

Virtu AlterNet Securities LLC

(A wholly-owned subsidiary of Virtu ITG Holdings LLC)

Statement of Financial Condition

**And Report of Independent Registered Public Accounting Firm
As of and for the Year Ended December 31, 2019**



Report of Independent Registered Public Accounting Firm

To the Member of Virtu AlterNet Securities LLC

Opinion on the Financial Statement – Statement of Financial Condition

We have audited the accompanying statement of financial condition of Virtu AlterNet Securities LLC (the “Company”) as of December 31, 2019, including the related notes (collectively referred to as the “financial statement”). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2019 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

The financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of this financial statement in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

February 28, 2020

We have served as the Company's auditor since 2019.

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Statement of Financial Condition
December 31, 2019

Assets

Cash	\$	2,139,325
Receivables from broker-dealers, net		594,105
Due from affiliates		710,817
Other assets		11,608
Total assets	\$	<u>3,455,855</u>

Liabilities and Member's Equity

Liabilities		
Accounts payable and accrued expenses	\$	439,662
Due to affiliates		19,680
Total liabilities		<u>459,342</u>
Member's equity		2,996,513
Total liabilities and member's equity	\$	<u>3,455,855</u>

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

Virtu AlterNet Securities LLC

Notes to Statement of Financial Condition

December 31, 2019

1. Organization and Description of the Business

Virtu AlterNet Securities LLC (the “Company” or “AlterNet”) is a broker-dealer registered with the Securities and Exchange Commission (“SEC”) and is a member of the Financial Industry Regulatory Authority (“FINRA”). The Company is a Delaware limited liability company that is a wholly-owned subsidiary of Virtu ITG Holdings LLC (the “Parent”). The Company's ultimate parent is Virtu Financial LLC (“Virtu”). Virtu Financial, Inc. (“VFI”) is the managing member of Virtu Financial LLC and operates and controls all of the businesses and affairs of Virtu Financial LLC and, through Virtu Financial LLC and its subsidiaries, continues to conduct the business conducted by such subsidiaries.

The Statement of Financial Condition and accompanying notes are prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”).

The Company is a broker-dealer that is primarily engaged in providing broker-dealers access to the POSIT alternative trading system of Virtu ITG LLC (“ITG”), an affiliated broker-dealer. ITG POSIT provides anonymous matching of non-displayed equity orders to minimize market impact and may provide opportunities for price improvement within the National Best Bid and Offer (“NBBO”). The Company's commissions and fee revenues are dependent principally on the continued level of interest of the Company's clients in ITG POSIT.

The Company, in connection with its activities as a broker-dealer, does not hold funds or securities for customers. Accordingly, the Company is exempt from SEC Rule 15c3-3 pursuant to provision (k)(2)(ii) of such rule.

On March 1, 2019, Parent, the ultimate parent company of AlterNet through the Effective Time (as defined below), completed its merger with and into Impala Merger Sub, Inc. (“Merger Sub”), a Delaware corporation and an indirect wholly owned subsidiary of Virtu Financial, Inc. (“Virtu Financial”), surviving the merger as an indirect wholly owned subsidiary of Virtu (the “Merger”). The Merger was completed pursuant to that certain Agreement and Plan of Merger, dated as of November 6, 2018 (the “Merger Agreement”), by and among Parent, Virtu Financial and Merger Sub, which has been filed by Parent as Exhibit 2.1 to its Current Report on Form 8-K filed with the Securities and Exchange Commission (“SEC”) on November 8, 2018. At the effective time of the Merger (the “Effective Time”), each share of Parent's common stock, par value \$0.01 per share, issued and outstanding immediately prior to the Effective Time (other than certain shares specified in the Merger Agreement) was cancelled and converted into the right to receive \$30.30 in cash without interest (the “Merger Consideration”), less any applicable withholding taxes. Shares of Parent's common stock ceased trading on the New York Stock Exchange (the “NYSE”) prior to the open of trading on March 1, 2019. Additionally, immediately following the Effective Time, (i) Parent was converted from a Delaware corporation into a Delaware limited liability company with the name “Virtu ITG Holdings LLC” and (ii) AlterNet was converted from a Delaware corporation into a Delaware limited liability company with the name “Virtu AlterNet Securities LLC”.

