers, clearing organizations and counterparties and payables to broker-dealers, clearing organizations and counterparties include the value of cash collateral as well as the value of money market funds and other pledged investments, primarily U.S. Treasury bills, obligations issued by government sponsored entities, and mortgage-backed and asset-backed securities. These balances also include the fair value of exchange-traded futures and options on futures and exchange-cleared swaps and options determined by prices on the applicable exchange. Financial instruments owned and sold, not yet purchased include the value of common and preferred stock and American Depository Receipts (“ADRs”), exchangeable foreign ordinary equities and ADRs, U.S. and foreign government obligations, corporate and municipal bonds, derivative financial instruments, exchange stock, commodities warehouse receipts and leases, mutual funds and investments in managed funds. The fair value of exchange common stock is determined by quoted market prices. Physical commodities inventory includes precious metals that are a part of the trading activities of the regulated broker-dealer subsidiary and is recorded at fair value using spot prices. Physical commodities inventory also includes agricultural and energy commodities that are part of the trading activities of a non-broker dealer subsidiary and are also recorded at fair value using spot prices. The carrying value of securities purchased under agreements to resell, securities borrowed, receivables from customers, net, notes receivable, net, securities sold under agreements to repurchase, and securities loaned approximates fair value due to their short-term nature. Payables to lenders under loans carry variable rates of interest and thus approximate fair value.

Deposits with and receivables from broker-dealers, clearing organizations and counterparties include amounts receivable for securities sold but not yet delivered by the Company on settlement date (“fails-to-deliver”) and net receivables arising from unsettled trades. Payables to broker-dealers, clearing organizations and counterparties primarily include amounts payable for securities purchased, but not yet received by the Company on settlement date (“fails-to-receive”), net payables arising from unsettled trades, and bonds loaned transactions. Due to their short-term nature, deposits with and receivables from and payables to broker-dealers, clearing organizations and counterparties approximate fair value.

The fair value estimates presented in the condensed consolidated financial statements are based on pertinent information available to management as of June 30, 2017 and September 30, 2016. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these condensed consolidated financial statements since that date and current estimates of fair value may differ significantly from the amounts presented in the condensed consolidated financial statements.

Cash equivalents, securities, selected physical commodities inventory, commodities warehouse receipts, derivative financial instruments, commodities leases, exchange common stock and contingent liabilities are carried at fair value, on a recurring basis, and are classified and disclosed into three levels in the fair value hierarchy.

Precious metals inventory held by subsidiaries that are not broker-dealers are valued at fair value on a non-recurring basis. Except as disclosed in Note 6, the Company did not have any fair value adjustments for assets or liabilities measured at fair value on a non-recurring basis as of June 30, 2017 and September 30, 2016.

The three levels of the fair value hierarchy under the Fair Value Measurement Topic of the ASC are:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 - Quoted prices for identical or similar assets or liabilities in markets that are less active, that is, markets in which there are few transactions for the asset or liability that are observable for substantially the full term; and

Level 3 - Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

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The following tables set forth the Company’s financial and nonfinancial assets and liabilities accounted for at fair value, on a recurring basis, as of June 30, 2017 by level in the fair value hierarchy.

	June 30, 2017				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
Assets:					
Unrestricted cash equivalents - certificate of deposits	$4.9	$—	$ —	$—	$4.9
Commodities warehouse receipts	12.2	—	—	—	12.2
U.S. government obligations	—	229.6	—	—	229.6
Securities and other assets segregated under federal and other regulations	12.2	229.6	—	—	241.8
U.S. government obligations	—	295.5	—	—	295.5
Derivatives	1,893.9	—	—	(1,956.9)	(63.0)
Deposits with and receivables from exchange-clearing organizations	1,893.9	295.5	—	(1,956.9)	232.5
"To be announced" (TBA) and forward settling securities	—	6.5	—	—	6.5
Derivatives	—	103.2	—	(87.2)	16.0
Deposits with and receivables from broker-dealers, clearing organizations and counterparties	—	109.7	—	(87.2)	22.5
Common and preferred stock and ADRs	24.3	2.5	0.2	—	27.0
Exchangeable foreign ordinary equities and ADRs	10.4	0.1	—	—	10.5
Corporate and municipal bonds	2.2	2.2	—	—	4.4
U.S. government obligations	—	524.7	—	—	524.7
Foreign government obligations	—	44.4	—	—	44.4
Agency mortgage-backed and asset-backed securities	—	932.0	—	—	932.0
Derivatives	207.0	2,074.5	—	(2,077.7)	203.8
Commodities leases	—	122.7	—	(107.2)	15.5
Commodities warehouse receipts	3.5	—	—	—	3.5
Exchange firm common stock	7.5	—	—	—	7.5
Mutual funds and other	5.8	—	—	—	5.8
Financial instruments owned	260.7	3,703.1	0.2	(2,184.9)	1,779.1
Physical commodities inventory	84.4	—	—	—	84.4
Total assets at fair value	$2,256.1	$4,337.9	$ 0.2	$(4,229.0)	$2,365.2
Liabilities:					
Accounts payable and other accrued liabilities - contingent liabilities	$—	$—	$ 0.9	$—	$0.9
TBA and forward settling securities	—	3.4	—	—	3.4
Derivatives	1,858.5	95.0	—	(1,953.5)	—
Payable to broker-dealers, clearing organizations and counterparties	1,858.5	98.4	—	(1,953.5)	3.4
Common and preferred stock and ADRs	40.0	0.5	—	—	40.5
Exchangeable foreign ordinary equities and ADRs	9.7	0.8	—	—	10.5
U.S. government obligations	—	348.8	—	—	348.8
Foreign government obligations	—	11.2	—	—	11.2
Mortgage-backed securities	—	0.4	—	—	0.4
Derivatives	208.6	2,328.6	—	(2,257.2)	280.0
Commodities leases	—	195.4	—	(143.9)	51.5
Financial instruments sold, not yet purchased	258.3	2,885.7	—	(2,401.1)	742.9

