Virtu Financial, Inc.
Form 10-Q
May 07, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
or
TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-37352
Virtu Financial, Inc.
(Exact name of registrant as specified in its charter)

Delaware	32-0420206
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

300 Vesey Street New York, New York 10282	10282
(Address of principal executive offices)	(Zip Code)

(212) 418-0100
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 7(a)(2)(B) of the Securities Act. Yes No x

Class of Stock	Shares Outstanding as of May 7, 2018
Class A common stock, par value $0.00001 per share	91,512,582
Class C common stock, par value $0.00001 per share	17,043,963
Class D common stock, par value $0.00001 per share	79,610,490

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FOR THE QUARTER ENDED MARCH 31, 2018

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Unless the context otherwise requires, the terms “we,” “us,” “our,” “Virtu” and the “Company” refer to Virtu Financial, Inc., a Delaware corporation, and its consolidated subsidiaries and the term “Virtu Financial” refers to Virtu Financial LLC, a Delaware limited liability company and a consolidated subsidiary of ours.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Index to Condensed Consolidated Financial Statements (Unaudited)

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Virtu Financial, Inc. and Subsidiaries

Condensed Consolidated Statements of Financial Condition

(in thousands, except share and interest data)	March 31, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$637,308	$532,887
Securities borrowed	1,232,048	1,471,172
Securities purchased under agreements to resell	602	—
Receivables from broker dealers and clearing organizations	1,434,039	972,018
Trading assets, at fair value:		
Financial instruments owned	2,297,070	2,117,579
Financial instruments owned and pledged	610,536	595,043
Property, equipment and capitalized software (net of accumulated depreciation of $373,232 and $375,656 as of March 31, 2018 and December 31, 2017, respectively)	128,675	137,018
Goodwill	836,583	844,883
Intangibles (net of accumulated amortization of $130,246 and $123,409 as of March 31, 2018 and December 31, 2017, respectively)	104,387	111,224
Deferred tax assets	123,289	125,760
Assets of business held for sale	—	55,070
Other assets ($100,811 and $98,364, at fair value, as of March, 31, 2018 and December 31, 2017, respectively)	353,394	357,352
Total assets	$7,757,931	$7,320,006
Liabilities and equity		
Liabilities		
Short-term borrowings	$20,944	$27,883
Securities loaned	936,061	754,687
Securities sold under agreements to repurchase	265,401	390,642
Payables to broker dealers and clearing organizations	648,788	716,205
Trading liabilities, at fair value:		
Financial instruments sold, not yet purchased	2,846,453	2,384,598
Tax receivable agreement obligations	147,040	147,040
Accounts payable and accrued expenses and other liabilities	313,305	358,825
Long-term borrowings	1,121,464	1,388,548
Total liabilities	$6,299,456	$6,168,428
Virtu Financial Inc. Stockholders' equity		
Class A common stock (par value $0.00001), Authorized — 1,000,000,000 and 1,000,000,000 shares, Issued — 92,687,589 and 90,415,532 shares, Outstanding — 91,512,582 and 89,798,609 shares at March 31, 2018 and December 31, 2017, respectively	1	1
Class B common stock (par value $0.00001), Authorized — 175,000,000 and 175,000,000 shares, Issued and Outstanding — 0 and 0 shares at March 31, 2018 and December 31, 2017, respectively	—	—
Class C common stock (par value $0.00001), Authorized — 90,000,000 and 90,000,000 shares, Issued — 17,066,564 and 17,880,239 shares, Outstanding — 17,066,564 and 17,880,239, at March 31, 2018 and December 31, 2017, respectively	—	—
Class D common stock (par value $0.00001), Authorized — 175,000,000 and 175,000,000 shares, Issued and Outstanding — 79,610,490 and 79,610,490 shares at March 31, 2018 and	1	1

December 31, 2017, respectively		
Treasury stock, at cost, 1,175,007 and 616,923 shares at March 31, 2018 and December 31, 2017, respectively	(25,485)	(11,041)
Additional paid-in capital	930,954	900,746
Retained Earnings (Accumulated deficit)	90,242	(62,129)
Accumulated other comprehensive income	4,232	2,991
Total Virtu Financial Inc. stockholders' equity	$999,945	$830,569
Noncontrolling interest	458,530	321,009
Total equity	$1,458,475	$1,151,578
Total liabilities and equity	$7,757,931	$7,320,006

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Virtu Financial, Inc. and Subsidiaries
Condensed Consolidated Statements of Financial Condition

See accompanying notes to the condensed consolidated financial statements.

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Virtu Financial, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income

(in thousands, except share and per share data)	For Three Months Ended March 31, 2018	2017
Revenues:		
Trading income, net	$406,162	$139,574
Interest and dividends income	17,949	4,874
Commissions, net and technology services	53,844	2,779
Other, net	337,098	60
Total revenue	815,053	147,287
Operating Expenses:		
Brokerage, exchange and clearance fees, net	87,824	52,770
Communication and data processing	49,486	18,207
Employee compensation and payroll taxes	64,670	21,347
Payments for order flow	16,256	—
Interest and dividends expense	33,624	12,280
Operations and administrative	19,919	4,846
Depreciation and amortization	15,339	6,757
Amortization of purchased intangibles and acquired capitalized software	6,851	53
Termination of office leases	19,970	—
Debt issue cost related to debt refinancing	6,021	—
Transaction advisory fees and expenses	7,496	132
Charges related to share based compensation at IPO	14	185
Financing interest expense on long-term borrowings	19,047	6,828
Total operating expenses	346,517	123,405
Income before income taxes and noncontrolling interest	468,536	23,882
Provision for income taxes	58,514	2,808
Net income	410,022	21,074
Noncontrolling interest	(235,271)	(16,494)
Net income available for common stockholders	$174,751	$4,580
Earnings per share		
Basic	$1.89	0.10
Diluted	$1.86	0.10
Weighted average common shares outstanding		
Basic	90,699,321	40,398,381
Diluted	92,406,318	40,398,381
Net income	$410,022	$21,074
Other comprehensive income		
Foreign exchange translation adjustment, net of taxes	2,529	785
Comprehensive income	412,551	21,859
Less: Comprehensive income attributable to noncontrolling interest	(236,559)	(17,044)
Comprehensive income attributable to common stockholders	$175,992	$4,815

See accompanying notes to the condensed consolidated financial statements.

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Virtu Financial, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Equity

	Class A Common Stock		Class C Common Stock		Class D Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings (Accumu Deficit)
(in thousands, except share and interest data)	Shares	Amounts	Shares	Amounts	Shares	Amounts	Shares	Amounts	Amounts	
Balance at December 31, 2017	90,415,532	$1	17,880,239	$—	79,610,490,000	$1	(616,923,000)	$(11,041)	$900,746	$(62,129
Share based compensation	744,536	—	—	—	—	—	—	—	16,632	—
Repurchase of Class C common stock	—	—	(18,154)	—	—	—	—	—	(332)	—
Treasury stock purchases	—	—	—	—	—	—	(558,084,000)	(14,444)	—	—
Stock option exercised	732,000	—	—	—	—	—	—	—	13,908	—
Net income	—	—	—	—	—	—	—	—	—	174,751
Foreign exchange translation adjustment	—	—	—	—	—	—	—	—	—	—
Distribution from Virtu Financial to non-controlling interest	—	—	—	—	—	—	—	—	—	—
Dividends	—	—	—	—	—	—	—	—	—	(22,380
Issuance of common stock in connection with employee exchanges	795,521	—	—	—	—	—	—	—	—	—
Repurchase of Virtu Financial Units and corresponding number of Class C common stock in connection with employee exchanges	—	—	(795,521)	—	—	—	—	—	—	—
Balance at March 31, 2018	92,687,589	1	17,066,564	—	79,610,490,000	1	(1,175,007,000)	(25,485)	930,954	90,242

See accompanying notes to the condensed consolidated financial statements.

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Virtu Financial, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows

(in thousands)	Three Months Ended March 31, 2018	2017
Cash flows from operating activities		
Net Income	$410,022	$21,074
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,339	6,757
Amortization of purchased intangibles and acquired capitalized software	6,851	53
Debt issue cost related to debt refinancing	6,021	—
Amortization of debt issuance costs and deferred financing fees	1,583	214
Termination of office leases	19,970	—
Share based compensation	9,122	3,818
Deferred taxes	2,471	2,354
Gain on sale of BondPoint	(329,703)	—
Other	(7,328)	1,570
Changes in operating assets and liabilities:		
Securities borrowed	239,124	(138,458)
Securities purchased under agreements to resell	(602)	—
Receivables from broker dealers and clearing organizations	(462,022)	(213,585)
Trading assets, at fair value	(194,984)	(72,088)
Other Assets	5,848	563
Securities loaned	181,374	201,469
Securities sold under agreements to repurchase	(125,241)	—
Payables to broker dealers and clearing organizations	(67,417)	(106,290)
Trading liabilities, at fair value	461,855	324,647
Accounts payable and accrued expenses and other liabilities	(53,276)	(11)
Net cash provided by operating activities	119,007	32,087
Cash flows from investing activities		
Development of capitalized software	(7,016)	(2,016)
Acquisition of property and equipment	(4,505)	(3,843)
Proceeds from sale of BondPoint	400,192	—
Net cash provided by (used in) investing activities	388,671	(5,859)
Cash flows from financing activities		
Distribution from Virtu Financial to non-controlling interest	(99,038)	(21,011)
Dividends	(22,380)	(10,114)
Repurchase of Class C common stock	(332)	—
Purchase of treasury stock	(14,444)	(441)
Stock option exercised	13,908	—
Short-term borrowings, net	(7,500)	(3,000)
Payments on repurchase of non-voting common interest	—	(500)
Repayment of senior secured credit facility	(276,000)	(1,350)
Tax receivable agreement obligations	—	(7,045)
Debt issuance costs	—	—

Net cash used in financing activities	(405,786)	(43,461)
Effect of exchange rate changes on cash and cash equivalents	2,529	785
Net increase in cash and cash equivalents	104,421	(16,448)
Cash and cash equivalents beginning of period	532,887	181,415
Cash and cash equivalents, end of period	$637,308	$164,967
Supplementary disclosure of cash flow information		
Cash paid for interest	$30,632	$13,197
Cash paid for taxes	156	1,915

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Non-cash investing activities		
Share based compensation to developers relating to capitalized software	206	664

See accompanying notes to the condensed consolidated financial statements.