For additional information related to the Merger and the transactions contemplated by the Merger Agreement, please refer to Parent's Current Report on Form 8-K filed with the SEC on March 1, 2019.

Virtu AlterNet Securities LLC

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2. Significant Accounting Policies

Use of Estimates

The Company's Statement of Financial Condition is prepared in conformity with U.S. GAAP, which requires management to make estimates and assumptions regarding measurements including assets and liabilities, and other matters that affect the reported amounts of assets and liabilities at the date of the Statement of Financial Condition and during the reporting period. Accordingly, actual results may differ materially from those estimates.

Cash

The Company considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Included in cash on the Statement of Financial Condition at December 31, 2019, is cash totaling \$2,139,325.

Securities Transactions

Receivables from broker-dealers, net consist principally of commissions receivable from securities transactions or from net executions, net of an allowance for doubtful accounts. The Company executes and clears all securities transactions through its affiliated clearing broker, ITG, on a fully disclosed basis.

Income Taxes

The Company is a single-member limited liability company and is treated as a disregarded entity for U.S. federal, state and local income tax purposes. Prior to the Merger, the Company was included in the consolidated income tax return of Parent and, in accordance with the Parent's tax sharing agreement with the Company.

Following the Merger, the Company is included in the consolidated income tax return of Virtu, and the Company is no longer a party to a tax sharing arrangement. See Footnote 6 Income Taxes for additional information.

The Company recognizes the tax benefit from an uncertain tax position, in accordance with ASC 740, Income Taxes, only if it is more likely than not that the tax position will be sustained on examination by the applicable taxing authority, including resolution of the appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized from such a position is measured based on the largest benefit for each such position that has a greater than fifty percent likelihood of being realized upon ultimate resolution. Many factors are considered when evaluating and estimating the tax positions and tax benefits. Such estimates involve interpretations of regulations, rulings, case law, etc. and are inherently complex. The Company's estimates may require periodic adjustments and may not accurately anticipate actual outcomes as resolution of income tax treatments in individual jurisdictions typically would not be known for several years after completion of any fiscal year. The Company has determined that there are no uncertain tax positions that would have a material impact on the Company's Statement of Financial Condition as of December 31, 2019.

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3. Receivables from Broker-Dealers, net

Receivables from broker-dealers, net at December 31, 2019 consist of the following:

Clearing broker-dealer (ITG)	\$	249,412
Broker-dealers		356,459
Allowance for doubtful accounts		(11,766)
Total Receivables from broker-dealers, net	\$	<u>594,105</u>

The Company maintains an allowance for doubtful accounts based upon estimated collectibility of receivables.

4. Financial Assets and Liabilities

Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

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 in markets that are not active and financial instruments for which all significant inputs are observable, either directly or indirectly; or

Level 3 - Prices or valuations that require inputs that are both significant to the fair value measurement and unobservable.

Financial Instruments Measured at Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, various methods are used including market, income and cost approaches. Based on these approaches, certain assumptions that market participants would use in pricing the asset or liability are used, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market-corroborated, or generally unobservable firm inputs. Valuation techniques used maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, fair value measured financial instruments are categorized according to the fair value hierarchy prescribed by ASC 820, *Fair Value Measurements and Disclosures*. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

There were no reclassifications or transfers of financial instruments between levels during the year ended December 31, 2019.

The Company did not have any Level 1, 2, or 3 financial assets or liabilities as of December 31, 2019.

