

# Statement of Financial Condition

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**Wells Fargo Clearing Services, LLC**

(A Wholly Owned Limited Liability Company of Wachovia  
Securities Financial Holdings, LLC)

June 30, 2021

**WELLS FARGO CLEARING SERVICES, LLC**  
(A Wholly Owned Limited Liability Company of  
Wachovia Securities Financial Holdings, LLC)

Statement of Financial Condition

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(A Wholly Owned Limited Liability Company of  
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Statement of Financial Condition  
June 30, 2021  
(Unaudited, Dollars in thousands)

<b>Assets</b>	
Cash	\$ 1,687,313
Cash and securities segregated under federal and other regulations	1,084,236
Securities purchased under agreements to resell	1,575,937
Receivable from brokers, dealers and clearing organizations	727,374
Receivable from customers, net	15,936,175
Loans and notes receivable from financial advisors, net	2,183,863
Securities owned, at fair value	171,286
Property, equipment and leasehold improvements, net	272,319
Lease right of use assets	412,479
Goodwill	1,236,291
Receivable from affiliates	8,635
Other assets	527,918
Total assets	<u>\$ 25,823,826</u>

<b>Liabilities and Member's Equity</b>	
Borrowings	\$ 2,803,898
Securities sold under agreements to repurchase	92,014
Payable to brokers, dealers and clearing organizations	5,133,682
Payable to customers	4,677,293
Securities sold, not yet purchased, at fair value	26,299
Lease liabilities	482,766
Payable to affiliates	172,652
Accrued compensation and benefits	489,180
Deferred compensation plan liabilities	1,186,701
Accrued expenses and other liabilities	187,656
Total liabilities	<u>15,252,141</u>
Member's equity	<u>10,571,685</u>
Total liabilities and member's equity	<u>\$ 25,823,826</u>

The accompanying notes are an integral part of this Statement of Financial Condition.

## WELLS FARGO CLEARING SERVICES, LLC

### Notes to Statement of Financial Condition

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(Unaudited, Dollars in thousands)

#### (1) **Organization and Basis of Presentation**

Wells Fargo Clearing Services, LLC (the Company) is wholly owned by Wachovia Securities Financial Holdings, LLC (WSFH), which is a wholly owned subsidiary of Everen Capital Corporation (Everen), which is a wholly owned subsidiary of WFC Holdings, LLC (WFCH), which is a wholly owned subsidiary of Wells Fargo & Company (WFC). WSFH serves as the holding company for the retail brokerage and clearing businesses headquartered in Saint Louis, Missouri. WSFH's principal operating subsidiaries are the Company and Wells Fargo Advisors Financial Network, LLC (FINET).

The Company is registered as a broker-dealer with the Securities and Exchange Commission (SEC) and is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investors Protection Corporation (SIPC). The Company is also a member of the National Futures Association (NFA) and is registered as an introducing broker with the Commodity Futures Trading Commission (CFTC).

The Company's primary business activities include securities and commodities brokerage, investment advisory, asset management services and clearing services. The Company self-clears substantially all customer security transactions except its customer commodities transactions which are cleared through ADM Investor Services, Inc. on a fully-disclosed basis.

#### (2) **Summary of Significant Accounting Policies**

The Company's Statement of Financial Condition is prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), the most significant of which are summarized below.

##### ***Cash and securities segregated under federal and other regulations***

Cash and securities segregated under federal and other regulations represents cash and qualified securities set aside to satisfy requirements under Securities Exchange Act Rule 15c3-3 (the Customer Protection Rule) of the SEC. This cash is held within a special reserve bank account for the benefit of customers.

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

Trading securities held to accommodate expected customer order flow are recorded on the trade date, as if they had settled. Customer securities transactions are recorded on a settlement-date basis.

Securities owned and securities sold, not yet purchased are carried at fair value. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the Statement of Financial Condition as the Company does not have title to these assets.

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#### ***Securities Lending Activities***

Securities borrowed and securities loaned are reported as collateralized financing transactions and are recorded in receivables from and payables to brokers, dealers and clearing organizations in the accompanying Statement of Financial Condition at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash with the lender in exchange for securities. The market value of securities borrowed is monitored, with additional collateral obtained to ensure full collateralization. The Company has established policies and procedures for mitigating credit risk on securities borrowed transactions, including reviewing and establishing limits for credit exposure, maintaining collateral, and continually assessing the creditworthiness of counterparties. With respect to securities loaned, the Company receives cash collateral in an amount generally in excess of the market value of securities loaned. The Company minimizes credit risk associated with securities borrowed and loaned by daily monitoring collateral values and, when applicable, requiring additional collateral to be deposited with the Company as permitted under contractual provisions.

