

**TZ CLEAR LLC**

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

**As of June 30, 2024**

**TZ CLEAR LLC**

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**TZ CLEAR LLC**  
**STATEMENT OF FINANCIAL CONDITION**  
**June 30, 2024**

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**ASSETS**

Cash	\$ 9,343,139
Cash - segregated for regulatory purposes	336,615
Deposits with and receivables from clearing brokers	406,501
Receivables from brokers, dealers and clearing organizations	81,212
Prepaid expenses and other assets	22,510
Securities owned	419,860
Goodwill	<u>750,000</u>
 TOTAL ASSETS	 <u>\$ 11,359,837</u>

**LIABILITIES AND MEMBERS' EQUITY**

**LIABILITIES**

Payable to customers	299,087
Accounts payable and accrued expenses	\$ 165,259
Deferred revenue	12,000
Other liabilities	<u>18,715</u>
 TOTAL LIABILITIES	 <u>495,061</u>

**MEMBERS' EQUITY**

Members' capital	\$ 12,097,526
Accumulated deficit	<u>(1,232,750)</u>
 TOTAL MEMBERS' EQUITY	 <u>10,864,776</u>

**TOTAL LIABILITIES AND MEMBERS' EQUITY** \$ 11,359,837

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

**TZ CLEAR LLC**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2024**

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## **NOTE 1 - ORGANIZATION AND NATURE OF BUSINESS**

TZ Clear LLC (the "Company" formerly known as Koonce Securities, LLC) is a wholly-owned subsidiary of TradeZero USA, Inc. ("Parent"), who in turn is a wholly-owned subsidiary of TradeZero Holding Corp. ("Ultimate Parent"). The Company operates as a clearing broker-dealer and is registered with the Securities and Exchange Commission ("SEC"), is a member of Financial Industry Regulatory Authority ("FINRA"), and a participant of Depository Trust & Clearing Corp. ("DTCC"). The Company provides execution, settlement and clearance services of equities for institutional and correspondent clients. The Company's operations consist of sponsoring the eligibility process of stock issuers seeking Depository Trust Company ("DTC") eligibility of their stock issues. The Company began clearing equities for an Ultimate Parent subsidiary company in late May 2024 and will continue to onboard additional subsidiary companies. On August 4, 2023, the Parent acquired the Company (see Note 3).

## **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation** - The accompanying statement of financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") as promulgated by the Financial Accounting Standards Board ("FASB") through the Accounting Standards Codification ("ASC") as the source of authoritative accounting principles in the preparation of financial statements.

**Use of Estimates** - The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash** - Cash consists of deposits with established federally insured financial institutions that are not segregated and deposited for regulatory purposes. Total cash on deposit at various times during the year exceeded the federal deposit insurance limits. The company has never experienced any losses in these accounts and does not believe that it is exposed to any significant concentration of credit risk.

**Cash – segregated for regulatory purposes** – Cash – segregated for regulatory purposes consist primarily of a cash deposit in a special reserve bank account for the exclusive benefit of customers in accordance with Rule15c3-3 of the Securities Exchange Act of 1934 (the "Exchange Act") and other regulations.

**Securities owned** - Securities owned by the Company are valued using valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820. Any unrealized gain or loss is recorded in the Statement of Operation.

## NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

**Revenue Recognition** – The Company accounts for revenue earned from contracts with customers under ASC 606, *Revenue from Contracts with Customers* (“ASC 606”). The core principle of the revenue standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. The following five steps are applied to achieve that core principle:

- Step 1: Identify the contract with the customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when, or as, the company satisfies a performance obligation.

**Fees** - Revenue from the sponsorship of companies to DTC are recognized at the time that the company's application is submitted to DTC, which represents the satisfaction of a performance obligation. In the case of payment to the Company for these services in prior years, the cash received is offset against a charge to deferred revenue. Deferred revenue is defined as DTC introductions paid for, but not yet executed. Deferred revenue as of June 30, 2024, and December 31, 2023 was \$12,000 and \$28,000 respectively.

**Interest Income** – The Company earns interest income from its deposits with the DTC and NSCC. The Company also earns interest income from cash deposited in corporate bank accounts. This revenue stream does not fall under the scope of ASC 606.

**Income Taxes** - The Company has elected, under the provision of the Internal Revenue Code, to be treated as a disregarded entity. The income and losses of the Company pass through to the Ultimate Parent who incurs the tax obligation or receives the tax benefit. There is no tax sharing arrangement between the Company and the Ultimate Parent.

**Current Expected Credit Losses** - The Company accounts for current estimated credit losses (“CECL”) on financial assets and certain off-balance sheet items, including receivables from customers in accordance with ASC 326-20, *Financial Instruments - Measurement of Credit Losses on Financial Instruments* (“ASC 326-20”). ASC 326-20 requires the Company to estimate expected credit losses over the life of its financial assets and certain off-balance sheet items as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts of future events.

The Company evaluated the guidelines of ASC 326-20 and determined that a reserve account for CECL is not necessary at June 30, 2024. In addition, the Company has concluded that there are no material credit losses expected on financial assets measured at amortized cost at June 30, 2024.

### Deposits with Clearing Organizations

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

## **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

### **Receivable from and Payable to Customers**

Amounts receivable from and amounts payable to customers include amounts due on cash and margin transactions. The Company relies on individual customer agreements to net receivables and payables. It is the Company's policy to settle these transactions on a net basis with its customers.

