

**DRIVEWEALTH, LLC**  
**Statement of Financial Condition**  
**As of June 30, 2021**

**DRIVEWEALTH, LLC  
ANNUAL STATEMENT OF FINANCIAL CONDITION  
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AS OF JUNE 30, 2021**

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**DRIVEWEALTH, LLC**  
**STATEMENT OF FINANCIAL CONDITION**  
**AS OF JUNE 30, 2021**

**ASSETS**

Cash	\$	7,720,539
Cash Segregated under Federal and Other Regulations		5,317,324
Securities Owned, at Market		273,607
Receivable from Brokers and Dealers		1,547,978
Receivable from Customers		1,931,511
Receivable from Non-Customers		2,517,573
Due from Affiliates		1,639,295
Right-to-use Lease Asset		61,850
Clearing Deposit		4,250,000
Other Assets		3,856,659
Total Assets	\$	<u>29,116,336</u>

**LIABILITIES AND MEMBER'S EQUITY**

**Liabilities**

Payable to Broker-Dealers and Investment Advisors	\$	2,017,324
Payable to Customers		2,002,921
Accounts Payable and Accrued Expenses		5,235,057
Securities Owned, at Market		420
Due to Affiliates		1,219,656
Lease Liability		61,850
Total Liabilities	\$	<u>10,537,228</u>

**Member's Equity**

		<u>18,579,108</u>
Total Liabilities and Member's Equity	\$	<u>29,116,336</u>

See accompanying Notes to the Statement of Financial Condition

**DRIVEWEALTH, LLC**  
**NOTES TO THE STATEMENT OF FINANCIAL CONDITION**  
**AS OF JUNE 30, 2021**

**1. Nature of Operations and Summary of Significant Accounting Policies**

***1.1 Nature of Operations***

DriveWealth, LLC (the "Company") was formed in New Jersey in 2012 and is wholly owned by DriveWealth Holdings, Inc. (the "Parent"). The Company is a broker-dealer registered with the Securities and Exchange Commission ("SEC") and a member of the Financial Industry Regulatory Authority ("FINRA"). The Company is also registered with 53 U.S. states and territories and is a member of the National Futures Association and is registered as an introducing broker with the Commodity Futures Trading Commission.

The Company operates as an agency business retailing corporate equity security and provides clearing and execution services to investment advisors and other broker-dealers throughout the world on a fully disclosed and omnibus basis. The Company clears its business on an omnibus basis with its clearing brokers Axos Clearing, Inc ("Axos") and Velox Clearing LLC ("Velox") (collectively, the "Clearing Brokers"). Additionally, the Company maintains a custodial relationship with Citibank, NA, a Depository Trust Clearing Corporation ("DTCC") member. The Company is subject to the provisions of SEC Rule 15c3-1 and SEC Rule 15c3-3.

***1.2 Basis of Presentation***

The Statement of Financial Condition has been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") as detailed in the Financial Accounting Standards Board's Accounting Standards Codification.

***1.3 Revenue Recognition***

Clearing fee revenue, which includes monthly platform fee minimums, account fees and transaction/activity fees, are recognized on a trade date basis as securities transactions occur. Commission revenue is also recorded on a trade date basis as securities transactions occur. Other revenue includes principal facilitation and payment for order flow as well as miscellaneous brokerage fees, all of which are recorded on respective transaction dates. Margin interest revenue is recorded monthly on the first business day following each month-end.

***1.4 Use of Estimates***

The preparation of the Statement of Financial Condition in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

***1.5 Property and Equipment***

Property and equipment are stated at cost. Depreciation is computed using the double-declining method over the estimated useful lives (3-5 years) of the related assets. Leasehold improvements are amortized over the remaining life of the lease.

**DRIVEWEALTH, LLC**  
**NOTES TO THE STATEMENT OF FINANCIAL CONDITION (CONTINUED)**  
**AS OF JUNE 30, 2021**

**1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**1.6 Segregated Cash**

In accordance with FINRA Customer Protection Rule 15c3-3, the Company calculates weekly, as of the close of the last business day of the week, and deposits no later than one hour after the opening of banking business on the second following business day, the PAB Reserve Requirement as well as the Special Reserve Requirement for the Exclusive Benefit of Customers.

**1.7 Income Taxes and Deferred Income Taxes**

The Company is not a taxpaying entity for Federal or State income tax purposes. The income or loss of the Company is reported on the Parent's tax returns. Therefore, no provision or liability for income taxes is included in this financial statement. No formal tax sharing agreement exists between the Company and the Parent and the Company has no obligation to fund any liability of the Parent with its earnings. The Company is subject to taxation in local jurisdictions. As of June 30, 2021, the Company's reporting of operations for tax years 2017 2018 2019 and 2020 are subject to examination by the tax authorities.