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Financial Instruments Not Measured at Fair Value

The table below presents the carrying value, fair value and fair value hierarchy category of certain financial assets and liabilities that are not measured at fair value on the Statement of Financial Condition. The table below excludes non-financial assets and liabilities. The carrying value of financial instruments not measured at fair value categorized in the fair value hierarchy as Level 1 and Level 2 approximates fair value due to the relatively short- term nature of the underlying assets:

	Carrying Value	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets					
Cash and cash equivalents	\$ 2,139,325	\$ 2,139,325	\$ 2,139,325	\$ —	\$ —
Receivables from brokers-dealers, net	594,105	594,105	—	594,105	—
Total Assets	<u>\$ 2,733,430</u>	<u>\$ 2,733,430</u>	<u>\$ 2,139,325</u>	<u>\$ 594,105</u>	<u>\$ —</u>

5. Off-Balance Sheet Risk

In the normal course of business, the Company is involved in the execution of various institutional customer securities transactions. Securities transactions are subject to the credit risk of counterparty or customer nonperformance. However, transactions are collateralized by the underlying securities, thereby reducing the associated risk to changes in the market value of the securities through settlement date. Therefore, the settlement of these transactions is not expected to have a material effect upon the Company's Statement of Financial Condition. It is also the Company's policy to review, as necessary, the credit worthiness of each counterparty and customer.

Financial instruments that potentially subject the Company to concentrations of credit risk are primarily cash and cash equivalents and receivable from broker-dealers, net. Cash is deposited with a high credit quality financial institution.

6. Income Taxes

The Company is a single-member limited liability company and is treated as a disregarded entity for U.S. federal, state and local income tax purposes. Prior to the Merger, the Company was included in the consolidated income tax return of Parent and, in accordance with the Parent's tax sharing agreement with the Company.

Upon the Merger, the tax sharing arrangement with the Parent was terminated. Following the Merger, the Company is included in the consolidated income tax return of Virtu, and the Company is no longer a party to a tax sharing arrangement. The Company did not have any unrecognized tax benefits at December 31, 2019 and is not subject to U.S. Federal or State and Local income tax examinations for years preceding 2013. The

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Company has determined that there are no uncertain tax positions that would have a material impact on the Company's financial position as of December 31, 2019.

7. Commitments, Contingent Liabilities and Guarantees

Legal and Regulatory Matters

In the ordinary course of business, the nature of the Company's business subjects it to claims, lawsuits, regulatory examinations or investigations and other proceedings. The Company is subject to one or more of these matters at the present time. Given the inherent difficulty of predicting the outcome of litigation and regulatory matters, particularly in regulatory examinations or investigations or other proceedings in which substantial or indeterminate damages or fines are sought, or where such matters are in the early stages, the Company cannot estimate losses or ranges of losses for such matters where there is only a reasonable possibility that a loss may be incurred. There can be no assurance that these matters will not have a material adverse effect on the Company's results of operations in any future period, and a material judgment, fine or sanction could have a material adverse impact on the Company's financial condition and results of operations. However, it is the opinion of management, after consultation with legal counsel that, based on information currently available, the ultimate outcome of these matters will not have a material adverse impact on the business, financial condition or operating results of the Company although they might be material to the operating results for any particular reporting period. The Company carries directors' and officers' liability insurance coverage for potential claims, including securities actions, against the Company and its respective directors and officers.

The Company is subject to extensive oversight under federal and state laws as well as self-regulatory organization ("SRO") rules. Changes in market structure and the need to remain competitive require constant changes to the Company's systems, order routing and order handling procedures. The Company makes these changes while continuously endeavoring to comply with many complex laws and rules. Compliance, surveillance and trading issues common in the securities industry are monitored by, reported to, and/or reviewed in the ordinary course of business by the Company's regulators. As a major order flow execution destination, the Company is named from time to time in, or is asked to respond to a number of regulatory matters brought by U.S. regulators, foreign regulators, SROs, as well as actions brought by private plaintiffs, which arise from its business activities. There has been an increased focus by regulators on Anti-Money Laundering and sanctions compliance by broker-dealers and similar entities, as well as an enhanced interest on suspicious activity reporting and transactions involving microcap securities. In addition, there has been an increased focus by Congress, federal and state regulators, SROs and the media on market structure issues, and in particular, high frequency trading, best execution, internalization, ATS manner of operations, market fragmentation and complexity, colocation, cybersecurity, access to market data feeds and remuneration arrangements, such as payment for order flow and exchange fee structures. The Company has received or may receive information requests from various authorities, including the SEC, requesting, among other items, information regarding these market structure matters, to which the Company has responded or is in the process of responding. The Company is currently the subject of various regulatory reviews and investigations by federal, state and foreign regulators and SROs, including the SEC and the Financial Industry Regulatory Authority, Inc. In some instances, these matters may rise to a disciplinary action and/or a civil or administrative action.