#### ***Securities Purchased/Sold Under Agreements to Resell/Repurchase***

Transactions involving purchases of securities under agreements to resell (reverse repurchase agreements) or sales of securities under agreements to repurchase (repurchase agreements) are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase amounts plus accrued interest. Reverse repurchase agreements are collateralized by securities with a market value in excess of the obligation under the contract which may result in unsecured credit exposure in the event the counterparty to a transaction is unable to fulfill its contractual obligations timely. The Company manages the credit risk associated with these transactions by monitoring the fair value of the collateral obtained, including accrued interest, and by requesting additional collateral when deemed appropriate. The fair value of collateral related to reverse repurchase agreements was \$1,603,355 as of June 30, 2021, consisting of U.S. government agency mortgage backed securities. It is the Company's policy to obtain possession and control of securities purchased under agreements to resell. The Company has segregated \$92,014 of the collateral associated with its repurchase agreements.

#### ***Fair Value***

Receivable from brokers, dealers and clearing organizations, receivable from customers, securities under agreements to resell, receivable from affiliates, borrowings, securities sold under agreements to repurchase, payable to brokers, dealers and clearing organizations, payable to customers and payable to affiliates are recorded at contracted amounts that approximate fair value. The fair value of certain of these items is not materially sensitive to shifts in market interest rates because of the limited term to maturity and/or the variable interest rates of many of these instruments.

Securities owned and sold, not yet purchased and qualifying securities for the exclusive benefit of customers under the Customer Protection Rule (see Note 3) are recorded at fair value, which is

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determined by using quoted market or dealer prices, third-party pricing services or other relevant observable information.

The Company categorizes its assets and liabilities that are accounted for at fair value in the Statement of Financial Condition into a fair value hierarchy as defined by US GAAP. The fair value hierarchy is directly related to the amount of subjectivity associated with the inputs utilized to determine the fair value of these assets and liabilities (see Note 10).

#### ***Derivatives***

Derivatives are recorded in the Statement of Financial Condition at fair value. The Company uses derivatives as economic hedges to manage market risks associated with the Company's deferred compensation plan liability (see Note 15). In an economic hedge, the effect of change in fair value is generally offset by the unrealized gain or loss on the derivatives linked to the hedged assets and liabilities. Cash collateral related to derivatives is exchanged with the counterparty, Wells Fargo Bank, N.A. (WFBNA), and is recorded as an offset to the derivative fair value asset or liability balance in the Statement of Financial Condition. This cash collateral, also referred to as variation margin, is exchanged based upon derivative fair value changes, typically on a one-day lag.

By using derivatives, the Company is exposed to counterparty credit risk, which is the risk that counterparties to the derivative contracts do not perform as expected. If WFBNA fails to perform, the counterparty credit risk is equal to the amount reported as a derivative asset on the Statement of Financial Condition. At June 30, 2021, the Company recorded no derivative assets and \$3,569 of derivative liabilities, which are included in accrued expenses and other liabilities in the Statement of Financial Condition.

#### ***Property, Equipment and Leasehold Improvements***

Property, equipment and leasehold improvements are recorded at cost, net of accumulated depreciation and amortization. Depreciation of property and equipment is recognized on a straight-line basis using estimated useful lives that range up to 40 years for buildings and up to ten years for furniture and equipment. Leasehold improvements are amortized over the lesser of the estimated useful life of the improvement or the remaining term of the lease. For internal-use software, the Company capitalizes qualifying costs incurred during the application development stage. The resulting asset is amortized on a straight-line basis over the expected life of the asset, generally three to five years. The Company periodically reviews the estimated useful lives of its property, equipment and leasehold improvements.

#### ***Lessee Activity***

The Company enters into operating lease agreements to obtain the right to use assets for its business operations, substantially all of which are real estate. Lease liabilities and right of use (ROU) assets are recognized when the Company enters into operating leases and represent its obligations and rights to use these assets over the period of the leases and may be re-measured for

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certain modifications, resolution of certain contingencies involving variable consideration, or the Company's exercise of options (renewal, extension, or termination) under the lease.

Lease liabilities include fixed and in-substance fixed payments for the contractual duration of the lease, adjusted for renewals or terminations which were deemed probable of exercise when measured. The lease payments are discounted using a rate determined when the lease is recognized. As the Company typically does not know the discount rate implicit in the lease, the Company estimates a discount rate that it believes approximates a collateralized borrowing rate for the estimated duration of the lease. The discount rate is updated when re-measurement events occur. The related ROU assets may differ from lease liabilities due to initial direct costs, deferred or prepaid lease payments and lease incentives.

Some of the Company's leases include variable lease payments which are periodic adjustments of the Company's payments for the use of the asset based on changes in factors such as consumer price indices, fair market value, tax rates imposed by taxing authorities, or lessor cost of insurance.

The Company accounts for amounts paid for maintenance or other services as lease payments.