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Virtu Financial, Inc. and Subsidiaries

Notes to Unaudited Condensed Consolidated Financial Statements

(dollars in thousands, except shares and per share amounts, unless otherwise noted)

1. Organization and Basis of Presentation

Organization

The accompanying consolidated financial statements include the accounts and operations of Virtu Financial, Inc. ("VFI" or, collectively with its wholly owned or controlled subsidiaries, the "Company") beginning with its initial public offering ("IPO") in April of 2015, along with the historical accounts and operations of Virtu Financial LLC ("Virtu Financial") prior to the Company's IPO. VFI is a Delaware corporation whose primary asset is its ownership interest in Virtu Financial, which it acquired pursuant to and subsequent to certain reorganization transactions (the "Reorganization Transactions") consummated in connection with its IPO. As of March 31, 2018, VFI owned approximately 49.1% of the membership interests of Virtu Financial. VFI is the sole managing member of Virtu Financial and operates and controls all of the businesses and affairs of Virtu Financial and, through Virtu Financial and its subsidiaries (the "Group"), continues to conduct the business now conducted by such subsidiaries.

The Company is a leading financial firm that leverages cutting edge technology to deliver liquidity to the global markets and innovative, transparent trading solutions to its clients. The Company has broad diversification, in combination with its proprietary technology platform and low-cost structure, which enables the Company to facilitate risk transfer between global capital markets participants by supplying competitive liquidity and execution services while at the same time earning attractive margins and returns.

On July 20, 2017 (the "Closing Date"), the Company completed the all-cash acquisition (the "Acquisition") of KCG Holdings, Inc. ("KCG"). Pursuant to the terms of the Agreement and Plan of Merger, dated as of April 20, 2017 (the "Merger Agreement"), by and among the Company, Orchestra Merger Sub, Inc., a Delaware corporation and an indirect wholly-owned subsidiary of the Company ("Merger Sub"), and KCG Merger Sub merged with and into KCG (the "Merger"), with KCG surviving the Merger as a wholly owned subsidiary of the Company. See Note 3 "Acquisition of KCG Holdings Inc." for further details.

Virtu Financial's principal subsidiaries include Virtu Financial BD LLC ("VFBD") and Virtu Americas LLC ("VAL"), which are self-clearing U.S. broker-dealers, Virtu Financial Capital Markets LLC ("VFCM"), a U.S. broker-dealer, which self-clears its proprietary transactions and introduces the accounts of its affiliates and non-affiliated broker-dealers on an agency basis to other clearing firms that clear and settle transactions in those accounts. Other principal subsidiaries include Virtu Financial Global Markets LLC ("VFGM"), a U.S. trading entity focused on futures and currencies; Virtu Financial Ireland Limited ("VFIL"), formed in Ireland; Virtu Financial Asia Pty Ltd ("VFAP"), formed in Australia; and Virtu Financial Singapore Pte. Ltd. ("VFSing"), formed in Singapore, each of which are trading entities focused on asset classes in their respective geographic regions.

On January 2, 2018, the Company completed the sale of its fixed income trading venue, BondPoint, to Intercontinental Exchange ("ICE") for total gross proceeds of $400.2 million. See Note 4 "Sale of BondPoint" for further details.

Prior to the Acquisition of KCG, the Company was managed and operated as one business, under one reportable segment. As a result of the Acquisition of KCG, beginning in the third quarter of 2017 the Company has three operating segments: (i) Market Making; (ii) Execution Services; and (iii) Corporate. See Note 19 "Geographic information and business segments" for a further discussion of the Company's segments.

Basis of Consolidation and Form of Presentation

These condensed consolidated financial statements are presented in U.S. dollars and have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding financial reporting with respect to Form 10-Q and accounting standards generally accepted in the United States of America ("U.S. GAAP")

promulgated in the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC" or the "Codification"). The condensed consolidated financial statements of the Company include its equity interests in Virtu Financial, and its subsidiaries. The Company operates and controls all business and affairs of Virtu Financial and its operating subsidiaries indirectly through its equity interest in Virtu Financial.

Certain reclassifications have been made to the prior periods' condensed consolidated financial statements in order to conform to the current period presentation. Such reclassifications are immaterial, individually and in the aggregate, to both

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current and all previously issued financial statements taken as a whole and have no effect on previously reported condensed consolidated net income available to common stockholders.
The condensed consolidated financial statements include the accounts of the Company and its majority and wholly owned subsidiaries. As sole managing member of Virtu Financial, the Company exerts control over the Group's operations. The Company consolidates Virtu Financial and its subsidiaries' financial statements and records the interests in Virtu Financial that the Company does not own as noncontrolling interests. All intercompany accounts and transactions have been eliminated in consolidation.
As discussed in Note 3 "Acquisition of KCG Holdings Inc.", the Company has accounted for the acquisition of KCG under the acquisition method of accounting. Under the acquisition method of accounting, the assets and liabilities of KCG, as of July 20, 2017, were recorded at their respective fair values and added to the carrying value of the Company's existing assets and liabilities. The reported financial condition, results of operations and cash flows of the Company for the periods following the Acquisition reflect KCG's and the Company's balances, and reflect the impact of purchase accounting adjustments. The financial results for the three months ended March 31, 2017 comprise solely the results of the Company.
2. Summary of Significant Accounting Policies

Use of Estimates

The Company's condensed consolidated financial statements are prepared in conformity with U.S. GAAP, which require management to make estimates and assumptions regarding measurements including the fair value of trading assets and liabilities, goodwill and intangibles, compensation accruals, capitalized software, income tax, and other matters that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ materially from those estimates.

Earnings Per Share

Earnings per share ("EPS") is calculated on both a basic and diluted basis. Basic EPS excludes dilution and is calculated by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted EPS is calculated by dividing the net income available for common stockholders by the diluted weighted average shares outstanding for that period. Diluted EPS includes the determinants of the basic EPS and, in addition, reflects the dilutive effect of shares of common stock estimated to be distributed in the future under the Company's share based compensation plans.

The Company grants restricted stock units ("RSUs"), which entitle recipients to receive nonforfeitable dividends during the vesting period on a basis equivalent to the dividends paid to holders of common stock. As a result, the unvested RSUs meet the definition of a participating security requiring the application of the two-class method. Under the two-class method, earnings available to common shareholders, including both distributed and undistributed earnings, are allocated to each class of common stock and participating securities according to dividends declared and participating rights in undistributed earnings, which may cause diluted EPS to be more dilutive than the calculation using the treasury stock method.
Cash and Cash Equivalents

Cash and cash equivalents include money market accounts, which are payable on demand, and short-term investments with an original maturity of less than 90 days.

The Company maintains cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company manages this risk by selecting financial institutions deemed highly creditworthy to minimize the risk.

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Securities Borrowed and Securities Loaned

The Company conducts securities borrowing and lending activities with external counterparties. In connection with these transactions, the Company receives or posts collateral, which comprises cash and/or securities. In accordance with substantially all of its stock borrow agreements, the Company is permitted to sell or repledge the securities received. Securities borrowed or loaned are recorded based on the amount of cash collateral advanced or received. The initial cash collateral advanced or received generally approximates or is greater than 102% of the fair value of the underlying securities borrowed or loaned. The Company monitors the fair value of securities borrowed and loaned, and delivers or obtains additional collateral as appropriate. Receivables and payables with the same counterparty are not offset in the condensed consolidated statements of financial condition. Interest received or paid by the Company for these transactions is recorded gross on an accrual basis under interest and dividends income or interest and dividends expense in the condensed consolidated statements of comprehensive income.

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase

In a repurchase agreement, securities sold under agreements to repurchase are treated as collateralized financing transactions and are recorded at contract value, plus accrued interest, which approximates fair value. It is the Company's policy that its custodian takes possession of the underlying collateral securities with a fair value approximately equal to the principal amount of the repurchase transaction, including accrued interest. For reverse repurchase agreements, the Company typically requires delivery of collateral with a fair value approximately equal to the carrying value of the relevant assets in the condensed consolidated statements of financial condition. To ensure that the fair value of the underlying collateral remains sufficient, the collateral is valued daily with additional collateral obtained or excess collateral returned, as permitted under contractual provisions. The Company does not net securities purchased under agreements to resell transactions with securities sold under agreements to repurchase transactions entered into with the same counterparty.

The Company has also entered into bilateral and tri-party term and overnight repurchase and other collateralized financing agreements which bear interest at negotiated rates. The Company receives cash and makes delivery of financial instruments to a custodian who monitors the market value of these instruments on a daily basis. The market value of the instruments delivered must be equal to or in excess of the principal amount loaned under the repurchase agreements plus the agreed upon margin requirement. The custodian may request additional collateral, if appropriate. Interest received or paid by the Company for these transactions is recorded gross on an accrual basis under interest and dividends income or interest and dividends expense in the condensed consolidated statements of comprehensive income.

Receivables from/Payables to Broker-dealers and Clearing Organizations

Amounts receivable from broker-dealers and clearing organizations may be restricted to the extent that they serve as deposits for securities sold, not yet purchased. At March 31, 2018 and December 31, 2017, receivables from and payables to broker-dealers and clearing organizations primarily represented amounts due for unsettled trades, open equity in futures transactions, securities failed to deliver or failed to receive, deposits with clearing organizations or exchanges and balances due from or due to prime brokers in relation to the Company’s trading. The Company presents its balances, including outstanding principal balances on all credit facilities, on a net by counterparty basis within receivables from and payable to broker-dealers and clearing organizations when the criteria for offsetting are met.

