

Clear Street Derivatives LLC

SEC # 026-00231

Statement of Financial Condition

With Report of Independent Registered Public Accounting Firm

As of June 30, 2024

Filed as a PUBLIC information pursuant to Rule 17a-5(d) under the Securities Exchange Act of 1934 and deemed PUBLIC in accordance with Regulation 1.10(g) under the Commodity Exchange Act.

	<u>Page(s)</u>
Statement of Financial Condition.....	1
Footnotes to the Statement of Financial Condition.....	2

Clear Street Derivatives LLC

Statement of Financial Condition

As of June 30, 2024

(amounts in thousands)

Assets

Cash and cash equivalents	\$	1,050
Financial instruments owned, at fair value		7,613,170
Receivable from broker-dealers and clearing organizations		358
Other assets		77

Total Assets

\$ 7,614,655

Liabilities and Equity

Liabilities

Financial instruments sold, not yet purchased, at fair value	\$	4,642,829
Payable to broker-dealers and clearing organizations		2,866,118
Payable to customers		22,835
Accounts payable and accrued liabilities		16,206
Total liabilities		<u>7,547,988</u>

Equity

Member's equity		66,667
-----------------	--	--------

Total Liabilities and Equity

\$ 7,614,655

Clear Street Derivatives LLC

Notes to Financial Statements

June 30, 2024

1. Organization and Description of Business

Clear Street Derivatives LLC, (the “Company”), is a limited liability company organized in the state of Delaware. The Company’s sole member is Clear Holdings LLC (“Holdings”).

The Company’s operating agreement provides that the CEO has sole authority to carry out management responsibilities and control day-to-day management of the Company’s operations, including distributions and admittance of new members. As a limited liability company, the member’s liabilities are limited to amounts reflected in their capital account.

The Company, founded in 2022 and headquartered in New York, is a security-based swap dealer that has been registered with the U.S. Securities and Exchange Commission (“SEC”) since September 29, 2023.

The Company does not effect transactions in cleared security-based swaps for or on behalf of customers. Accordingly, the Company claims an exemption from 17 C.F.R. § 240.18a-4 under the provisions of 17 C.F.R. § 240.18a-4(f).

2. Significant Accounting Policies

Basis of Presentation

The accompanying statement of financial condition has been prepared on the basis of accounting principles generally accepted in the United States of America (“U.S. GAAP”) as set forth by the Financial Accounting Standards Board (“FASB”) and its Accounting Standards Codification (“ASC”) and Accounting Standards Updates (“ASU”). The statement of financial condition is presented in U.S. dollars.

Use of Estimates

The preparation of statements of financial condition in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of certain types of assets and liabilities and disclosure of contingent assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the period. Actual results may differ from estimated amounts.

Recent Accounting Pronouncements

In November 2023, the FASB issued ASU No. 2023-07 (“ASU 2023-07”), Segment Reporting (Topic 280): *Improvements to Reportable Segment Disclosures* to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment costs. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, on a retrospective basis. Early adoption is permitted. The Company is currently evaluating the impact of this accounting standard update on its Statement of Financial Condition and related disclosures.

Clear Street Derivatives LLC

Notes to Financial Statements

June 30, 2024

Cash and Cash Equivalents

At June 30, 2024, the Company maintained cash in bank accounts that, at times, may exceed federally insured limits. The Company manages the risk by selecting financial institutions deemed highly creditworthy to minimize the risk.

Cash equivalents are defined as highly liquid investments with original maturities of three months or less when purchased. At June 30, 2024, the Company did not hold any cash equivalents.

Receivable from and Payable to Broker-Dealers and Clearing Organizations

Amounts receivable from broker-dealers and clearing organizations may be restricted to the extent they serve as deposits for securities sold, not yet purchased. At June 30, 2024, Receivable from and Payable to broker-dealers and clearing organizations represented amounts due from and due to prime brokers in relation to the Company's security-based swap dealer activity.

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 the Company's security-based swap activity, and include positive and negative replacement values related to open security-based swaps in listed equity securities, and listed equity securities entered into to hedge the market risk exposure related to open security-based swaps in listed equity securities.

The Company records financial instruments owned, including those pledged as collateral, and financial instruments sold, not yet purchased, at fair value.

Fair Value of Financial Instruments

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 discounts for large holdings (block discounts) 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).

Clear Street Derivatives LLC

Notes to Financial Statements

June 30, 2024

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.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. When there is more than one input at different levels within the hierarchy, the fair value is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assessment of the significance of a particular input, to the fair value measurement in its entirety, requires substantial judgment and consideration of factors specific to the asset or liability. Level 3 inputs are inherently difficult to estimate. Changes to these inputs can have a significant impact on fair value measurements.

Transfers in or out of levels are recognized based on the beginning fair value of the year in which they occur. For the six months ended June 30, 2024, there were no transfers between levels in the fair value hierarchy.