#### ***Goodwill***

Goodwill is the cost of an acquired company in excess of the fair value of identifiable net assets at the acquisition date. Goodwill is assessed annually, or more frequently under certain conditions, for impairment at the reporting unit level. If, based on an initial qualitative assessment, it is more likely than not a reporting unit's fair value is less than the carrying amount, then a quantitative analysis is performed to determine if there is goodwill impairment. If the fair value of the reporting unit exceeds its carrying value, its goodwill is not deemed to be impaired. On December 1, 2020, the Company completed its qualitative impairment assessment on its one reporting unit as of October 31, 2020, taking into account macroeconomic factors, industry and market statistics, cost trends, financial performance metrics, entity-specific events, key industry metrics, and events that affect the reporting unit. The Company concluded that there was no impairment.

#### ***Income Taxes***

The Company is a single member limited liability company and is treated as a disregarded entity pursuant to Treasury Regulation Section 301.7701-3 for federal income tax purposes. Generally, disregarded entities are not subject to entity-level federal or state income taxation and, as such, the Company does not provide for income taxes under Financial Accounting Standards Board Accounting Standards Codification (ASC) 740, *Income Taxes*. The Company's taxable income is reported in the tax return of Everen. There are no tax sharing agreements between the Company and Everen. Certain states and foreign jurisdictions may subject the Company to entity-level taxation as a single member limited liability company. The Company files tax returns in various

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states and local jurisdictions and is subject to income tax examinations by tax authorities for years 2011 and forward.

Based upon its evaluation, the Company has concluded that there are no significant uncertain income tax positions relevant to the jurisdictions where it is required to file income tax returns requiring recognition in the Statement of Financial Condition. Management monitors proposed and issued tax laws, regulations and cases to determine the potential impact to uncertain income tax positions. At June 30, 2021, management had not identified any potential subsequent events that would have a material impact on unrecognized income tax benefits within the next twelve months.

#### *Use of Estimates*

The preparation of the Statement of Financial Condition in conformity with US GAAP requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Statement of Financial Condition. Actual results could differ from those estimates.

#### *Other*

Other assets consist primarily of accrued revenue, dividends receivable, correspondent broker-dealer receivables and prepaid expenses. Accrued expenses and other liabilities consist primarily of vendor payables, tax withholding payables, dividends payable, and legal reserves.

#### **(3) Cash and Securities Segregated Under Federal and Other Regulations**

The Company is required to segregate funds in a special reserve bank account for the exclusive benefit of customers under the Customer Protection Rule. The Company performs the computation for assets in the proprietary accounts of broker-dealers (PAB) in accordance with the computation set forth in the Customer Protection Rule, which enables broker-dealers to include PAB assets as allowable assets in their net capital computations, to the extent allowable under Securities Exchange Act Rule 15c3-1 (the Net Capital Rule). At June 30, 2021, the Company segregated qualifying securities with a fair value of \$400,947 and cash of \$623,777 for the exclusive benefit of customers, of which \$1,024,715 met the definition of segregated funds pursuant to the Customer Protection Rule. The Company also segregated cash of \$59,512 in a special reserve bank account for PAB as of June 30, 2021.

#### **(4) Collateral**

The Company accepts collateral under securities borrowed agreements and for credit extended to customers. The Company is permitted to repledge or sell these securities held as collateral. The collateral is received predominately from customers and is used by the Company primarily to enter into securities lending agreements and to effectuate short sales made by customers. At June 30, 2021, the fair value of this collateral was \$21,657,409, of which \$6,343,712 had been repledged by the Company.

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#### (5) Offsetting of Securities Financing Agreements

Repurchase and resale activities are subject to master repurchase agreements (MRA) and securities borrowing and lending agreements are subject to master securities lending agreements (MSLA). The Company accounts for transactions subject to these agreements as collateralized financings.

Collateral pledged consists of non-cash instruments, such as securities, and is not netted in the Statement of Financial Condition against the related collateralized asset or liability. The Company receives securities as collateral that are not recognized in the Statement of Financial Condition. Collateral received or pledged may be increased or decreased over time to maintain certain contractual thresholds as the assets or liabilities underlying each arrangement fluctuate in value. While certain agreements may be over-collateralized, US GAAP requires the disclosure to limit the amount of such collateral to the amount of the related recognized asset or liability.