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Representations and Warranties

In the normal course of its operations, the Company enters into contracts that contain a variety of representations and warranties which provide general indemnifications. The Company's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Company that have not yet occurred. However, based on experience, the Company believes the risk of significant loss is minimal.

8. Net Capital Requirement

The Company is subject to the SEC Uniform Net Capital Rule ("SEC Rule 15c3-1"), which requires the maintenance of minimum net capital. The Company has elected to use the basic method permitted by SEC Rule 15c3-1, which requires that the Company maintain minimum net capital, as defined, equal to the greater of \$100,000 or 6 ⅔% of aggregate indebtedness. These regulations also prohibit a broker-dealer from repaying subordinated borrowings, paying cash dividends, making loans to its parent, affiliates or employees, or otherwise entering into transactions which would result in a reduction of its total net capital to less than 150% of its required minimum capital. Moreover, broker-dealers are required to notify the SEC and other regulators prior to repaying subordinated borrowings, paying dividends and making loans to its parent, affiliates or employees, or otherwise entering into transactions, which, if executed, would result in a reduction of 10% or more of its excess net capital (net capital less minimum requirement). The SEC and FINRA have the ability to prohibit or restrict such transactions if the result is detrimental to the financial integrity of the broker-dealer.

At December 31, 2019, the Company had net capital of \$1.9 million, which was \$1.8 million in excess of its required net capital of \$0.1 million. The Company's ratio of aggregate indebtedness to net capital was 0.24 to 1.

9. Related Party Transactions

Pursuant to a Services Agreement with ITG, certain securities trading services, administrative services, and the use of certain office space in connection with the Company's operations are provided by ITG.

Pursuant to an Intangible Property License Agreement with an affiliate, Virtu ITG Software Solutions LLC ("ITGSSI"), the Company paid ITGSSI license fees for the use of its technology.

The Company entered into a services agreement with Virtu ITG Global Production LLC ("ITGGPI"), in which ITGGPI provides services to the Company in connection with the production data center and manages the disaster recovery services contract.

In the normal course of business, the Parent and/or ITG may receive and disburse cash on behalf of the Company. This net activity is reflected in due to Parent and due to affiliates on the accompanying Statement of Financial Condition at December 31, 2019.

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The Company executes and clears all securities transactions through its clearing broker, ITG (see Note 2, "*Summary of Significant Accounting Policies*"). The Company's unsettled commissions and fees are reflected in receivables from broker-dealers, net on the accompanying Statement of Financial Condition at December 31, 2019. The Company reimburses ITG for all transaction processing costs incurred by ITG related to the Company's transactions. At December 31, 2019, included in due from affiliates on the Statement of Financial Condition was \$86,108 of amounts payable to ITG for these costs.

The Company provides certain securities trading services to an affiliate, Virtu Financial Capital Markets LLC ("VFCM").

The Company provides certain securities trading services to an affiliate, Virtu Americas LLC ("VAL") and VAL provides similar types of services to the Company.

The Company provides certain securities trading services to an affiliate, Virtu Financial Broker Dealers LLC ("VFBD").

The Company paid a cash dividend in the amount of \$4,000,000 to its Member during the year ended December 31, 2019.

10. Subsequent Events

The Company has evaluated subsequent events for adjustment to or disclosure in the Statement of Financial Condition through February 28, 2020, the date the Statement of Financial Condition were issued and has not identified any reportable or disclosable events not otherwise reported in these Statement of Financial Condition or the notes thereto.

The Statement of Financial Condition of the most recent annual report prepared pursuant to Rule 17a-5 of the Securities and Exchange Commission, is available for examination and copying at our headquarters at One Liberty Plaza, 165 Broadway, New York, New York and at the Northeast Regional Office of the Securities and Exchange Commission, 200 Vessey Street, New York, New York.