In the normal course of business, a significant portion of the Company’s securities transactions, money balances, and security positions are transacted with several third-party brokers. The Company is subject to credit risk to the extent any broker with whom it conducts business is unable to fulfill contractual obligations on its behalf. The Company monitors the financial condition of such brokers and to minimize the risk of any losses from these counterparties.

Financial Instruments Owned Including Those Pledged as Collateral and Financial Instruments Sold, Not Yet Purchased

Financial instruments owned and Financial instruments sold, not yet purchased relate to market making and trading activities, and include listed and other equity securities, listed equity options and fixed income securities.

The Company records financial instruments owned, including those pledged as collateral, and financial instruments sold, not yet purchased at fair value. Gains and losses arising from financial instrument transactions are recorded net on a trade-date basis in trading income, net, in the condensed consolidated statements of comprehensive income.

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Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or would be paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. Fair value measurements are not adjusted for transaction costs. The recognition of "block discounts" for large holdings of unrestricted financial instruments where quoted prices are readily and regularly available in an active market is prohibited. The Company categorizes its financial instruments into a three level hierarchy which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy level assigned to each financial instrument is based on the assessment of the transparency and reliability of the inputs used in the valuation of such financial instruments at the measurement date based on the lowest level of input that is significant to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

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.

Transfers in or out of levels are recognized based on the beginning fair value of the period in which they occurred.
Fair Value Option
The fair value option election allows entities to make an irrevocable election of fair value as the initial and subsequent measurement attribute for certain eligible financial assets and liabilities. Unrealized gains and losses on items for which the fair value option has been elected are recorded in other, net in the condensed consolidated statements of comprehensive income. The decision to elect the fair value option is determined on an instrument by instrument basis, which must be applied to an entire instrument and is irrevocable once elected.

Derivative Instruments

Derivative instruments are used for trading purposes, including economic hedges of trading instruments, which are carried at fair value include futures, forward contracts, and options. Gains or losses on these derivative instruments are recognized currently within trading income, net in the condensed consolidated statement of comprehensive income. Fair values for exchange-traded derivatives, principally futures, are based on quoted market prices. Fair values for over-the-counter derivative instruments, principally forward contracts, are based on the values of the underlying financial instruments within the contract. The underlying instruments are currencies, which are actively traded. The Company presents its derivatives balances on a net-by-counterparty basis when the criteria for offsetting are met.

Property, Equipment and Occupancy

Property and equipment are carried at cost, less accumulated depreciation, except for the assets acquired in connection with acquisitions using the purchase accounting method, which were recorded at fair value on the respective date of acquisitions. Depreciation is provided using the straight-line method over estimated useful lives of the underlying assets. Routine maintenance, repairs and replacement costs are expensed as incurred and improvements that

appreciably extend the useful life of the assets are capitalized. When property and equipment are sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in income. Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. Furniture, fixtures, and equipment are depreciated over three to seven years. Leasehold improvements are amortized over the lesser of the life of the improvement or the term of the lease.

The Company recognizes rent expense under operating leases with fixed rent escalations, lease incentives and free rent periods on a straight-line basis over the lease term beginning on the date the Company takes possession of or controls the use of the space, including during free rent periods.

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Lease Loss Accrual

The Company's policy is to identify excess real estate capacity and where applicable, accrue for related future costs, net of projected sub-lease income upon the date the Company ceases to use the excess real estate, which is recorded under operating and administrative in the condensed consolidated statements of comprehensive income. Such accrual is adjusted to the extent the actual terms of sub-leased property differ from the previous assumptions used in the calculation of the accrual.

Capitalized Software

The Company capitalizes costs of materials, consultants, and payroll and payroll related costs for employees incurred in developing internal-use software. Costs incurred during the preliminary project and post-implementation stages are charged to expense.

Management's judgment is required in determining the point at which various projects enter the stages at which costs may be capitalized, in assessing the ongoing value of the capitalized costs, and in determining the estimated useful lives over which the costs are amortized.

Capitalized software development costs and related accumulated amortization are included in property, equipment and capitalized software in the accompanying condensed consolidated statements of financial condition and are amortized over a period of 1.5 to 2.5 years, which represents the estimated useful lives of the underlying software.

Goodwill

Goodwill represents the excess of the purchase price over the underlying net tangible and intangible assets of the Company's acquisitions. Goodwill is not amortized but is tested for impairment on an annual basis and between annual tests whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Goodwill is tested at the reporting unit level, which is defined as an operating segment or one level below the operating segment.

The Company tests goodwill for impairment on an annual basis on July 1 and on an interim basis when certain events or circumstances exist. In the impairment test as of July 1, 2017, the primary valuation method used to estimate the fair value of the Company's reporting unit was the market capitalization approach based on the market price of its Class A common stock, which the Company's management believes to be an appropriate indicator of its fair value. Following the Acquisition, our impairment testing is performed for each reporting unit.

Intangible Assets

The Company amortizes finite-lived intangible assets over their estimated useful lives. Finite-lived intangible assets are tested for impairment annually or when impairment indicators are present, and if impaired, they are written down to fair value.

Exchange Memberships and Stock

Exchange memberships are recorded at cost or, if any other than temporary impairment in value has occurred, at a value that reflects management's estimate of fair value. Exchange memberships acquired in connection with the Acquisition were recorded at their fair value on the date of acquisition. Exchange stock includes shares that entitle the Company to certain trading privileges. The Company's exchange memberships and stock are included in intangibles in the condensed consolidated statements of financial condition.

Trading Income, net

Trading income, net is comprised of changes in the fair value of trading assets and liabilities (i.e., unrealized gains and losses) and realized gains and losses on trading assets and liabilities. Trading gains and losses on financial instruments owned and financial instruments sold, not yet purchased are recorded on the trade date and reported on a net basis in the condensed consolidated statements of comprehensive income. The Company recognizes the related revenue when the third party research services are rendered and payments are made.

Commissions, net and Technology Services

Commissions, net, which primarily comprise commissions and commission equivalents earned on institutional client orders, are recorded on a trade date basis. Under a commission management program, the Company allows institutional clients

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to allocate a portion of their gross commissions to pay for research and other services provided by third parties. As the Company acts as an agent in these transactions, it records such expenses on a net basis within Commissions and technology services in the condensed consolidated statements of comprehensive income.

Technology services revenues consist of technology licensing fees and agency commission fees. Technology licensing fees are earned from third parties for licensing of the Company's proprietary risk management and trading infrastructure technology and the provision of associated management and hosting services. These fees include both upfront and annual recurring fees, as well as, in certain cases, contingent fees based on client revenues, which represent variable consideration. The services offered under these contracts have the same pattern of transfer; accordingly, they are being measured and recognized as a single performance obligation. The performance obligation is satisfied over time, and accordingly, revenue is recognized as time passes. Variable consideration has not been included in the transaction price as the amount of consideration is contingent on factors outside the Company's control and thus it is not probable that a significant reversal of cumulative revenue recognized will not occur. Recurring fees, which exclude variable consideration, are billed and collected on a quarterly basis.

Interest and Dividends Income/Interest and Dividends Expense
Interest income and interest expense are accrued in accordance with contractual rates. Interest income consists of interest earned on collateralized financing arrangements and on cash held by brokers. Interest expense includes interest expense from collateralized transactions, margin and related lines of credit. Dividends on financial instruments owned including those pledged as collateral and financial instruments sold, not yet purchased are recorded on the ex-dividend date and interest is recognized on an accrual basis.

Brokerage, Exchange and Clearance Fees, Net

Brokerage, exchange and clearance fees, net, comprise the costs of executing and clearing trades and are recorded on a trade date basis. Rebates consist of volume discounts, credits or payments received from exchanges or other market places related to the placement and/or removal of liquidity from the order flow in the marketplace. Rebates are recorded on an accrual basis and included net within brokerage, exchange and clearance fees in the accompanying condensed consolidated statements of comprehensive income.

Payments for Order Flow

Payments for order flow represent payments to broker-dealer clients, in the normal course of business, for directing their order flow in U.S. equities to the Company. Payments for order flow are recorded on a trade-date basis in the condensed consolidated statements of comprehensive income.

Income Taxes

Subsequent to consummation of the Reorganization Transactions and the IPO, the Company is subject to U.S. federal, state and local income taxes on its taxable income. The Company's subsidiaries are subject to income taxes in the respective jurisdictions (including foreign jurisdictions) in which they operate. Prior to the consummation of the Reorganization Transactions and the IPO, no provision for United States federal, state and local income tax was required, as Virtu Financial is a limited liability company and is treated as a pass-through entity for United States federal, state, and local income tax purposes.

The provision for income tax is comprised of current tax and deferred tax. Current tax represents the tax on current year tax returns, using tax rates enacted at the balance sheet date. The deferred tax assets are recognized in full and then reduced by a valuation allowance if it is more likely than not that some or all of the deferred tax assets will not be recognized.

The Company recognizes the tax benefit from an uncertain tax position 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 benefits recognized in the condensed consolidated financial statements from such a position are 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.

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Public Law No. 115-97, commonly referred to as The Tax Cuts and Jobs Act (the “2017 Tax Act”) was signed into law on December 22, 2017. The 2017 Tax Act significantly changes how the U.S. federal government taxes corporations and requires significant judgments to be made in interpretation of its provisions and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, and other standard-setting bodies could interpret or issue guidance on how provisions of the 2017 Tax Act will be applied or otherwise administered that is different from our interpretation. As we complete our analysis of the 2017 Tax Act, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes in the period in which the adjustments are made. See Note 14 “Income Taxes”.