Securities owned by customers are held as collateral for receivables. Receivables and payables are reflected in the Statement of Financial Condition on a settlement-date basis. Margin interest income is accrued daily based on rates of interest agreed to in customer agreements. The Company does not currently have any Customer Receivables.

### **Receivable from and Payable to Brokers, Dealers, and Clearing Organizations**

Receivables include amounts receivable relating to open transactions, non-customer receivables, and amounts related to unsettled securities activities. Payables include amounts payable relating to open transactions, non-customer payables, and amounts related to unsettled securities activities. These balances are reported net by counterparty when the right of offset exists. Receivables from clearing organizations include cash deposited with central clearing agencies for the purposes of supporting clearing and settlement activities and amounts due from DTC and NSCC. Each has specific industry standard daily reconciliations of their securities activity, net settlements, and a daily update of margin and clearing fund requirements for NSCC. DTC's clearing fund requirement is updated monthly. There is no prior loss history with these clearing organizations. Risk of loss from clearing organizations is expected to be immaterial over the life of these receivables. Based on the above factors, the Company has determined an allowance for credit losses ("ACL") under ASC 326 for receivables from clearing organizations is not needed as of June 30, 2024.

The Company collects commissions and other fees from correspondent customers either monthly or periodically through the month. As stipulated by individual agreements with correspondent introducing brokers ("correspondents" or "clients"), the Company remits net amounts due to correspondents after deducting charges for clearing, execution, and others as applicable.

### **Lines of Credit**

As of February 2024, the Company had credit line facilities with a national bank with available borrowing capacity of \$10 million. The credit lines are intended to be a liquidity option to address any short-term need for liquid capital to fund the Company's operations. The credit lines can be drawn on at any time up to a specified amount for each separate line of credit agreement. Interest will accrue at a specified annual rate for any period in which the Company borrows funds. As of June 30, 2024, the Company has no outstanding liability associated with any of its lines of credit.

## **NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued**

### **Lines of Credit – Available Facilities**

Facility 1: \$5 Million (Unsecured Uncommitted)

Facility 2: \$5 Million (Secured Committed)

### **Counterparty Credit Risk**

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

In the normal course of business, the Company clears, settles and finances various customer and brokers and dealers securities transactions. These activities may expose the Company to default risk arising from the potential that a client, or counterparty, may fail to satisfy their obligations. The Company seeks to control the risks associated with its customer by requiring daily settlement.

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

### **Concentrations of Credit Risk**

During the period ended June 30, 2024, the Company's revenues were derived primarily from transactions related to one customer.

## **NOTE 3 – BUSINESS COMBINATION**

Effective August 4, 2023, the Ultimate Parent through its Parent completed its acquisition of the Company, increasing its interest from 24.9% to 100.0%, for a total purchase price of \$2,548,980. The acquisition was accounted for as a business combination under GAAP by the Ultimate Parent and pushdown accounting was applied by the Company as of August 4, 2023.

The acquisition was accounted for by the Parent in accordance with the acquisition method of accounting pursuant to ASC 805, *Business Combinations* and pushdown accounting was applied to record the fair value of the assets acquired and liabilities assumed by the Company. Under this method, the purchase price is allocated to the identifiable assets acquired and liabilities assumed based on their estimated fair values at the date of acquisition. Any excess of the amount paid over the estimated fair values of the identifiable net assets acquired will be allocated to goodwill. The recognition of Goodwill that is not deductible for tax purposes was primarily attributable to the new lines of business and services that the Company will achieve from the DTCC membership.

## **NOTE 4 - FAIR VALUE MEASUREMENT**

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that

## **NOTE 4 - FAIR VALUE MEASUREMENT - Continued**

would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market.

Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels Level 1, Level 2 and Level 3.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Company has the ability to access.
- Level 2 inputs are inputs (other than quoted prices included within level 1) that are observable for the asset or liability, either directly or indirectly.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability. (The unobservable inputs should be developed based on the best information available in the circumstances and may include the Company's own data.

The following table presents information about the Company's fair value measurements at June 30, 2024.

	Level 1	Level 2	Level 3	Total
Equity Securities	\$ 24,570	\$ -	\$ 395,290	\$419,860
Total	\$ 24,570	\$ -	\$ 395,290	\$419,860

## **NOTE 5 - INCOME TAXES**

At June 30, 2024, as the Company is an LLC, it has no net operating loss carryforwards for income tax purposes.

## **NOTE 6 - RELATED PARTY TRANSACTIONS**

The Company has an expense sharing agreement with the Parent. The Company has its own employees, and the Parent pays the payroll for the Company out of its bank account. The Company then reimburses the Parent for its payroll expenses. Some of these employees are shared with other affiliated entities and charged back to the Parent. Additionally, the Company accrues its tax liability to the Parent since the Parent files one consolidated tax return which includes the results of the company. At June 30, 2024, the Company did not owe the Parent.

## **NOTE 7 - NET CAPITAL REQUIREMENTS**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined, shall not exceed 15 to 1. At June 30, 2024, the Company had net capital of \$9,628,694 which was \$9,378,694 in excess of its required net capital requirements of \$250,000. The Company's aggregate indebtedness to net capital ratio was 0.0514 to 1.

## **NOTE 8 - SUBSEQUENT EVENTS**

The Company has performed an evaluation of events that have occurred subsequent to June 30, 2024, and through issuance date of this report. There have been no material subsequent events that occurred during such period that would require disclosure in this report or would be required to be recognized in the financial statements as of June 30, 2024.