In accordance with GAAP, the Company is required to determine whether its tax positions are more likely than not to be sustained upon examination by the applicable taxing authority based on the technical merits of the position. The tax benefit recognized is measured as the largest amount of benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement with the relevant taxing authorities. Based on its analysis, the Company has determined that it has not incurred any liability for unrecognized tax benefits as of June 30, 2021. The Company does not expect that its assessment regarding unrecognized tax benefits will materially change over the next twelve months. However, the Company's conclusions may be subject to review and adjustment at a later date based on factors including, but not limited to, questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions, compliance with U.S. federal, U.S. state and foreign tax laws, and changes in the administrative practices and precedents of the relevant taxing authorities.

The Company recognizes interest and penalties related to unrecognized tax benefits in interest expense and other expenses, respectively.

**1.8 Advertising**

The Company expenses advertising costs as incurred.

**1.9 Cash and Cash Segregated Under Federal and Other Regulations**

The Company held no cash equivalents on June 30, 2021. We continually review the credit quality of our customers and have not experienced default. As a result, we don't not have an expectation of credit losses for these arrangements. The Company considers highly liquid investments with a maturity of three months or less to be cash equivalents and "cash and restricted cash" consists of "cash" and "cash segregated under federal and other regulations.

**DRIVEWEALTH, LLC**  
**NOTES TO THE STATEMENT OF FINANCIAL CONSITION (CONTINUED)**  
**AS OF JUNE 30, 2021**

**1. Nature of Operations and Summary of Significant Accounting Policies (Continued)**

**1.10 Leases**

In accordance with Accounting Standards Codification 842, the Company recognizes a right-of-use asset and corresponding lease liability on its Statement of Financial Condition. Such liability is based on the net present value of future lease obligations, using the Company's effective cost of capital to impute interest.

**2. Investments Measured at Fair Value on a Recurring Basis**

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

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

*Level 2* - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

The following table represents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis at June 30, 2021:

	Level 1	Level 2	Level 3	Total
Equities	\$ 273,294	\$ -	\$ -	\$ 273,294
Other	313	-	-	313
	<u>\$ 273,607</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 273,607</u>

**DRIVEWEALTH, LLC**  
**NOTES TO THE STATEMENT OF FINANCIAL CONDITION (CONTINUED)**  
**AS OF JUNE 30, 2021**

**3. Regulatory Requirements**

The Company is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1(a)(1)(ii)). It computes its net capital under the alternative method, which requires the Company to maintain a minimum net capital of the greater of 2% of aggregate debit items or \$250,000 minimum net capital. On June 30, 2021, the Company has net capital of \$9,849,553 which was \$9,599,553 in excess of its required net capital of \$250,000.

The Company is subject to Rule 15c3-3 of the SEC which requires segregation of funds in a special reserve account for the exclusive benefit of customers as well as segregation of funds in a reserve account for the benefit of brokers and dealers (Rule 15c3-3). On June 30, 2021, the Company had segregated cash of \$3,200,000 with a deposit requirement of \$2,048,657. Further, the Company had segregated cash for the benefit of brokers and dealers of \$2,117,324 which was \$100,000 in excess of the deposit requirement of \$2,017,324.

The Company maintains control of all fully paid customer securities by holding them in a special omnibus account at the Clearing Brokers. The Company has instructed the Clearing Brokers to maintain physical possession or control of all customer securities carried in the account free of any charge, lien or claim of any kind in favor of the Company or any persons claiming affiliation with the Company. The value of such assets is not included on the Company's Statement of Financial Condition.

**4. Related Party Transactions**

The Company has three agreements with related parties in place. Two separate agreements are with affiliates under common control with the Company: DriveWealth Technologies, LLC ("Technologies") and DriveWealth Institutional, LLC ("DWI"). The third agreement is with the Company's parent, DriveWealth Holdings, Inc. ("Holdings" or the "Parent").

Under a Service Level Agreement, the Company pays Technologies a monthly lease fee for the trading platform and app equal to \$0.50 for each new live investing account opened by customers on the app during the preceding month. In addition, the Company pays Technologies an on-going maintenance support fee of \$0.20/month for each live investing account at the end of the preceding month. As of June 30, 2021, the payable under this arrangement is \$514,278 and is included in due to affiliates on the Statement of Financial Condition. Under an Expense Sharing Agreement, Holdings incurs certain expenses (such as office facilities, supplies and other general overhead costs) on behalf of its wholly owned subsidiaries, the Company and Technologies. Such costs are charged back to the Company and Technologies either on a specific identification basis, or 50/50 in cases where specific identification is not feasible. As of June 30, 2021, the payable under this arrangement is \$705,379 and is included in due to affiliates on the Statement of Financial Condition.