Comprehensive Income and Foreign Currency Translation

Comprehensive income consists of two components: net income and other comprehensive income (“OCI”). The Company’s OCI is comprised of foreign currency translation adjustments. Assets and liabilities of operations having non-U.S. dollar functional currencies are translated at period-end exchange rates, and revenues and expenses are translated at weighted average exchange rates for the period. Gains and losses resulting from translating foreign currency financial statements, net of related tax effects, are reflected in accumulated other comprehensive income, a separate component of stockholders’ equity.
The Company's foreign subsidiaries generally use the U.S. dollar as their functional currency. The Company also has subsidiaries that utilize a functional currency other than the U.S. dollar, primarily comprising its subsidiaries domiciled in Ireland, which utilizes the Euro as the functional currency.
The Company may seek to reduce the impact of fluctuations in foreign exchange rates on its net investment in certain non-U.S. operations through the use of foreign currency forward contracts. For foreign currency forward contracts designated as hedges, the Company assesses its risk management objectives and strategy, including identification of the hedging instrument, the hedged item and the risk exposure and how effectiveness is to be assessed prospectively and retrospectively. The effectiveness of the hedge is assessed based on the overall changes in the fair value of the forward contracts. For qualifying net investment hedges, any gains or losses, to the extent effective, are included in Accumulated other comprehensive income on the condensed consolidated statements of financial condition and Cumulative translation adjustment, net of tax, on the condensed consolidated statements of comprehensive income. The ineffective portion, if any, is recorded in Investment income and other, net on the condensed consolidated statements of operations.

Share-Based Compensation

The fair value of awards issued for compensation prior to the Reorganization Transactions and the IPO was determined by management, with the assistance of an independent third party valuation firm, using a projected annual forfeiture rate, where applicable, on the date of grant.

Share-based awards issued for compensation in connection with or subsequent to the Reorganization Transactions and the IPO pursuant to the VFI 2015 Management Incentive Plan (as amended, the “2015 Amended and Restated Management Incentive Plan”) were in the form of stock options, Class A common stock and RSUs. The fair value of the stock option grants is determined through the application of the Black-Scholes-Merton model. The fair value of the Class A common stock and RSUs are determined based on the volume weighted average price for the three days preceding the grant, and with respect to the RSUs, a projected annual forfeiture rate. The fair value of share-based awards granted to employees is expensed based on the vesting conditions and are recognized on a straight line basis over the vesting period. The Company records as treasury stock shares repurchased from its employees for the purpose of settling tax liabilities incurred upon the issuance of Class A common stock, the vesting of RSUs or the exercise of stock options.

Variable Interest Entities

A variable interest entity ("VIE") is an entity that lacks one or more of the following characteristics (i) the total equity investment at risk is sufficient to enable the entity to finance its activities independently and (ii) the equity holders have the power to direct the activities of the entity that most significantly impact its economic performance, the obligation to absorb the losses of the entity and the right to receive the residual returns of the entity.
The Company will be considered to have a controlling financial interest and will consolidate a VIE if it has both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (ii) the obligation to absorb losses of the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE.
In October 2016, the Company invested in a joint venture ("JV") with nine other parties. One of the parties was KCG. Upon the Merger, KCG was required to relinquish their ownership in the JV. As of March 31, 2018, each of the

remaining parties owns approximately 11% of the voting shares and 11% of the equity of this JV, which is building microwave communication networks in the U.S. and Asia, and which is considered to be a VIE. The Company and all of its JV partners each pay monthly fees for the funding of the construction of the microwave communication networks. When completed, this JV may sell excess bandwidth that is not utilized by its joint venture members to third parties.

In addition, as a result of the Acquisition, the Company owns 50% of the voting shares and 50% of the equity of a JV which maintains microwave communication networks in the U.S. and Europe, and which is considered to be a VIE. The Company and its JV partner each pay monthly fees for the use of the microwave communication networks in connection with their respective trading activities, and the JV may sell excess bandwidth that is not utilized by the JV members to third parties.

In each of the JVs, the Company does not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; therefore it does not have a controlling financial interest in the JV and does not consolidate the JVs. The Company records its interest in each JV under the equity method of accounting and records its investment in the JVs within Other assets and its amounts payable for communication services provided by the JV within Accrued expenses and other liabilities on the condensed consolidated statements of financial condition. The Company records its pro-rata share of each JVs earnings or losses within Other, net and fees related to the use of communication services provided by the JVs within Communications and data processing on the condensed consolidated statements of comprehensive income.

The Company's exposure to the obligations of these VIEs is generally limited to its interests in each respective JV, which is the carrying value of the equity investment in each JV.

The following table presents the Company's nonconsolidated VIE at March 31, 2018:

(in thousands)	Carrying Amount		Maximum Exposure to loss	VIE's assets
	Asset	Liability		
Equity investment	$18,472	$ —	$ 18,472	$51,344

The following table presents the Company's nonconsolidated VIE at December 31, 2017:

(in thousands)	Carrying Amount		Maximum Exposure to loss	VIE's assets
	Asset	Liability		
Equity investment	$18,799	$ —	$ 18,799	$41,936

Recent Accounting Pronouncements

Revenue - In May 2014, the FASB issued Accounting Standard Update ("ASU") 2014-9, Revenue from Contracts with Customers. ASU 2014-9 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-9 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the

Effective Date. ASU 2015-14 defers the effective date of ASU 2014-9 by one year for public companies. ASU 2015-14 applies to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. In December 2016, FASB issued ASU 2016-20Technical Correction and Improvement (Topic 606): Revenue from Contracts with Customers, which amends the guidance in ASU 2014-9. The effective date and transition requirements for the ASU are the same as ASU 2015-14. The Company adopted the new revenue standard on January 1, 2018 by applying the modified retrospective method, which did not result in a transition adjustment. The new standard does not apply to revenue associated with financial instruments that are accounted for under other U.S. GAAP, and as a result, did not have an impact on the Company’s condensed consolidated statements of comprehensive income, which are most closely associated with financial instruments, including trading income, net, and interest and dividends income. The new revenue standard primarily impacts revenues from technology services, commissions and soft-dollar arrangements generated by execution services. The additional disclosures required by the new standard have been included in Note 13 "Revenues from contracts with customers".

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Financial Assets and Liabilities — In January 2016, the FASB issued ASU 2016-01, Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The ASU affects the accounting for equity investments, financial liabilities under fair value option and presentation and disclosure requirements of financial instruments. The new ASU affects all entities that hold financial assets or owe financial liabilities and is effective for annual reporting periods (including interim periods) beginning after December 15, 2017. The Company does not currently classify any equity securities as available for sale, and it does not apply the fair value option to its own debt issuances. The Company has adopted this ASU as of March 31, 2018, and it did not have a material impact on its condensed consolidated financial statements.

Leases — In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). Under the new ASU, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. The liability will be equal to the present value of the future lease payments. The asset, referred to as a “right-of-use asset” will be based on the liability, subject to adjustment, such as for initial direct costs. For income statement purposes, leases will be classified as either operating or finance. Operating leases will result in straight-line expense (similar to current operating leases) while finance leases will result in a front-loaded expense pattern (similar to current capital leases). Classification will be based on criteria that are largely similar to those applied in current lease accounting, but without explicit bright lines. The Company's implementation effort is on going, and it anticipates adopting this ASU on January 1, 2019. The Company is not anticipating recognizing lease assets and lease liabilities for leases with a term of twelve months or less. Upon adoption of this ASU, the Company expects to report increased assets and liabilities on its condensed consolidated statement of financial condition as a result of recognizing right-of-use assets and lease liabilities related to certain equipment under non-cancelable operating lease agreements and long-term occupancy operating leases, which currently are not reflected in its condensed consolidated statement of financial condition.

Statement of Cash Flows – In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The ASU intended to reduce diversity in practice how certain transactions are classified in the statement of cash flows by mandating classification of certain activities. The ASU is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The Company has adopted this ASU as of June 30, 2017, and it did not have a material impact on its condensed consolidated statement of cash flows.

Income Taxes – In October 2016, the FASB issued ASU 2016-16, Income Taxes (Topic 749): Intra-Entity Transfers of Assets Other Than Inventory. The ASU requires the reporting entity to recognize the tax expense from the sale of an asset in the seller’s tax jurisdiction when the transfer occurs, even though the pre-tax effects of the transactions are eliminated in consolidation. Any deferred tax asset that arises in the buyer’s jurisdiction would also be recognized at the time of the transfer. The ASU is effective for annual periods beginning after December 15, 2018, and interim reporting periods within annual reporting periods beginning after December 15, 2019. The Company is currently evaluating the potential effects of adoption of ASU 2016-16 on the Company’s condensed consolidated financial statements.

Restricted cash – In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flow (Topic 230): Restricted Cash, which is intended to reduce diversity in the presentation of restricted cash and restricted cash equivalents in the statements of financial conditions. The ASU requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents as presented on the statement of cash flows. This ASU is effective for annual reporting periods beginning after December 15, 2017, and interim periods within those fiscal years. The Company elected to early adopt this ASU effective June 30, 2017.The adoption of the ASU affected the presentation of the Company’s condensed consolidated statements of cash flows in periods in which it maintained restricted cash and restricted cash equivalents.

Accounting Changes – In January 2017, the FASB issued ASU 2017-3, Accounting Changes and Error Correction (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323), which amends SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC update). The SEC staff view is that a registrant should evaluate the impact of new accounting standards that have not yet been adopted to determine the appropriate financial disclosures on the potential material effects, especially on new standards on revenue recognition, leases, and financial instruments – credit losses. If a registrant cannot reasonably estimate the impact that adoption of the ASUs will have, the registrant should consider additional qualitative financial statement disclosures to assist the reader in assessing the significance of the impact. Additional qualitative disclosures should include a description of the effect of the accounting policies expected to be applied compared to current accounting policies. Furthermore, the registrant should describe the status of its process to implement the new standards and the significant implementation matters yet to be addressed. The Company adopted this ASU on January 1, 2017, and appropriate disclosures have been included in this Note for each recently issued accounting standard.