Total liabilities at fair value	$2,116.8	$2,984.1	$ 0.9	$(4,354.6)	$747.2

(1) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

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The following table sets forth the Company's financial and nonfinancial assets and liabilities accounted for at fair value, on a recurring basis, as of September 30, 2016 by level in the fair value hierarchy.

	September 30, 2016				
(in millions)	Level 1	Level 2	Level 3	Netting and Collateral (1)	Total
Assets:					
Unrestricted cash equivalents - certificates of deposits	$7.1	$—	$ —	$—	$7.1
Commodities warehouse receipts	23.3	—	—	—	23.3
U.S. government obligations	—	595.5	—	—	595.5
Securities and other assets segregated under federal and other regulations	23.3	595.5	—	—	618.8
Money market funds	512.7	—	—	—	512.7
U.S. government obligations	—	472.1	—	—	472.1
Derivatives	2,149.9	—	—	(2,266.2)	(116.3)
Deposits with and receivables from exchange-clearing organizations	2,662.6	472.1	—	(2,266.2)	868.5
TBA and forward settling securities	—	0.3	—	—	0.3
Derivatives	—	8.0	—	(23.5)	(15.5)
Deposits with and receivables from broker-dealers, clearing organizations and counterparties	—	8.3	—	(23.5)	(15.2)
Common and preferred stock and ADRs	34.6	1.7	0.2	—	36.5
Exchangeable foreign ordinary equities and ADRs	25.2	0.5	—	—	25.7
Corporate and municipal bonds	36.9	0.9	3.0	—	40.8
U.S. government obligations	—	514.9	—	—	514.9
Foreign government obligations	—	14.6	—	—	14.6
Agency mortgage-backed and asset-backed securities	—	747.5	—	—	747.5
Derivatives	206.9	1,350.8	—	(1,363.8)	193.9
Commodities leases	—	137.2	—	(129.1)	8.1
Commodities warehouse receipts	8.9	—	—	—	8.9
Exchange firm common stock	6.4	—	—	—	6.4
Mutual funds and other	8.8	—	—	—	8.8
Financial instruments owned	327.7	2,768.1	3.2	(1,492.9)	1,606.1
Physical commodities inventory, net - precious metals	71.2	—	—	—	71.2
Total assets at fair value	$3,091.9	$3,844.0	$ 3.2	$(3,782.6)	$3,156.5
Liabilities:					
Accounts payable and other accrued liabilities - contingent liabilities	$—	$—	$ 0.8	$—	$0.8
TBA and forward settling securities	—	2.6	—	0.9	3.5
Derivatives	1,961.7	97.5	—	(2,059.2)	—
Payable to broker-dealers, clearing organizations and counterparties	1,961.7	100.1	—	(2,058.3)	3.5
Common and preferred stock and ADRs	23.5	0.4	—	—	23.9
Exchangeable foreign ordinary equities and ADRs	25.3	0.5	—	—	25.8
U.S. government obligations	—	509.8	—	—	509.8
Corporate and municipal bonds	6.9	—	—	—	6.9
Derivatives	199.4	1,319.3	—	(1,307.8)	210.9
Commodities leases	—	207.8	—	(145.7)	62.1
Financial instruments sold, not yet purchased	255.1	2,037.8	—	(1,453.5)	839.4

Total liabilities at fair value	$2,216.8	$2,137.9	$ 0.8	$(3,511.8)	$843.7

(1) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

Realized and unrealized gains and losses are included in ‘trading gains, net’ and ‘interest income’ in the condensed consolidated income statements.