The following table shows the Company's securities financing agreements as of June 30, 2021:

#### Assets:

##### *Resale and securities borrowing agreements*

Gross amounts recognized	\$ 1,830,943
Gross amounts offset in Statement of Financial Condition	<u>—</u>
Net amounts in Statement of Financial Condition (1)	1,830,943
Non-cash collateral received not recognized in Statement of Financial Condition (2)	<u>1,825,994</u>
Net amount	<u><u>\$ 4,949</u></u>

#### Liabilities:

##### *Repurchase and securities lending agreements*

Gross amounts recognized	\$ 5,067,079
Gross amounts offset in Statement of Financial Condition	<u>—</u>
Net amounts in Statement of Financial Condition (3)	5,067,079
Non-cash collateral pledged not recognized in Statement of Financial Condition (4)	<u>5,029,318</u>
Net amount	<u><u>\$ 37,761</u></u>

(1) Includes \$1,575,937 reported in securities purchased under agreements to resell and \$255,006 reported in receivable from brokers, dealers and clearing organizations in the Statement of Financial Condition.

(2) Represents the fair value of non-cash collateral received under enforceable MRAs or MSLAs, limited for table presentation purposes to the amount of the recognized asset receivable from each counterparty.

(3) Includes \$92,014 reported in securities sold under agreements to repurchase and \$4,975,065 reported in payable to brokers, dealers and clearing organizations in the Statement of Financial Condition.

(4) Represents the fair value of non-cash collateral pledged, related to enforceable MRAs or MSLAs, limited for table presentation purposes to the amount of the recognized liability owed to each counterparty.

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#### (6) Repurchase and Securities Lending Arrangements

Securities sold under repurchase agreements and securities lending arrangements are effectively short-term collateralized borrowings. While not a material risk, there is the residual risk that a counterparty may default and the Company would be exposed to declines in the market value of the collateral securing these transactions. Credit risk associated with these transactions is subject to many factors such as the liquidity of the collateral and the strength of the counterparties involved. The Company attempts to mitigate these risks by the fact that the majority of the securities financing activities involve highly liquid securities. The Company also monitors the financial strength of the counterparties, the fair value of collateral pledged relative to repurchase and securities lending contracts and that collateral is properly returned through the clearing and settlement process.

The following table provides the underlying collateral types of the gross obligations under securities lending agreements as of June 30, 2021:

	<u>Total Gross Obligation</u>
<b>Repurchase agreements</b> (1)	
U.S. agency obligations (2)	\$ 92,014
<b>Securities lending</b> (1)	
U.S. government and agency obligations	72,183
Corporate obligations	22,364
Equity securities	4,880,518
Total securities lending (3)	<u>4,975,065</u>
Total obligations under repurchases and securities lending	<u>\$ 5,067,079</u>

(1) Repurchase and securities lending transactions are conducted under enforceable MRAs and MSLAs that allow either party to terminate the transaction on demand. These transactions are considered continuous obligations.

(2) Amount is reported in securities sold under agreements to repurchase in the Statement of Financial Condition.

(3) Amount is reported in payable to brokers, dealers and clearing organizations in the Statement of Financial Condition.

#### (7) Receivable from and Payable to Brokers, Dealers and Clearing Organizations

The Company's receivables from brokers, dealers and clearing organizations include amounts receivable from unsettled trades, amounts receivable for securities failed to deliver, accrued interest receivables and cash deposits. A portion of the Company's trades and contracts are cleared through a clearing organization and settled daily between the clearing organization and the Company. As a result of this daily settlement, the amount of unsettled credit exposures is limited to the amount owed the Company for a very short period of time. The Company continually reviews the credit quality of its counterparties.

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Receivable from and payable to brokers, dealers and clearing organizations consists of the following at June 30, 2021:

*Receivable from brokers, dealers and clearing organizations:*

Deposits paid for securities borrowed	\$	255,006
Securities failed to deliver		147,324
Receivable from clearing organizations		310,290
Receivable from broker-dealers		14,754
	\$	<u>727,374</u>

*Payable to brokers, dealers and clearing organizations:*

Deposits received from securities loaned	\$	4,975,065
Securities failed to receive		59,744
Payable to clearing organizations		32,009
Payable to broker-dealers		66,864
	\$	<u>5,133,682</u>

#### (8) Receivable from and Payable to Customers

Receivable from and payable to customers represent balances arising in connection with the settlement of cash transactions and securities-based lending transactions. Receivable from customers consists primarily of non-purpose and margin loans to customers, customer cash debits and certain other customer receivables associated with brokerage customer transactions conducted at WFBNA. Payable to customers consists primarily of customer free credits.

Margin and non-purpose loans represent credit extended to customers to finance their purchases of securities by borrowing against securities they own and are fully collateralized by these securities in customer accounts. The borrowers of a non-purpose or margin loan are contractually required to continually adjust the amount of the collateral as its fair value changes. The Company subjects the borrowers to an internal qualification process, monitors customer activity, and assesses the amount of unsecured customer receivables for exposure. When the receivable from a brokerage customer is considered to be impaired, the amount of the impairment is generally measured based on the fair value of the securities acting as collateral.