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Goodwill - In January, 2017, the FASB issued ASU 2017-4, Intangibles—Goodwill and Other (Topic 350), Simplifying the Test for Goodwill Impairment. To simplify the subsequent measurement of goodwill, this ASU eliminated Step 2 from the goodwill impairment test. (In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities (including unrecognized assets and liabilities) following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Instead, under this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This ASU also eliminated the requirements for any reporting unit with a zero or negative carrying amount to perform a qualitative assessment and, if it fails that qualitative test, to perform Step 2 of the goodwill impairment test. This ASU is effective for public entities in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of this ASU to have a material impact on its condensed consolidated financial statements.

Business Combinations - In January 2017, the FASB issued ASU 2017-1, Business Combinations (Topic 805), Clarifying the Definition of a Business, to amend the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The ASU is effective for reporting periods beginning after December 15, 2017. The Company adopted this ASU on January 1, 2018.

3. Acquisition of KCG Holdings, Inc.

As of the Closing Date of the Acquisition, each of KCG's issued and outstanding shares of Class A common stock, par value $0.01 per share was cancelled and extinguished and converted into the right to receive $20.00 in cash, without interest, less any applicable withholding taxes.

On the Closing Date, and in connection with the financing of the Acquisition, as described in Note 10 "Borrowings", the Company issued to Aranda Investments Pte. Ltd. ("Aranda"), an affiliate of Temasek Holdings (Private) Limited ("Temasek"), 6,346,155 shares of the Company's Class A common stock, pursuant to the investment agreement with Aranda (as amended, the "Aranda Investment Agreement") for an aggregate purchase price of approximately $99.0 million. On August 10, 2017, the Company issued an additional 1,666,666 shares of its Class A common stock for an aggregate purchase price of $26.0 million (collectively, the "Temasek Investment").

On the Closing Date, and in connection with the financing of the Acquisition, the Company issued to North Island Holdings I, LP ("NIH") 39,725,979 shares of the Company's Class A common stock for an aggregate purchase price of approximately $613.5 million. On August 10, 2017 the Company issued an additional 338,124 shares of its Class A common stock for an aggregate purchase price of $5.2 million (collectively, the "NIH Investment"). In connection with the Temasek Investment and NIH Investment, the Company incurred approximately $7.8 million in fees which were recorded as a reduction to additional paid-in capital.

On July 21, 2017, the outstanding 6.875% Senior Secured Notes due 2020 issued by KCG were redeemed at a redemption price equal to 103.438% of the $465.0 million principal amount, plus accrued and unpaid interest. The redemption was pursuant to the indenture, dated as of March 13, 2015 (as amended, restated, supplemented or otherwise modified), by and among KCG, the subsidiary guarantors party thereto and The Bank of New York Mellon, as trustee and collateral agent. See "Fourth Amended and Restated Credit Agreement" and "Senior Secured Second Lien Notes" in Note 10 "Borrowings".

Accounting treatment of the Acquisition

The Acquisition is accounted for as a purchase of KCG by the Company, pursuant to provisions of ASC 805, Business Combinations. Under the acquisition method of accounting, the assets and liabilities of KCG, as of July 20, 2017, were recorded at their respective fair values and added to the carrying value of the Company's existing assets and liabilities. These fair values were determined with the assistance of third party valuation professionals. The reported

financial condition, results of operations and cash flows of the Company for the periods following the Acquisition reflect KCG’s and the Company's balances and reflect the impact of purchase accounting adjustments.

Purchase price and goodwill

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The aggregate cash purchase price of $1.4 billion was determined as the sum of the fair value, at $20.00 per share, of KCG shares and warrants outstanding to former KCG stockholders at closing and the fair value of KCG employee stock based awards that were outstanding, and which vested at the Closing Date.
The purchase price has been allocated to the assets acquired and liabilities assumed using their estimated fair values at the Closing Date of the Acquisition. Although the Company has substantially completed its analysis to record the allocation of the purchase price to the KCG acquired assets and liabilities, the allocation of the purchase price may be modified over the measurement period, which does not exceed twelve months from the Closing Date, as more information is obtained about the fair values of assets acquired and liabilities assumed. Adjustments to the provisional values during the measurement period will be recorded in the reporting period in which the adjustment amounts are determined. The Company has engaged third party specialists for the purchase price allocation.
Amounts allocated to intangible assets, the amortization period and goodwill were as follows:

(in thousands)	Amount	Amortization Years
Technology	$67,700	1-6 years
Customer relationships	94,000	13 - 17 years
Trade names	1,000	10 years
Favorable leases	5,895	2-15 years
Exchange memberships	6,400	Indefinite
Intangible assets	$174,995	
Goodwill	128,286	
Total	$303,281	

Of the total Goodwill of $128.3 million, $96.2 million has been assigned to the Market Making segment and $32.1 million has been assigned to the Execution Services segment. Such goodwill is attributable to the expansion of products offerings and expected synergies of the combined workforce, products and technologies of the Company and KCG.
Tax treatment of the Acquisition
The Company believes that the Acquisition will be treated as a tax-free transaction to the Company that does not result in a step up in tax basis in the acquired assets and, therefore, KCG’s tax basis in its assets and liabilities generally carries over to the Company following the Acquisition. None of the goodwill is expected to be deductible for tax purposes.
The Company recorded net deferred tax assets of $23.9 million with respect to recording KCG’s assets and liabilities under the purchase method of accounting as described above as well as recording the value of other tax attributes acquired as a result of the Acquisition, as described in Note 13 "Revenues from contracts with customers".

4. Sale of BondPoint
In October 2017, the Company entered into an Asset Purchase Agreement (the “BondPoint Agreement”) with ICE pursuant to which the Company has agreed to sell specified assets and to assign specified liabilities constituting its BondPoint division and fixed income venue (“BondPoint”). BondPoint is a provider of electronic fixed income trading solutions for the buy-side and sell-side offering access to centralized liquidity and automated trade execution services. As of December 31, 2017, the Company transferred the carrying value of BondPoint to assets held for sale, refer to Note 4 “Business held for sale” in the Company's Annual Report on Form 10-K, filed with the Securities and Exchange Commission on March 13, 2018 (the "2017 Form 10-K"). On January 2, 2018, the Company completed the sale of BondPoint to Intercontinental Exchange for total gross proceeds of $400.2 million in cash. The Company incurred one-time transaction costs of $8.5 million, which include professional fees of $7.1 million related to the sale and $1.4 million compensation expense, which is recorded in Transaction advisory fees and expenses and Employee compensation and payroll taxes, respectively, on the condensed consolidated statement of comprehensive income. The Company recognized a gain on sale of $329.0 million, which is recorded in other, net on the condensed consolidated statement of comprehensive income for the three months ended March 31, 2018.

A summary of the carrying value of BondPoint and gain on sale of BondPoint is as follows:

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(in thousand)	
Total sale proceeds received	$400,192
Business assets and liabilities held for sale as of December 31, 2017:	
Receivables from broker dealers and clearing organizations	3,383
Intangibles and other assets	51,687
Liabilities	(728)
Total carrying value of BondPoint as of December 31, 2017:	54,342
Goodwill adjustment allocated to BondPoint	8,300
Gain on sale of BondPoint	337,550
Transaction costs	8,568
Gain on sale of BondPoint, net of transaction costs	$328,982

5. Earnings per Share

The below table contains a reconciliation of net income before noncontrolling interest to net income available for common stockholders:

	Three Months Ended March 31,	
(in thousands)	2018	2017
Income before income taxes and noncontrolling interest	$468,536	$23,882
Provision for income taxes	58,514	2,808
Net income	410,022	21,074
Noncontrolling interest	(235,271)	(16,494)
Net income available for common stockholders	$174,751	$4,580

The calculation of basic and diluted earnings per share is presented below:

	Three Months Ended March 31,	
(in thousands, except for share or per share data)	2018	2017
Basic earnings per share:		
Net income available for common stockholders	$174,751	$ 4,580
Less: Dividends and undistributed earnings allocated to participating securities	(3,213)	(353)
Net income available for common stockholders, net of dividends and undistributed earnings allocated to participating securities	171,538	4,227
Weighted average shares of common stock outstanding:		
Class A	90,699,321	40,398,381
Basic Earnings per share	$1.89	$ 0.10

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(in thousands, except for share or per share data)	Three Months Ended March 31, 2018	2017
Diluted earnings per share:		
Net income available for common stockholders, net of dividends and undistributed earnings allocated to participating securities	$171,538	$ 4,227
Weighted average shares of common stock outstanding:		
Class A		
Issued and outstanding	90,699,321	40,398,381
Issuable pursuant to 2015 Management Incentive Plan(1)	1,706,996	—
	92,406,317	40,398,381
Diluted Earnings per share	$1.86	$ 0.10

(1) The dilutive impact of unexercised stock options excludes from the computation of EPS 774,529 options for the three months ended March 31, 2017, because inclusion of the options would have been anti-dilutive.

6. Tax Receivable Agreements

In connection with the IPO and the Reorganization Transactions, the Company entered into tax receivable agreements to make payments to certain Virtu pre-IPO equityholders ("Virtu Members"), that are generally equal to 85% of the applicable cash tax savings, if any, that the Company actually realizes as a result of favorable tax attributes that were and will continue to be available to the Company as a result of the Reorganization Transactions, exchanges of membership interests for Class A common stock or Class B common stock and payments made under the tax receivable agreements. Payments will occur only after the filing of the U.S. federal and state income tax returns and realization of the cash tax savings from the favorable tax attributes. The Company made its first payment of $7.0 million in February 2017.

As a result of (i) the purchase of equity interests in Virtu Financial from certain Virtu Members in connection with the Reorganization Transactions, (ii) the purchase of non-voting common interest units in Virtu Financial (the “Virtu Financial Units”) (along with the corresponding shares of Class C common stock) from certain of the Virtu Members in connection with the IPO, (iii) the purchase of Virtu Financial Units (along with the corresponding shares of Class C common stock) and the exchange of Virtu Financial Units (along with the corresponding shares of Class C common stock) for shares of Class A common stock in connection with the secondary offerings completed in September 2016 and November 2015 (the “Secondary Offerings”), the Company recorded a deferred tax asset of $220.8 million associated with the increase in tax basis that results from such events. Payments to certain Virtu Members in respect of the purchases were expected to range from approximately $0.3 million to $12.8 million per year over the next 15 years. The corresponding deduction to additional paid-in capital was approximately $19.9 million for the difference between the tax receivable agreements liability and the related deferred tax asset.