Derivative Instruments

Derivative instruments are used for trading purposes, including economic hedges of trading instruments, are carried at fair value, and include positive and negative replacement values related to open security-based swaps in listed equities. The Company presents its derivatives balances on a net-by-counterparty basis when the criteria for offsetting are met. Refer to Note 5, *Derivative Instruments*, for further information related to the Company's derivative holdings.

Income Taxes

The Company is a limited liability company and therefore no provision is made in this statement of financial condition for federal, state or local income taxes as such liabilities are the responsibility of the member.

Clear Street Derivatives LLC

Notes to Financial Statements

June 30, 2024

3. Fair Value

Financial Instruments Measured at Fair Value

The Company's financial instruments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with accounting standards as described in Note 2, *Significant Accounting Policies*. Exchange-traded equity securities and listed equity options are valued based on quoted prices from the primary exchanges and are classified as Level 1 securities in the fair value hierarchy. Restricted equity securities are valued based on quoted prices from the primary exchanges and are classified as Level 2 securities in the fair value hierarchy. Security-based swaps are valued based on their replacement values, which in turn, are derived from the quoted prices of the underlying listed securities from the primary exchange and are classified as Level 2 financial instruments in the fair value hierarchy. Values for financial instruments other than those discussed above are estimated in good faith by the Company and are generally categorized as Level 3 in the fair value hierarchy. At June 30, 2024, the Company held no financial instruments whose values were estimated by the Company.

Fair value measurements for those items measured on a recurring basis are summarized below at June 30, 2024 (in thousands):

	Level 1	Level 2	Level 3	Total Fair Value
Assets				
Financial instruments owned				
Equities	\$ 6,572,760	\$ 5,697	\$ -	\$ 6,578,457
Listed equity options	981,934	-	-	981,934
Security-based swaps	-	52,779	-	52,779
Financial instruments owned	\$ 7,554,694	\$ 58,476	\$ -	\$ 7,613,170
Liabilities				
Financial instruments sold, not yet purchased				
Equities	\$ 57,976	\$ -	\$ -	\$ 57,976
Listed equity options	2,835,710	-	-	2,835,710
Security-based swaps	-	1,749,143	-	1,749,143
Financial instruments sold, not yet purchased	\$ 2,893,686	\$ 1,749,143	\$ -	\$ 4,642,829

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 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.

Clear Street Derivatives LLC

Notes to Financial Statements

June 30, 2024

The table below summarizes financial assets and liabilities not carried at fair value at June 30, 2024. For the six months ended June 30, 2024, there were no transfers between levels in the fair value hierarchy (in thousands).

	Carrying Value	Fair Value	Level 1	Level 2	Level 3
Assets					
Cash and cash equivalents	\$ 1,050	\$ 1,050	\$ 1,050	\$ -	\$ -
Receivable from broker-dealers and clearing organizations	358	358	-	358	-
Other assets	77	77	-	77	-
Total financial assets	\$ 1,485	\$ 1,485	\$ 1,050	\$ 435	\$ -
Liabilities					
Payable to broker-dealers and clearing organizations	\$ 2,866,118	\$ 2,866,118	\$ -	\$ 2,866,118	\$ -
Payable to customers	22,835	22,835	-	22,835	-
Accounts payable and accrued liabilities	16,206	16,206	-	16,206	-
Total financial liabilities	\$ 2,905,159	\$ 2,905,159	\$ -	\$ 2,905,159	\$ -

4. Derivative Instruments

The Company does not have any derivative instruments designated as hedging instruments under ASC 815. The fair value of the Company's derivative instruments on a gross basis consisted of the following at June 30, 2024 (in thousands):

Derivative assets	Financial Statement caption	Fair Value	Notional Value
Security-based swaps	Financial instruments owned	52,779	383,386
Derivative Liabilities			
Security-based swaps	Financial instruments sold, not yet purchased	1,749,143	7,170,208

5. Risks and Uncertainties

Customer Activities

The Company's customer security-based swaps activities are transacted on a margin basis. In margin transactions, the Company extends credit to a customer, which is collateralized by cash in the customer's account, either held at the Company or at a qualified tri-party custodian. In connection with these activities, the Company executes customer transactions involving security-based swaps purchased and sold. The Company seeks to control risks associated with customer activities by requiring customers to maintain margin collateral in compliance with regulatory and internal guidelines. The Company monitors required margin levels daily, and pursuant to such guidelines, the Company requires the customer to deposit additional collateral or reduce positions, when necessary. Such transactions may expose the Company to significant off-balance-sheet risk if the collateral is not sufficient to cover losses which customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to liquidate the collateral at prevailing market prices in order to fulfill the customer's obligations.