Under ASC Topic 326 *Financial Instruments - Credit Losses* (CECL), the Company has not elected to use the collateral maintenance provision practical expedient for any loans to its customers. Receivable from customers is reported net of the allowance for credit losses, which was \$357 at June 30, 2021.

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#### (9) Securities Owned and Securities Sold, Not Yet Purchased

At June 30, 2021, securities owned and securities sold, not yet purchased consist of the following, at fair value:

	<u>Securities owned</u>	<u>Securities sold, not yet purchased</u>
Bankers' acceptances, commercial paper and certificates of deposit	\$ 15,786	\$ —
U.S. government and agency obligations	68,637	15,315
State and municipal government obligations	70,080	15
Corporate obligations	14,112	10,790
Equity securities	2,671	179
Total	<u>\$ 171,286</u>	<u>\$ 26,299</u>

#### (10) Fair Value Measurement

The Company classifies its assets and liabilities measured at fair value based upon a three-level hierarchy that assigns the highest priority to unadjusted quoted prices in active markets and the lowest priority to unobservable inputs. The three levels are as follows:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques in which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions reflect the Company's own estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of discounted cash flow models, option pricing models and similar techniques.

Securities owned and sold, not yet purchased and qualifying securities for the exclusive benefit of customers under the Customer Protection Rule are recorded at fair value on a recurring basis.

Fair value measurement is based upon various sources of market pricing. The Company uses quoted prices in active markets where available and will classify such instruments as Level 1 of the fair value hierarchy. Examples include highly-liquid equity securities and government securities such as U.S. government and U.S. agency obligations.

Securities traded in secondary markets are typically valued using unadjusted vendor prices. These prices are reviewed and may be adjusted using quoted market prices for similar securities if determined necessary. These securities are classified as Level 2 of the hierarchy. Examples

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include bankers' acceptances, commercial paper and certificates of deposit, certain U.S. government and agency obligations, state and municipal government obligations, corporate obligations and certain equity securities.

The balances of assets and liabilities measured at fair value by level as of June 30, 2021, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b>Securities segregated under federal regulations:</b>				
U.S. government obligations	\$ <u>400,947</u>	\$ <u>400,947</u>	\$ <u>—</u>	\$ <u>—</u>
<b>Securities owned:</b>				
Bankers' acceptances, commercial paper and certificates of deposit	\$ 15,786	\$ —	\$ 15,786	\$ —
U.S. government and agency obligations	68,637	65,405	3,232	—
State and municipal government obligations	70,080	—	70,080	—
Corporate obligations	14,112	—	14,112	—
Equity securities	<u>2,671</u>	<u>—</u>	<u>2,671</u>	<u>—</u>
Total securities owned	\$ <u>171,286</u>	\$ <u>65,405</u>	\$ <u>105,881</u>	\$ <u>—</u>
<b>Securities sold, not yet purchased:</b>				
Bankers' acceptances, commercial paper and certificates of deposit	\$ —	\$ —	\$ —	\$ —
U.S. government and agency obligations	15,315	14,282	1,033	—
State and municipal government obligations	15	—	15	—
Corporate obligations	10,790	—	10,790	—
Equity securities	179	—	179	—
Total securities sold, not yet purchased	\$ <u>26,299</u>	\$ <u>14,282</u>	\$ <u>12,017</u>	\$ <u>—</u>

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#### (11) Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements consist of the following at June 30, 2021:

Property and leasehold improvements	\$	538,520
Furniture and equipment		174,627
Capitalized software		22,856
Communications and computer equipment		1,775
		<u>737,778</u>
Accumulated depreciation and amortization		(465,459)
Total	\$	<u>272,319</u>

#### (12) Transactions with Related Parties

##### *Services Provided by Affiliates*

The Company has service agreements with WFC and its affiliates under which the Company receives certain technology and systems, operations, product support and general and administrative support services.

The Company has agreements with WFC and its affiliates for general and administrative services which are directly billed.

The Company receives investment advisory services from Wells Fargo Funds Management, LLC (WFFM), WFBNA, and Wells Fargo Investment Institute, Inc.

##### *Clearing Services*

The Company provides retail clearing services for its affiliates, FINET and Wells Fargo Securities, LLC (WFS). The Company collects revenues from customers on behalf of these affiliates from which it deducts its retail clearing service fees. At June 30, 2021, the Company owed \$15,917 to FINET and \$18 to WFS which is included in payable to brokers, dealers and clearing organizations in the Statement of Financial Condition.

In conjunction with the retail clearing services provided to FINET, the Company funds margin and non-purpose loans of FINET's retail customers.

The Company enters into securities transactions with affiliates. At June 30, 2021, the Company had securities failed to receive of \$16,422 and \$2,472 from WFS and WFBNA, respectively, which are included in payable to brokers, dealers and clearing organizations in the Statement of Financial Condition. At June 30, 2021, the Company had securities failed to deliver of \$74 to WFBNA, which is included in receivable from brokers, dealers and clearing organizations in the Statement of Financial Condition.