As a result of the reduction in the U.S. corporate income tax rate as described below, the aforementioned deferred tax asset and related payment liability were subsequently reduced as described below. The amounts recorded as of March 31, 2018 are based on best estimates available at the respective dates and may be subject to change after the filing of the Company’s U.S. federal and state income tax returns for the years in which tax savings were realized. The 2017 Tax Act includes, among other items, a permanent reduction to the U.S. corporate income tax rate from 35% to 21% effective January 1, 2018 as further described in Note 14 "Income taxes". As a result, at December 31, 2017, the Company recorded a reduction of its tax receivable agreement obligation of $86.6 million. As further described in Note 14 “Income Taxes”, the Company also recorded a reduction of its deferred tax assets, including deferred tax assets relating to the deferred tax assets described above. At March 31, 2018 and December 31, 2017, the Company’s

remaining deferred tax assets were approximately $99.1 million and $101.6 million, respectively, and the Company's liabilities over the next 15 years, pursuant to the tax receivable agreements are approximately $147.0 million and 147.0 million, respectively.

For the tax receivable agreements discussed above, the cash savings realized by the Company are computed by comparing the actual income tax liability of the Company to the amount of such taxes the Company would have been required to pay had there been (i) no increase to the tax basis of the assets of Virtu Financial as a result of the purchase or exchange of Virtu Financial Units, (ii) no tax benefit from the tax basis in the intangible assets of Virtu Financial on the date of the IPO and (iii) no tax benefit as a result of the Net Operating Losses ("NOLs") and other tax attributes of Virtu Financial. Subsequent adjustments of the tax receivable agreements obligations due to certain events (e.g., changes to the expected realization of NOLs or changes in tax rates) will be recognized within income before taxes and noncontrolling interests in the condensed consolidated statements of comprehensive income.

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7. Goodwill and Intangible Assets

Prior to the Acquisition, the Company was managed and operated as one business, and accordingly, operated under one reportable segment. As a result of the acquisition of KCG, beginning in the third quarter of 2017 the Company has three operating segments: (i) Market Making; (ii) Execution Services; and (iii) Corporate. The Company allocated goodwill to the new reporting units using a relative fair value approach. In addition, the Company performed an assessment of potential goodwill impairment for all reporting units immediately prior to the reallocation and determined that no impairment was indicated.

The following table presents the details of goodwill by segment:

(in thousands)	Market Making	Execution Services	Corporate	Total
Balance as of December 31, 2017	$755,292	$89,591	$ —	$844,883
Goodwill adjustment allocated to BondPoint	—	(8,300)	—	(8,300)
Balance as of March 31, 2018	$755,292	$81,291	$ —	$836,583

As of March 31, 2018 and December 31, 2017, the Company's total amount of goodwill recorded was $836.6 million and $844.9 million, respectively. As described in Note 4 "Sale of BondPoint", the Company allocated $8.3 million goodwill to BondPoint as part of the sale. No goodwill impairment was recognized in the three months ended March 31, 2018 and 2017.

Acquired intangible assets consisted of the following as of March 31, 2018 and December 31, 2017:

	As of March 31, 2018			
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Useful Lives (Years)
Purchased technology	$110,000	$ 110,000	$—	1.4 to 2.5
ETF issuer relationships	950	585	365	9
ETF buyer relationships	950	586	364	9
Leases	1,800	547	1,253	3
FCC licenses	200	26	174	7
Technology	60,000	15,047	44,953	1 to 6
Customer relationships	49,000	2,843	46,157	12 to 17
Favorable occupancy leases	5,895	612	5,283	7
Exchange memberships	5,838	—	5,838	Indefinite
	$234,633	$ 130,246	$104,387	

	As of December 31, 2017			
(in thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Useful Lives (Years)
Purchased technology	$110,000	$ 110,000	$—	1.4 to 2.5
ETF issuer relationships	950	559	391	9
ETF buyer relationships	950	560	390	9
Leases	1,800	397	1,403	3
FCC licenses	200	19	181	7
Technology	60,000	9,644	50,356	1 to 6
Customer relationships	49,000	1,822	47,178	12 to 17
Favorable occupancy leases	5,895	408	5,487	7
Exchange memberships	5,838	—	5,838	Indefinite
	$234,633	$ 123,409	$111,224	

Amortization expense relating to finite-lived intangible assets was approximately $6.9 million, and $0.05 million for the three months ended March 31, 2018, and 2017, respectively. This is included in amortization of purchased intangibles and acquired capitalized software in the accompanying condensed consolidated statements of comprehensive income.

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8. Receivables from/Payables to Broker-Dealers and Clearing Organizations

The following is a summary of receivables from and payables to brokers-dealers and clearing organizations at March 31, 2018 and December 31, 2017:

(in thousands)	2018	2017
Assets		
Due from prime brokers	$153,716	$219,573
Deposits with clearing organizations	257,832	112,847
Net equity with futures commission merchants	308,964	203,711
Unsettled trades with clearing organization	430,514	173,778
Securities failed to deliver	271,287	248,088
Commissions and fees	11,726	14,021
Total receivables from broker-dealers and clearing organizations	$1,434,039	$972,018
Liabilities		
Due to prime brokers	$390,364	$197,439
Net equity with futures commission merchants	40,665	44,526
Unsettled trades with clearing organization	150,205	420,029
Securities failed to receive	65,715	51,143
Commissions and fees	1,839	3,068
Total payables to broker-dealers and clearing organizations	$648,788	$716,205

Included as a deduction from “Due from prime brokers” and “Net equity with futures commission merchants” is the outstanding principal balance on all of the Company’s short-term credit facilities (described in Note 9 “Collateralized Transactions”) of approximately $131.4 million and $205.7 million as of March 31, 2018 and December 31, 2017, respectively. The loan proceeds from the credit facilities are available only to meet the initial margin requirements associated with the Company’s ordinary course futures and other trading positions, which are held in the Company’s trading accounts with an affiliate of the respective financial institutions. The credit facilities are fully collateralized by the Company’s trading accounts and deposit accounts with these financial institutions. “Securities failed to deliver” and “Securities failed to receive” include amounts with a clearing organization and other broker-dealers.

9. Collateralized Transactions

The Company is permitted to sell or repledge securities received as collateral and use these securities to secure repurchase agreements, enter into securities lending transactions or deliver these securities to counterparties or clearing organizations to cover short positions. At March 31, 2018 and December 31, 2017, substantially all of the securities received as collateral have been repledged. The fair value of the collateralized transactions at March 31, 2018 and December 31, 2017 are summarized as follows:

(in thousands)	2018	2017
Securities received as collateral:		
Securities borrowed	$1,201,721	$1,415,793
	$1,201,721	$1,415,793

In the normal course of business, the Company pledges qualified securities with clearing organizations to satisfy daily margin and clearing fund requirements.

Financial instruments owned and pledged, where the counterparty has the right to repledge, at March 31, 2018 and December 31, 2017 consisted of the following:

(in thousands)	2018	2017
Equities	$571,997	$586,251
U.S. and Non-U.S. government obligations	200	99
Exchange traded notes	38,339	8,693

	$610,536	$595,043

10. Borrowings

Broker-Dealer Credit Facilities

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The Company is a party to two secured credit facilities with a financial institution to finance overnight securities positions purchased as part of its ordinary course broker-dealer market making activities. One of the facilities (the “Uncommitted Facility”), is provided on an uncommitted basis collateralized by one of the Company’s broker-dealer subsidiaries trading and deposit account with the financial institution.

On November 3, 2017, the Company entered the second credit facility (“Revolving Credit Facility”) with the same financial institution for an aggregated borrowing limit of $500.0 million. The Revolving Credit Facility consists two borrowing bases: Borrowing Base A Loan is to be used to finance the purchase and settlement of securities; Borrowing Base B Loan is to be used to fund margin deposit with the NSCC. Each of the three broker-dealers has a sublimit under Borrowing Base A Loan, from $25 million to $500 million, which bears interest at the adjusted LIBOR or base rate plus 1.25% per annum. Two out of the three broker-dealers have sublimit under Borrowing Base B Loan, from $40 million to $100 million, which bears interest at the adjusted LIBOR or base rate plus 2.50% per annum. A commitment fee of 0.50% per annum on the average daily unused portion of this facility is payable quarterly in arrears.

The following summarizes the Company’s broker-dealer credit facilities carrying value, net of unamortized debt issuance costs, where applicable:

	At March 31, 2018				
(in thousands)	Interest Rate	Financing Available	Borrowing Outstanding	Deferred Debt Issuance Cost	Outstanding Borrowings, net
Broker-dealer credit facilities:					
Uncommitted facility	2.68%	$350,000	$ 17,500	$(1,580)	$ 15,920
Revolving credit facility	3.13%	500,000	7,000	(1,976)	5,024
		$850,000	$ 24,500	$(3,556)	$ 20,944

	At December 31, 2017				
(in thousands)	Interest Rate	Financing Available	Borrowing Outstanding	Deferred Debt Issuance Cost	Outstanding Borrowings, net
Broker-dealer credit facilities:					
Uncommitted facility	2.42%	$150,000	$ 25,000	$—	$ 25,000
Revolving credit facility	2.81%	500,000	7,000	(4,117)	2,883
		$650,000	$ 32,000	$(4,117)	$ 27,883

The following summarizes interest expense for the broker-dealer facilities. Interest expense is included within interest and dividends expense in the accompanying condensed consolidated statements of comprehensive income.

	Three Months Ended March 31,	
(in thousands)	2018	2017
Broker-dealer credit facilities:		
Uncommitted facility	$446	$415
Committed facility (1)	—	7
Revolving credit facility	98	—
	$544	$422

(1) Facility was terminated in July 2017.