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Information on Level 3 Financial Assets and Liabilities

The Company's financial assets at fair value classified in level 3 of the fair value hierarchy as of June 30, 2017 and September 30, 2016 are summarized below:

(in millions)	June 30, 2017	September 30, 2016
Total level 3 assets	$0.2	$ 3.2
Level 3 assets for which the Company bears economic exposure	$0.2	$ 3.2
Total assets	$6,195.9	$ 5,950.3
Total assets at fair value	$2,365.2	$ 3,156.5
Total level 3 assets as a percentage of total assets	— %	0.1 %
Level 3 assets for which the Company bears economic exposure as a percentage of total assets	— %	0.1 %
Total level 3 assets as a percentage of total financial assets at fair value	— %	0.1 %

The following tables set forth a summary of changes in the fair value of the Company's level 3 financial assets and liabilities during the three and nine months ended June 30, 2017 and 2016, including a summary of unrealized gains (losses) during the respective periods on the Company's level 3 financial assets and liabilities still held as of June 30, 2017.

Level 3 Financial Assets and Financial Liabilities For the Three Months Ended June 30, 2017

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.2	$ —	$ —	$ —	$ —	$ —	$ 0.2
	$0.2	$ —	$ —	$ —	$ —	$ —	$ 0.2

(in millions)	Balances at beginning of period	Realized (gains) losses during period	Unrealized (gains) losses during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Liabilities:							
Contingent liabilities	$0.9	$ —	$ —	$ —	$ —	$ —	$ 0.9

Level 3 Financial Assets and Financial Liabilities For the Nine Months Ended June 30, 2017

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.2	$ —	$ —	$ —	$ —	$ —	$ 0.2
Corporate and municipal bonds	3.0	—	—	—	(3.0)	—	—
	$3.2	$ —	$ —	$ —	$ (3.0)	$ —	$ 0.2

(in millions)	Balances at beginning of period	Realized (gains) losses during period	Unrealized (gains) losses during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Liabilities:							
Contingent liabilities	$0.8	$ —	$ 0.1	$ —	$ —	$ —	$ 0.9

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Level 3 Financial Assets and Financial Liabilities For the Three Months Ended June 30, 2016

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.3	$ —	$ —	$ —	$ —	$ —	$ 0.3
Corporate and municipal bonds	3.3	—	(0.3)	—	—	—	3.0
	$3.6	$ —	$ (0.3)	$ —	$ —	$ —	$ 3.3

(in millions)	Balances at beginning of period	Realized (gains) losses during period	Unrealized (gains) losses during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Liabilities:							
Contingent liabilities	$1.5	$ —	$ —	$ —	$ (0.7)	$ —	$ 0.8

Level 3 Financial Assets and Financial Liabilities For the Nine Months Ended June 30, 2016

(in millions)	Balances at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Assets:							
Common stock and ADRs	$0.5	$ —	$ (0.2)	$ —	$ —	$ —	$ 0.3
Corporate and municipal bonds	3.2	—	(0.2)	—	—	—	3.0
	$3.7	$ —	$ (0.4)	$ —	$ —	$ —	$ 3.3

(in millions)	Balances at beginning of period	Realized (gains) losses during period	Unrealized (gains) losses during period	Purchases/issuances	Settlements	Transfers in or (out) of Level 3	Balances at end of period
Liabilities:							
Contingent liabilities	$3.3	$ —	$ 0.3	$ —	$ (2.8)	$ —	$ 0.8

The Company had debentures issued by a single asset owning company of Suriwongse Hotel located in Chiang Mai, Thailand. As of September 30, 2016, the Company’s investment in the hotel was $3.0 million, and was included within the corporate and municipal bonds classification in the level 3 financial assets and financial liabilities tables. In December 2016, the Company sold the debentures and collected an amount approximating their carrying value.