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#### ***Bank Sweep***

The Company has arrangements with affiliated banks under which it offers a bank deposit product that allows customers' available cash balances to be swept into overnight deposit accounts.

#### ***Money Market and Mutual Funds***

The Company has arrangements with WFFM and Wells Fargo Asset Management Luxembourg S.A. (WFAML), in which it receives revenue for continuing due diligence, training, operations, marketing, and system support. As of June 30, 2021, a receivable of \$4,651 from WFFM related to these arrangements is included in receivable from affiliates in the Statement of Financial Condition.

The Company earns fees from WFFM and Wells Fargo Funds Distributor, LLC (WFFD) for providing support and services in connection with client assets under management. As of June 30, 2021, a receivable of \$2,506 from WFFM and WFFD related to these fees is included in receivable from affiliates in the Statement of Financial Condition.

The Company has an agreement with WFFM in which it receives administrative services fee revenue from mutual fund companies in return for providing certain record keeping and other services to those funds. As of June 30, 2021, a receivable of \$655 from WFFM related to this agreement is included in receivable from affiliates in the Statement of Financial Condition.

The Company has an agreement with FINET to pay mutual fund administrative services fees earned on FINET customer balances to FINET.

The Company sells certain aggregated mutual fund sales data to third party and affiliated mutual fund companies.

A receivable of \$2,606 from WFBNA related to settlement of money market overnight deposit balances is included in receivable from brokers, dealers and clearing organizations in the Statement of Financial Condition.

#### ***Securities Lending Activities***

The Company had \$90,406 due from WFS related to securities borrowed at June 30, 2021, which is included in receivable from brokers, dealers and clearing organizations in the Statement of Financial Condition.

At June 30, 2021, the Company also had \$2,207,773 payable to WFS related to securities loaned, which is included in payable to brokers, dealers and clearing organizations in the Statement of Financial Condition.

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#### ***Securities Purchased/Sold Under Agreements to Resell/Repurchase***

The Company participates in reverse repurchase agreements with WFCH and WFBNA. At June 30, 2021, the Company had \$1,485,037 and \$90,900 outstanding respectively with WFCH and WFBNA, which are included in securities purchased under agreements to resell in the Statement of Financial Condition.

#### ***Other***

The Company has executed an equity total return swap agreement with WFBNA to economically hedge its deferred compensation liability (see Note 15). At June 30, 2021, the Company had \$1,643 outstanding dividends receivable related to this arrangement, which is included in other assets in the Statement of Financial Condition.

Certain customer brokerage transactions are conducted at WFBNA. These transactions are settled on the following business day. At June 30, 2021, the Company had a payable to WFBNA totaling \$132,683, which is included in payable to affiliates in the Statement of Financial Condition.

At June 30, 2021, the Company had \$823 outstanding from WFC and its affiliates for other shared services not disclosed above, which is included in receivable from affiliates in the Statement of Financial Condition. The Company also owed \$39,969 to WFC and its affiliates for payroll, technology and other shared services, which is included in payable to affiliates in the Statement of Financial Condition.

The transactions with affiliates described above and the effect thereof on the accompanying Statement of Financial Condition may not necessarily be indicative of the effect that might have resulted from dealing with non-affiliated parties.

#### **(13) Loans and Notes Receivable from Financial Advisors, Net**

Loans and notes receivable from financial advisors represent amounts provided to financial advisors primarily as recruitment and other performance incentives. Certain amounts provided to financial advisors as loans or notes receivable are forgiven or repaid either as a percentage of the financial advisor's gross production or on a fixed repayment schedule. The amortization period for the loans does not exceed fourteen years.

Under CECL, loans and notes receivable from financial advisors have an allowance for credit losses from the inception of the loan. This allowance is calculated based on historical loan collection experience of the Company using a model with several key risk drivers, such as employment status of the financial advisor, length of maturity of the loan, and whether the loan type is recruitment or from other performance incentives. Loans and notes receivable from financial advisors are reported net of the allowance for credit losses of \$129,874 as of June 30, 2021.

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June 30, 2021

(Unaudited, Dollars in thousands)

The Company has an additional allowance for certain loans and notes from financial advisors related to the rationalization of branch and administration locations. Loans and notes receivable from financial advisors are reported net of this allowance of \$24,058 as of June 30, 2021.

#### **(14) Financing**

The Company had available \$4,000,000 in an uncommitted unsecured line of credit agreement with WFCH. At June 30, 2021, the Company had a balance of \$2,803,898 on this line of credit included in borrowings in the Statement of Financial Condition. This agreement is a long-term line of credit with a termination date of December 21, 2023. The interest rate on this agreement is based on three-month LIBOR rate plus 29 basis points.