Short-Term Credit Facilities

The Company maintains short-term credit facilities with various prime brokers and other financial institutions from which it receives execution or clearing services. The proceeds of these facilities are used to meet margin requirements associated with the products traded by the Company in the ordinary course, and amounts borrowed are collateralized by the Company's trading accounts with the applicable financial institution.

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	At March 31, 2018		
	Weighted Average Interest Rate	Financing Available	Borrowing Outstanding
Short-Term Credit Facilities:			
Short-term credit facilities (2)	4.04%	$535,000	$ 131,382
		$535,000	$ 131,382

	At December 31, 2017		
	Weighted Average Interest Rate	Financing Available	Borrowing Outstanding
Short-Term Credit Facilities:			
Short-term credit facilities (2)	3.86%	$543,000	$ 205,677
		$543,000	$ 205,677

(2) Outstanding borrowings were included with receivable from/ payable to broker-dealers and clearing organization within the condensed consolidated statements of financial condition.

Interest expense in relation to the facilities for the three months ended March 31, 2018 and 2017 was approximately $1.5 million and $1.7 million, respectively.

Long-Term Borrowings

The following summarizes the Company's long-term borrowings, net of unamortized discount and debt issuance costs, where applicable:

		At March 31, 2018				
(in thousands)	Maturity Date	Interest Rate	Outstanding Principal	Discount	Deferred Debt Issuance Cost	Outstanding Borrowings, net
Long-term borrowings:						
Fourth Amended and Restated Credit Agreement	December 2021	4.94%	$624,000	$ (650)	$(13,101)	$610,249
Senior secured Second Lien Notes	June 2022	6.75%	500,000	—	(21,673)	478,327
SBI bonds	January 2020	5.00%	32,932	—	(44)	32,888
			$1,156,932	$ (650)	$(34,818)	$1,121,464

		At December 31, 2017				
(in thousands)	Maturity Date	Interest Rate	Outstanding Principal	Discount	Deferred Debt Issuance Cost	Outstanding Borrowings, net
Long-term borrowings:						
Fourth Amended and Restate Credit Agreement	December 2021	5.13%	$900,000	$ (999)	$(18,504)	$880,497
Senior secured Second Lien Notes	June 2022	6.75%	500,000	—	(22,961)	477,039
SBI bonds	January 2020	5.00%	31,059	—	(47)	31,012
			$1,431,059	$ (999)	$(41,512)	$1,388,548

Fourth Amended and Restated Credit Agreement

To finance the Acquisition, on June 30, 2017, Virtu Financial and VFH Parent LLC ("VFH") entered into a fourth amended and restated credit agreement (the "Fourth Amended and Restated Credit Agreement") with the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent, sole lead arranger and bookrunner, which amended and restated in its entirety the existing Credit Agreement, and upon the closing of the Acquisition of KCG, provided for an aggregate $1.15 billion of first lien secured term loans (the "Term Loan Facility").

For the three months ended March 31, 2018, $276.0 million of prepayments were made under the Fourth Amended and Restated Credit Agreement, for an aggregate total of $526.0 million of principal prepayments under the Term Loan Facility since its closing. VFH also entered into a repricing transaction during January 2018 to reprice the senior secured term loans under the Fourth Amended and Restated Credit Agreement at LIBOR plus 3.25%. In connection with the debt refinancing and the debt prepayment, the Company accelerated approximately $6.0 million unamortized financing costs incurred that were

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scheduled to be amortized over the term of the loan, including original issue discount and underwriting and legal fees, which is included within debt issue cost related to debt refinancing in the consolidated statements of comprehensive income.
The Fourth Amended and Restated Credit Agreement contains certain customary covenants and certain customary events of default, including relating to a change of control. If an event of default occurs and is continuing, the lenders under the Fourth Amended and Restated Credit Agreement will be entitled to take various actions, including the acceleration of amounts outstanding under the Fourth Amended and Restated Credit Agreement and all actions permitted to be taken by a secured creditor in respect of the collateral securing the obligations under the Fourth Amended and Restated Credit Agreement.
Senior Secured Second Lien Notes
To finance the Acquisition, on June 16, 2017, the Escrow Issuer and Orchestra Co-Issuer, Inc. (the "Co-Issuer") completed the offering of $500.0 million aggregate principal amount of 6.750% Senior Secured Second Lien Notes due 2022 (the "Notes"). The Notes were issued under an Indenture, dated June 16, 2017 (the "Indenture"), among the Escrow Issuer, the Co-Issuer and U.S. Bank National Associations, as trustee and collateral agent.
On July 20, 2017, VFH assumed all of the obligations of the Escrow Issuer under the Indenture and the Notes. The Notes are guaranteed by Virtu Financial and each of Virtu Financial's wholly-owned domestic restricted subsidiaries that guarantees the Fourth Amended and Restated Credit Agreement.
The Indenture imposes certain limitations on the Company, and contains certain customary events of default, including, among others, payment defaults related to the failure to pay principal or interest on Notes, covenant defaults, final maturity default or cross-acceleration with respect to material indebtedness and certain bankruptcy events. The gross proceeds from the Notes were deposited into a segregated escrow account with an escrow agent. The proceeds were released from escrow as of the Closing Date and were used to finance, in part, the Acquisition, and to repay certain indebtedness of the Company and KCG. (See Note 3 "Acquisition of KCG Holdings, Inc." for further details).

SBI Bonds

On July 25, 2016, VFH issued Japanese Yen Bonds (collectively the "SBI Bonds") in the aggregate principal amount of ¥3.5 billion ($33.1 million at issuance date) to SBI Life Insurance Co., Ltd. and SBI Insurance Co., Ltd. The proceeds from the SBI Bonds were used to partially fund the investment in SBI (as described in Note 11 "Financial assets and liabilities"). The SBI Bonds are guaranteed by Virtu Financial. The SBI Bonds are subject to fluctuations on the Japanese Yen currency rates relative to the Company's reporting currency (U.S. Dollar) with the changes reflected in other, net in the condensed consolidated statements of comprehensive income. The principal balance was ¥3.5 billion ($32.9 million) as of March 31, 2018 and ¥3.5 billion ($31.0 million) as of December 31, 2017. The Company recorded a loss of $1.9 million and $1.5 million due to the change in currency rates during the three months ended March 31, 2018 and 2017, respectively.

Aggregate future required minimum principal payments based on the terms of the long-term borrowings at March 31, 2018 were as follows:

(in thousands)	
2018	$—
2019	—
2020	32,932
2021 and thereafter	1,124,000
Total principal of long-term borrowings	$1,156,932

11. Financial Assets and Liabilities

Financial Instruments Measured at Fair Value

The fair value of equities, options, on the run U.S. government obligations and exchange traded notes is estimated using recently executed transactions and market price quotations in active markets and are categorized as Level 1 with the exception of inactively traded equities and certain financial instruments noted in the preceding paragraph, which are categorized as Level 2. The Company's corporate bonds, derivative contracts and other U.S. and non-U.S. government obligations have been categorized as Level 2. Fair value of the Company's derivative contracts is based on the indicative prices obtained from broadly distributed bank and broker dealers, as well as management's own analyses. The indicative prices have been independently validated through the Company's risk management systems, which are designed to check prices with information

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independently obtained from exchanges and venues where such financial instruments are listed or to compare prices of similar instruments with similar maturities for listed financial futures in foreign exchange.

As of March 31, 2017, the Company began pricing certain financial instruments held for trading at fair value based on theoretical prices which can differ from quoted market prices. The theoretical prices reflect price adjustments primarily caused by the fact that the Company continuously prices its financial instruments based on all available information. This information includes prices for identical and near-identical positions, as well as the prices for securities underlying the Company's positions, on other exchanges that are open after the exchange on which the financial instruments is traded closes. The Company validates that all price adjustments can be substantiated with market inputs and checks the theoretical prices independently. Consequently, such financial instruments are classified as Level 2. The Company concluded that this is a change in accounting estimate and no retrospective adjustments were necessary.

Fair value measurements for those items measured on a recurring basis are summarized below as of March 31, 2018:

	March 31, 2018				
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Total Fair Value
Assets					
Financial instruments owned, at fair value:					
Equity securities	$956,518	$1,139,469	$ —	$—	$2,095,987
U.S. and Non-U.S. government obligations	800	18,207	—	—	19,007
Corporate Bonds	—	75,534	—	—	75,534
Exchange traded notes	64,730	30,368	—	—	95,098
Currency forwards	—	702,889	—	(700,655)	2,234
Options	9,210	—	—	—	9,210
	1,031,258	1,966,467	—	(700,655)	2,297,070
Financial instruments owned, pledged as collateral:					
Equity securities	$309,313	$262,684	$ —	$—	$571,997
U.S. and Non-U.S. government obligations	200	—	—	—	200
Exchange traded notes	22,418	15,921	—	—	38,339
	331,931	278,605	—	—	610,536
Other Assets					
Equity investment	$—	$—	$ 42,478	$—	$42,478
Exchange stock	2,154	—	—	—	2,154
Other[1]	—	56,179	—	—	56,179
	2,154	56,179	42,478	—	100,811
Liabilities					
Financial instruments sold, not yet purchased, at fair value:					
Equity securities	$1,584,268	$1,132,360	$ —	$—	$2,716,628

U.S. and Non-U.S. government obligations	1,998	25,207	—	—	27,205
Corporate Bonds	40,007	—	—	—	40,007
Exchange traded notes	3,714	38,393	—	—	42,107
Currency forwards	—	725,422	—	(720,464)	4,958
Options	15,548	—	—	—	15,548
	$1,645,535	$1,921,382	$ —	$(720,464)	$2,846,453

(1) Other primarily consists of a $56.2 million receivable from Bats related to the sale of KCG Hotspot.