Clear Street Derivatives LLC

Notes to Financial Statements

June 30, 2024

Market Risk

It is the Company's policy to hedge all its market risk exposure related to security-based swaps by purchasing or selling the corresponding underlying securities, and as such, is not subject to significant market risk, except for trading errors that may occur from time to time. In addition, the Company enters into transactions in listed equity options for funding purposes. Options held provide the Company with the opportunity to deliver or take delivery of specified financial instruments at a contractual price. Options written obligate the Company to deliver or take delivery of specified financial instruments at a contractual price in the event the option is exercised by the holder. The Company monitors its exposures daily to ensure no residual market risk between the open security-based swaps positions and the hedged securities positions as well as its positions in listed equity options exists.

Credit Risk

The Company accounts for current estimated credit losses (CECL) on financial assets and certain off-balance sheet items, including receivables from broker-dealers and clearing organizations and positive replacement values related to open security-based swaps transactions, in accordance with ASC 326-20, *Financial Instruments – Measurement of Credit Losses on Financial Instruments* (ASC 326-20). ASC 326-20 requires the Company to estimate expected credit losses over the life of its financial assets and certain off-balance sheet items as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts of future events.

ASC 326-20 provides the practical expedient for certain financial assets that are secured by collateral maintenance. This election may be made when the counterparty is contractually obligated to continue to fully replenish the collateral to meet the requirements of the contract and the Company reasonably expects the counterparty to continue to replenish the collateral.

Determination of eligibility of financial assets for the collateral maintenance expedient requires consideration of credit quality of the assets, and the related need for an allowance for credit losses based on several factors including (1) the daily revaluation of the underlying collateral used to secure the customer's borrowings and collateral, (2) the customer's continuing ability to meet additional collateral requests based on decreases in the fair value of the collateral, and (3) its right to collect the cash collateralizing the borrowings, if additional collateral requests are not met by the customer or the amounts borrowed are not returned on demand.

The Company evaluated the guidelines of ASC 326-20 and deemed the positive replacement values related to open security-based swaps to meet the eligibility requirements for the elective practical expedient. The Company also deemed the credit risk of organizations with which it entered into clearing agreements, relating to Receivables from broker-dealers and clearing organizations, to be materially low, and the establishment of a reserve account for CECL to be unnecessary at June 30, 2024.

Clear Street Derivatives LLC

Notes to Financial Statements

June 30, 2024

Litigation

The nature of the Company's business subjects it to claims, lawsuits and regulatory examinations and other proceedings in the ordinary course of business. At June 2024, there were no unasserted claims or assessments that management is aware of or legal counsel has advised are probable of assertion and which must be disclosed. In the opinion of management, the ultimate outcome of all matters will not have a material impact on the Company's financial condition.

6. Related Party Transactions

The Company may engage in transactions in the ordinary course of business with related parties.

The Company has an intercompany service agreement with Holdings under which Holdings, on behalf of itself and its affiliates, provides payroll, technology and administrative services.

In addition, the Company reimburses or is reimbursed by Clear Street Management LLC ("CS Management"), a member of Holdings, for direct cost paid by or credited to CS Management on behalf of the Company.

At June 30, 2024, the Company had no payable to or receivable from Holdings and a \$9.7 million payable to CS Management which is included in Accounts payable and accrued liabilities on the Statement of Financial Condition.

The Company clears a portion of its business through Clear Street LLC ("CS LLC"), an affiliate under common control, on a fully disclosed basis. At June 30, 2024, included in Payable to broker-dealers and clearing organizations was a \$2.9 billion payable to CS LLC.

7. Net Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule ("Securities Exchange Act of 1934 Rule 18a-1"), which requires the maintenance of minimum net capital. The Company is required to maintain a minimum net capital (as defined) equal to the greater of \$20,000,000 or two percent of the risk margin amount (as defined). These regulations. These regulations also prohibit a security-based swap dealer from paying cash dividends, making loans to its parent, affiliates or employees, or otherwise entering into transactions, which, if executed, would result in a reduction of its total net capital to less than 120% of its minimum required capital. Moreover, security-based swap dealers are required to notify the SEC prior to paying cash dividends, making loans to its parent, affiliates or employees, or otherwise entering into transactions, which, if executed, would result in a reduction of 30% or more of its excess net capital (net capital less the minimum requirement). The SEC has the ability to prohibit or restrict such transactions if the result is detrimental to the integrity of the broker-dealer. At June 30, 2024, the Company had net capital of \$64.7 million which was \$42.0 million in excess of its required net capital of \$22.7 million.

Clear Street Derivatives LLC

Notes to Financial Statements

June 30, 2024

8. Subsequent Events

The Company has evaluated its subsequent events disclosures through the date that the Company's statement of financial condition was made available and has determined that there have been no events that would have a material impact on this statement of financial condition as of June 30, 2024.