In addition, the Company had available \$4,000,000 in an uncommitted unsecured line of credit agreement with WFCH. At June 30, 2021, the Company did not have a balance outstanding on this line of credit. This agreement is a long-term line of credit with a termination date of June 21, 2024. The interest rate on this agreement is based on three-month LIBOR rate plus 32 basis points.

The Company also had available \$3,000,000 in a committed unsecured line of credit agreement with WFCH. At June 30, 2021, the Company did not have a balance outstanding on this line of credit. This agreement is a long-term line of credit with a termination date of June 21, 2023. The interest rate on this agreement is based on three-month LIBOR rate plus 25 basis points.

#### **(15) Employee Benefits and Deferred Compensation Plans**

##### ***Defined Contribution Retirement Plans***

WFC sponsors a qualified defined contribution retirement plan (the 401(k) Plan). Under the 401(k) Plan, after one month of service, eligible employees may contribute up to 50% of their certified compensation, subject to statutory limits. Eligible employees who complete one year of service are eligible for quarterly company matching contributions, which are generally dollar for dollar up to 6% of an employee's eligible certified compensation. Matching contributions are 100% vested. The 401(k) Plan includes an employer discretionary profit sharing contribution feature to allow WFC to make a contribution to eligible employees' 401(k) Plan accounts for a plan year. Eligible employees who complete one year of service are eligible for profit sharing contributions. Profit sharing contributions are vested after three years of service.

##### ***Deferred Compensation and Stock-Based Compensation Plans***

The Company maintains various unfunded deferred compensation plans in which select groups of employees are participants, as defined by the individual plans. Certain plans include awards subject to specific vesting dates or salary deferrals as defined in the individual plans.

Certain of the deferred compensation plans allow the participants to select a rate of return option which tracks the return on selected financial instruments. The Company uses derivative

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instruments as economic hedges of the deferred compensation liability. Derivative transactions can be measured in terms of notional amount, but this amount is not recorded in the Statement of Financial Condition and is not, when viewed in isolation, a meaningful measure of the risk profile of the instruments. The notional amount is generally not exchanged, but is used only as the basis of which interest and other payments are determined. At June 30, 2021, the notional amount of derivative contracts was \$1,268,668.

The Company participates in various stock-based compensation plans of WFC under which restricted shares, restricted stock rights (RSRs) and performance share awards (PSAs) may be granted periodically to certain employees. Restricted stock RSRs and PSAs generally vest over three to five years, during which time the holder may be entitled to receive additional RSRs, PSAs or cash payments equal to the cash dividends that would have been paid had the RSRs or PSAs been issued and outstanding shares of common stock. RSRs and PSAs granted as dividend equivalents are subject to the same vesting schedule and conditions as the underlying award.

#### ***Other Benefits***

WFC provides health care and other benefits for certain active and retired employees. The Company reserves the right to amend, modify or terminate any of the benefits at any time.

#### **(16) Dividends**

For the six months ended June 30, 2021, the Company did not declare or pay any dividends to WFSH. The Company's ability to make capital and certain other distributions is subject to the rules and regulations of the SEC, FINRA and various other regulatory agencies and exchanges.

#### **(17) Net Capital**

The Company is subject to the Net Capital Rule, which requires the maintenance of minimum net capital, as defined. The Company elected to use the alternative method, permitted by the Net Capital Rule, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$1,500 or 2% of aggregate debit balances arising from customer transactions, which was \$90,166 at June 30, 2021. The Company is also subject to the CFTC's minimum financial requirements set forth in Regulation 1.17 of the Commodity and Exchange Act, which requires that the Company maintain minimum net capital, as defined, equal to \$1,500.

At June 30, 2021, the Company had net capital of \$5,997,627 which was \$5,907,461 in excess of its required minimum net capital. At June 30, 2021, The Company's net capital balance was 133.04% of aggregate debit balances.

#### **(18) Financial Instruments with Off-balance Sheet Risk**

In the normal course of business, the Company has activities that involve the execution, settlement and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill

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its contractual obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. The Company also offers non-purpose loans to its customers through a revolving line collateralized by the customers' cash and securities. These transactions may expose the Company to significant off-balance-sheet risk in the event margin and other contractual collateral are not sufficient to fully cover losses that customers may incur. In the event a customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin and other contractual collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin and other contractual collateral levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary. At June 30, 2021, the Company's unfunded extensions of credit related to non-purpose loan contracts was \$50,827,162.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources such as securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the market value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

#### **(19) Leasing Activity**

The Company leases office space primarily related to its branch network under operating leases expiring at various dates through the year 2030.

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Minimum future rental payments on operating leases at June 30, 2021 are displayed in the following table. Information on the remaining average lease term and discount rate are also included below.