Fair value measurements for those items measured on a recurring basis are summarized below as of December 31, 2017:

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(in thousands)	December 31, 2017 Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Counterparty and Cash Collateral Netting	Total Fair Value
Assets					
Financial instruments owned, at fair value:					
Equity securities	$758,596	$1,167,995	$ —	$—	$1,926,591
Non-U.S. government obligations	5,968	16,815	—	—	22,783
Corporate Bonds	—	60,975	—	—	60,975
Exchange traded notes	13,576	68,819	—	—	82,395
Currency forwards	—	2,045,487	—	(2,027,697)	17,790
Options	7,045	—	—	—	7,045
	$785,185	$3,360,091	$ —	$(2,027,697)	$2,117,579
Financial instruments owned, pledged as collateral:					
Equity securities	$410,670	$175,581	$ —	$—	$586,251
U.S. and Non-U.S. government obligations	99	—	—	—	99
Exchange traded notes	82	8,611	—	—	8,693
	$410,851	$184,192	$ —	$—	$595,043
Other Assets					
Equity investment	$—	$—	$ 40,588	$—	$40,588
Exchange stock	1,952	—	—	—	1,952
Other(2)	—	55,824	—	—	55,824
	$1,952	$55,824	$ 40,588	$—	$98,364
Liabilities					
Financial instruments sold, not yet purchased, at fair value:					
Equity securities	$847,816	$1,355,616	$ —	$—	$2,203,432
Exchange traded notes	1,514	54,248	—	—	55,762
Currency forwards	—	2,032,017	—	(2,024,991)	7,026
Options	5,839	—	—	—	5,839
	$874,109	$3,535,480	$ —	$(2,024,991)	$2,384,598

(2) Other primarily consists of a $55.8 million receivable from Bats related to the sale of KCG Hotspot.

SBI Investment

As of March 31, 2018, the fair value of SBI Investment was determined using the discounted cash flow method, an income approach, with the discount rate of 15.0% applied to the cash flow forecasts. The Company also used a market approach based on 14x average price/earnings multiples of comparable companies to corroborate the income approach. The fair value of the SBI Investment at March 31, 2018 was determined by taking the weighted average of enterprise valuations based on discounted cash flow on projected income from the next five years, the implied enterprise valuations on comparable companies, and the implied enterprise valuations on comparable transactions. The fair value measurement is highly sensitive to significant changes in the unobservable inputs and significant increases (decreases) in discount rate or decreases (increases) in price/earnings multiples would result in a significantly lower

(higher) fair value measurement. Changes in the fair value of the SBI Investment are reflected in other, net in the condensed consolidated statements of comprehensive income.

There were no transfers of financial instruments between levels during the three months ended March 31, 2018 and 2017.

Receivable from Bats Global Markets, Inc. (“Bats”)

In March 2015, KCG sold KCG Hotspot, an institutional spot foreign exchange electronic communications networks (“ECN”), to Bats, which is now a subsidiary of CBOE Holdings, Inc. KCG and Bats agreed to share certain tax benefits, which as of March 31, 2018 comprise a $50.0 million payment and an annual payment of up to $6.6 million, both of which were paid in April 2018.

The Company has elected the fair value option related to the receivable from Bats and considers the receivable to be a Level 2 asset in the fair value hierarchy as the fair value is derived from observable significant inputs such as contractual cash

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flows and market discount rates. The remaining additional potential payments of $56.6 million are recorded at a fair value of $56.2 million in other assets on the condensed consolidated statements of financial condition as of March 31, 2018.

Financial Instruments Not Measured at Fair Value

The table below presents the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value on the condensed consolidated 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. The fair value of the Company's long-term borrowings is categorized as Level 2 in the fair value hierarchy, which is based on quoted prices from the market.

The table below summarizes financial assets and liabilities not measured at fair value on a recurring basis as of March 31, 2018:

	March 31, 2018				
			Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
Assets					
Cash and cash equivalents	$637,308	$637,308	$ 637,308	$—	$ —
Securities borrowed	1,232,048	1,232,048	—	1,232,048	—
Securities purchased under agreements to resell	602	602	—	602	—
Receivables from broker dealers and clearing organizations	1,434,039	1,434,039	70,143	1,363,896	—
Total Assets	$3,303,997	$3,303,997	$ 707,451	$2,596,546	$ —
Liabilities					
Short-term borrowings	$20,944	$20,944	$ —	$20,944	$ —
Long-term borrowings	1,121,464	1,193,167	—	1,193,167	—
Securities loaned	936,061	936,061	—	936,061	—
Securities sold under agreements to repurchase	265,401	265,401	—	265,401	—
Payables to broker dealer and clearing organizations	648,788	648,788	861	647,927	—
Total Liabilities	$2,992,658	$3,064,361	$ 861	$3,063,500	$ —

The table below summarizes financial assets and liabilities not measured at fair value on a recurring basis as of December 31, 2017:

	December 31, 2017				
			Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	Carrying Value	Fair Value	(Level 1)	(Level 2)	(Level 3)
Assets					

Cash and cash equivalents	$532,887	$532,887	$ 532,887	$—	$ —
Securities borrowed	1,471,172	1,471,172	—	1,471,172	—
Receivables from broker dealers and clearing organizations	972,018	972,018	36,513	935,505	—
Total Assets	$2,976,077	$2,976,077	$ 569,400	$2,406,677	$ —
Liabilities					
Short-term borrowings	$27,883	$27,883	$ —	$27,883	$ —
Long-term borrowings	1,388,548	1,465,489	—	1,465,489	—
Securities loaned	754,687	754,687	—	754,687	—
Securities sold under agreements to repurchase	390,642	390,642	—	390,642	—
Payables to broker dealer and clearing organizations	716,205	716,205	2,925	713,280	—
Total Liabilities	$3,277,965	$3,354,906	$ 2,925	$3,351,981	$ —

The following presents the changes in Level 3 financial instruments measured at fair value on a recurring basis:

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	March 31, 2018						
(in thousands)	December 31, 2017	Purchases	Total Realized and Unrealized Gains / (Losses)	Net Transfers into (out of) Level 3	Settlement	March 31, 2018	Change in Net Unrealized Gains / (Losses) on Investments still held at March 31, 2018
Assets							
Other assets:							
Equity investment	$40,588	$ —	$ 1,890	$ —	$ —	$42,478	$ 1,890
Total	$40,588	$ —	$ 1,890	$ —	$ —	$42,478	$ 1,890

	December 31, 2017						
(in thousands)	December 31, 2016	Purchases	Total Realized and Unrealized Gains / (Losses)	Net Transfers into (out of) Level 3	Settlement	December 31, 2017	Change in Net Unrealized Gains / (Losses) on Investments still held at December 31, 2017
Assets							
Other assets:							
Equity investment	$36,031	$ —	$ 4,557	$ —	$ —	$ 40,588	$ 4,557
Other	—	3,000	—	—	(3,000)	—	—
Total	$36,031	$ 3,000	$ 4,557	$ —	$ (3,000)	$ 40,588	$ 4,557

Offsetting of Financial Assets and Liabilities

The Company does not net securities borrowed and securities loaned, or securities purchased under agreements to resell and securities sold under agreements to repurchase. These financial instruments are presented on a gross basis in the condensed consolidated statements of financial condition. In the tables below, the amounts of financial instruments owned that are not offset in the condensed consolidated statements of financial condition, but could be netted against financial liabilities with specific counterparties under legally enforceable master netting agreements in the event of default, are presented to provide financial statement readers with the Company’s estimate of its net exposure to counterparties for these financial instruments.

The following tables set forth the gross and net presentation of certain financial assets and financial liabilities as of March 31, 2018 and December 31, 2017.

	March 31, 2018			
	Gross Amounts of Recognized	Gross Amounts Offset in the	Net Amounts of Assets Presented in	Gross Amounts Not Offset In the Statement

(in thousands)	Assets	Condensed Consolidated Statement of Financial Condition	the Condensed Consolidated Statement of Financial Condition	of Financial Condition		Net Amount
				Financial Instruments	Cash Collateral Received	
Offsetting of Financial Assets:						
Securities borrowed	$1,232,048	$—	$1,232,048	$(1,202,760)	$(2,624)	$26,664
Securities purchased under agreements to resell	602	—	602	(602)	—	—
Trading assets, at fair value:						
Currency forwards	702,889	(700,655)	2,234	—	—	2,234
Options	9,210	—	9,210	(1)	—	9,209
Total	$1,944,749	$(700,655)	$1,244,094	$(1,203,363)	$(2,624)	$38,107

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(in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Statement of Financial Condition	Net Amounts of Assets Presented in the Consolidated Statement of Financial Condition	Gross Amounts Not Offset In the Statement of Financial Condition		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Offsetting of Financial Liabilities:						
Securities loaned	$ 936,061	$ —	$ 936,061	$ (929,457)	$ (884)	$ 5,720
Securities sold under agreements to repurchase	265,401	—	265,401	(265,401)	—	—
Trading liabilities, at fair value:						
Currency forwards	725,422	(720,464)	4,958	—		4,958
Options	15,548	—	15,548	(1)	—	15,547
Total	$ 1,942,432	$ (720,464)	$ 1,221,968	$ (1,194,859)	$ (884)	$ 26,225

	December 31, 2017					
(in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Statement of Financial Condition	Net Amounts of Assets Presented in the Consolidated Statement of Financial Condition	Gross Amounts Not Offset In the Statement of Financial Condition		
				Financial Instruments	Cash Collateral Received	Net Amount
Offsetting of Financial Assets:						
Securities borrowed	$ 1,471,172	$ —	$ 1,471,172	$ (1,418,672)	$ (13,318)	$ 39,182
Trading assets, at fair value:						
Currency forwards	2,045,487	(2,027,697)	17,790	—	—	17,790
Options	7,045	—	7,045	(45)	—	7,000
Total	$ 3,523,704	$ (2,027,697)	$ 1,496,007	$ (1,418,717)	$ (13,318)	$ 63,972

(in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Statement of Financial Condition	Net Amounts of Assets Presented in the Consolidated Statement of Financial Condition	Gross Amounts Not Offset In the Statement of Financial Condition		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Offsetting of Financial Liabilities:						
Securities loaned	$					