Under another Service Level Agreement, the Company has shared revenue through Principal Facilitation with DWI, amounting to \$2,539,266 as of June 30, 2021. As of June 30, 2021, the receivable under this arrangement is \$1,639,295 and is included in due from affiliates on the Statement of Financial Condition.

**DRIVEWEALTH, LLC**  
**NOTES TO THE STATEMENT OF FINANCIAL CONSITION (CONTINUED)**  
**AS OF JUNE 30, 2021**

Holdings currently leases 7,748 square feet of office space in Chatham, NJ. Under a separate sub-lease agreement, the Company subleases 55% of such space from Holdings. For 2021, the Company incurred expenses of \$53,875 for rent and utilities under this agreement. This amount is included in Occupancy and Equipment Costs in the Statement of Operations. See also Note 6.

**5. Receivable From and Payable to Broker-Dealers and Investment Advisors**

Amounts receivable from broker-dealers and advisors represent clearing fees due the Company while amounts payable to broker-dealers and advisors represent clearing deposits held in a PAB Reserve account.

**6. Receivable From and Payable to Customers**

Accounts receivable from and payable to customers include amounts due on cash and margin transactions. Securities owned by customers are held as collateral for receivables.

**7. Commitments**

As described in Note 4, the Company leases office space pursuant to a lease expiring in 2022. The future minimum lease payments, and related net present value of such payments for the respective years ending December 31, are as follows:

2021	60,679
2022	<u>2,612</u>
Total future payments	63,291
Less: Imputed interest	<u>(1,441)</u>
Net present value of future payments	<u>\$ 61,850</u>

The weighted average remaining lease term of operating leases is 6 months. The weighted average discount rate used to impute interest is 7.75%.

**8. Concentrations of Business Risk and Credit Risk and Uncertainties**

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash balances which at times may be in excess of insured amounts. It is the Company's policy to review, as necessary, the credit standing of its counterparties.

The Company's security transactions are cleared by the Clearing Brokers pursuant to their respective clearing agreement. The Company is subject to credit risk to the extent its Clearing Brokers are unable to fulfill contractual obligations on its behalf. The Company bears the risk of financial failure by its Clearing Brokers. Notwithstanding the foregoing, the Clearing Brokers as well as the Company, are members of the Securities Investor Protection Corporation ("SIPC"). SIPC protects the accounts of customers up to \$500,000 for securities and cash (including a \$250,000 limit for cash only).

As of June 30, 2021, two correspondent brokers and one investment advisor represented approximately 23% of outstanding receivables.



**DRIVEWEALTH, LLC**  
**NOTES TO THE STATEMENT OF FINANCIAL CONDITION (CONTINUED)**  
**AS OF JUNE 30, 2021**

**9. Deferred Compensation Plan**

The Company maintains a 401(k) deferred compensation plan which covers substantially all full-time employees. Participants are permitted to contribute a portion of their gross earnings into the plan. Employer contributions are made on a discretionary basis.

**10. Financial Instruments with Off Balance Sheet Credit Risk**

In the normal course of business, the Company's customer activities involve the execution, settlement and financing of various customer securities. These activities may expose the Company to off-balance sheet credit risk in the event the customer is unable to fulfill its contracted obligations. The Company is therefore exposed to risk of loss on these transactions in the event of a contra party being unable to meet the terms of their contracts, which may require the Company to purchase or sell financial instruments at prevailing market prices. The Company maintains \$4,250,000 in deposits with the Clearing Brokers to mitigate such losses. As of June 30, 2021, customer margin debits in the amount of \$1,626,823 were directly financed by the Company.

**11. Recently Issued Accounting Pronouncements**

*Adoption of New Accounting Standard*

On January 1, 2020, the Company adopted a new credit loss standard issued by the FASB. The guidance replaced the current incurred loss impairment model for financial instruments with a methodology that reflects expected credit losses. The new guidance requires consideration or a broader range of reasonable and supportable information to inform credit loss estimates. The Company established new processes to implement these changes and the adoption did not have a material impact on financial statements.

**12. COVID-19**

In March 2020, the World Health Organization declared COVID-19 a global pandemic. This pandemic event has resulted in significant business disruption and uncertainty in both global and U.S. markets. While the Company believes that it is in an appropriate position to sustain the potential short-term effects of these world-wide events, the direct and long-term impact to the Company and its financial statements is undetermined at this time.

**13. Subsequent Events**

In August 2021, the Company's parent, DriveWealth Holdings Inc. signed and anticipates closing a \$450 million Series D preferred share offering. Upon closing, DriveWealth Holdings Inc. will invest \$100 million into the Company.

On August 27, 2021, the DTCC (Depository Trust & Clearing Corporation) approved the Company (DriveWealth, LLC) as a self-clearing member.