Years ending December 31:	Lease payments (in thousands, except for weighted averages)
Remainder of 2021	\$ 59,063
2022	132,258
2023	105,729
2024	79,678
2025	54,455
Thereafter	91,562
Total lease payments	522,745
Less: imputed interest	39,979
Total operating lease liabilities	\$ 482,766
Weighted average remaining lease term (in years)	4.9
Weighted average discount rate	3.1 %

Minimum future rental commitments do not include operating leases entered into by affiliates for which the Company shares rent expense. Some of the Company's leases contain escalation clauses and renewal options. The Company does not include renewal or termination options in the establishment of the lease term when it is not reasonably certain that the Company will exercise them. As of June 30, 2021, the Company had additional operating lease commitments of \$1,722 for leases not yet commenced. These leases will commence in 2021 and have lease terms of less than 6 years.

#### (20) Restructuring Charges

WFC is pursuing various initiatives to reduce expenses and create a more efficient and streamlined organization. Actions from these initiatives may include reorganizing and simplifying business processes and structures, reducing headcount, optimizing third-party spending, including for WFC's technology infrastructure, and rationalizing branch and administrative locations, which may include consolidations and closures. The evaluation of potential actions will continue in future periods.

#### (21) Guarantees, Commitments and Contingent Liabilities

##### *Exchange Member Guarantees*

The Company is a member of various exchanges that trade and clear securities or futures contracts or both. Associated with its memberships, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its

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obligations to an exchange. Although the rules governing different exchange memberships vary, in general the Company's guarantee obligations would arise only if an exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. The Company has not recorded any contingent liability in the Statement of Financial Condition for these agreements and believes that any potential requirement to make payments under these agreements is remote.

#### ***Litigation and Regulatory Matter Contingencies***

The Company is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising from the conduct of the Company's business activities. Although there can be no assurances as to the ultimate outcome, the Company has generally denied, or believes it has a meritorious defense and will deny liability in all significant litigation pending against the Company, and it intends to defend vigorously each case. Reserves are established for legal claims when payments associated with the claims become probable and the costs can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts reserved for those claims. Based on information currently available, advice of counsel, available insurance coverage and established reserves, the Company believes that the eventual outcome of such matters will not, individually or in the aggregate, have a material adverse effect on the Company's financial position. However, in the event of unexpected future developments, it is possible that the ultimate resolution of those matters, if unfavorable, may be material to the Company's results of operations for any particular period.

On February 2, 2018, WFC entered into a consent order with the Board of Governors of the Federal Reserve System (FRB). As required by the consent order, the WFC Board of Directors submitted to the FRB a plan to further enhance its governance and oversight of WFC, and WFC submitted to the FRB a plan to further improve WFC's compliance and operational risk management program. WFC continues to engage with the FRB as WFC works to address the consent order provisions. The consent order requires WFC, following the FRB's acceptance and approval of the plans and WFC's adoption and implementation of the plans, to complete an initial third-party review of the enhancements and improvements provided for in the plans. Until this third-party review is complete and the plans are approved and implemented to the satisfaction of the FRB, WFC's total consolidated assets will be limited to the level as of December 31, 2017. Compliance with this asset cap is measured on a two-quarter daily average basis to allow for management of temporary fluctuations. After removal of the asset cap, a second third-party review must also be conducted to assess the efficacy and sustainability of the enhancements and improvements.

#### ***Other Contingencies***

Some contracts that the Company enters into in the normal course of business include non-cancelable clauses and indemnification provisions that obligate the Company to make payments to the counterparty or others if certain events occur. These contingencies generally relate to changes in the value of underlying assets, liabilities, or equity securities or upon the occurrence of

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events, such as an adverse litigation judgment or an adverse interpretation of the tax law. The indemnification clauses are often standard contractual terms and were entered into in the normal course of business based on an assessment that the risk of loss would be remote. Since there are no stated or notional amounts included in the indemnification clauses and the contingencies triggering the obligation to indemnify have not occurred and are not expected to occur, the Company is not able to estimate the maximum potential amount of future payments under these indemnification clauses. There are no amounts reflected in the Statement of Financial Condition as of June 30, 2021, related to these indemnification clauses.

#### ***COVID-19***

The COVID-19 pandemic has impacted the Company's business operations, and the ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted, including the scope and duration of the pandemic and actions taken by governmental authorities in response to the pandemic. Although certain economic conditions showed signs of improvement, impacts of the COVID-19 pandemic may continue to affect the Company's results in the future.

#### **(22) Subsequent Events**

The Company has evaluated the effects of events that have occurred subsequent to June 30, 2021 through August 26, 2021, the date the Company issued its Statement of Financial Condition. During this period, there have been no material subsequent events that would require recognition or disclosure in the Statement of Financial Condition.