The Company is required to make additional future cash payments based on certain financial performance measures of its acquired businesses. The Company is required to remeasure the fair value of contingent consideration arrangements on a recurring basis in accordance with the guidance in the Business Combinations Topic of the ASC. The Company has classified its liabilities for the contingent consideration within level 3 of the fair value hierarchy because the fair value is determined using significant unobservable inputs, which include projected cash flows. The estimated fair value of the earn-outs is based upon management-developed forecasts, a level 3 input in the fair value hierarchy. These cash flows are discounted employing present value techniques in arriving at fair value. The discount rate was developed using market participant company data and there have been no significant changes in the interest rate environment. From the dates of acquisition to June 30, 2017, certain acquisitions have had changes in the estimates of undiscounted cash flows, based on actual performances fluctuating from estimates. The fair value of the contingent consideration increased by less than $0.1 million and $0.1 million during the three months ended June 30, 2017 and 2016 and by less than $0.1 million and $0.3 million during the nine months ended June 30, 2017 and 2016, respectively, with the corresponding amount classified as ‘other’ in the condensed consolidated income statements. The Company reports transfers in and out of levels 1, 2 and 3, as applicable, using the fair value of the securities as of the beginning of the reporting period in which the transfer occurred. The Company did not have any transfers in and out of levels 1, 2, and 3 during the three and nine months ended June 30, 2017 and 2016.

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Note 4 – Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company is party to certain financial instruments with off-balance sheet risk in the normal course of its business. The Company has sold financial instruments that it does not currently own and will therefore be obliged to purchase such financial instruments at a future date. The Company has recorded these obligations in the condensed consolidated financial statements as of June 30, 2017 and September 30, 2016 at the fair values of the related financial instruments. The Company will incur losses if the fair value of the underlying financial instruments increases subsequent to June 30, 2017. The total financial instruments sold, not yet purchased of $742.9 million and $839.4 million as of June 30, 2017 and September 30, 2016, respectively, includes $280.0 million and $210.9 million for derivative contracts, respectively, which represented a liability to the Company based on their fair values as of June 30, 2017 and September 30, 2016.

Derivatives

The Company utilizes derivative products in its trading capacity as a dealer in order to satisfy customer needs and mitigate risk. The Company manages risks from both derivatives and non-derivative cash instruments on a consolidated basis. The risks of derivatives should not be viewed in isolation, but in aggregate with the Company's other trading activities. The majority of the Company's derivative positions are included in the condensed consolidated balance sheets in 'deposits with and receivables from exchange-clearing organizations', 'deposits with and receivables from broker-dealers, clearing organizations and counterparties', 'financial instruments owned, at fair value', 'financial instruments sold, not yet purchased, at fair value' and payables to broker-dealers, clearing organizations and counterparties'.

The Company employs an interest rate risk management strategy using derivative financial instruments in the form of interest rate swaps as well as outright purchases of medium-term U.S. Treasury notes to manage a portion of the aggregate interest rate position. The Company's objective when using interest rate swaps under the strategy, is to invest certain amounts of customer deposits in high quality, short-term investments and swap the resulting variable interest earnings into medium-term interest earnings. When used, the risk mitigation of these interest rate swaps are not within the documented hedging designation requirements of the Derivatives and Hedging Topic of the ASC, and as a result are recorded at fair value, with changes in the fair value of the interest rate swaps recorded within 'trading gains, net' in the condensed consolidated income statements. At September 30, 2016, the Company had $375.0 million in notional principal of interest rate swaps outstanding with a weighted-average remaining life of 15 months. During the nine months ended June 30, 2017, the Company settled these interest rate swaps in advance of their original maturity date.

Listed below are the fair values of the Company's derivative assets and liabilities as of June 30, 2017 and September 30, 2016. Assets represent net unrealized gains and liabilities represent net unrealized losses.

	June 30, 2017		September 30, 2016	
(in millions)	Assets [1]	Liabilities [1]	Assets [1]	Liabilities [1]
Derivative contracts not accounted for as hedges:				
Exchange-traded commodity derivatives	$1,641.2	$ 1,719.3	$2,022.1	$ 1,920.5
OTC commodity derivatives	1,998.3	2,165.0	1,217.0	1,188.9
Exchange-traded foreign exchange derivatives	32.2	23.5	12.2	7.5
OTC foreign exchange derivatives	384.1	371.0	346.5	290.2
Exchange-traded interest rate derivatives	187.4	172.6	78.7	120.5
Equity index derivatives	35.4	39.3	39.1	50.3
TBA and forward settling securities	6.5	3.4	0.3	2.6
Gross fair value of derivative contracts	4,285.1	4,494.1	3,715.9	3,580.5
Impact of netting and collateral	(4,121.8)	(4,210.7)	(3,653.5)	(3,366.1)
Total fair value included in 'Deposits with and receivables from exchange-clearing organizations'	$(63.0)		$(116.3)	
Total fair value included in 'Deposits with and receivables from broker-dealers, clearing organizations and counterparties'	$22.5		$(15.2)	
	$203.8			

Total fair value included in ‘Financial instruments owned, at fair value’