



HUATAI FINANCIAL USA INC
Financial Statement and Independent Auditor's Report
December 31, 2020

Pursuant to Regulation 1.10 under the Commodity Exchange Act

Available for Public Inspection



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder
of Huatai Financial USA Inc

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Huatai Financial USA Inc (the "Company") as of December 31, 2020 that you are filing pursuant to Regulation 1.10 under the Commodity Exchange Act, and the related notes and Supplemental Schedules (collectively referred to as the financial statement). In our opinion, the statement of financial condition presents fairly, in all material respects, the financial position of Huatai Financial USA Inc as of December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

This financial statement is the responsibility of Huatai Financial USA Inc's management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to Huatai Financial USA Inc in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission, the Commodity Futures Trading Commission ("CFTC"), and the PCAOB. We have served as Huatai Financial USA Inc's auditor since 2017.

We conducted our audit in accordance with the standards of the PCAOB and the auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The information in Supplemental Schedules ("the supplemental information") has been subjected to audit procedures performed in conjunction with the audit of Huatai Financial USA Inc's financial statement. The supplemental information is the responsibility of the Company's management. Our audit procedures included determining whether the supplemental information reconciles to the financial statement or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental information. In forming our opinion on the supplemental information, we evaluated whether the supplemental information, including its form and content, is presented in conformity with Regulation 1.10 of the Commodity Exchange Act. In our opinion, the Supplemental Schedules are fairly stated, in all material respects, in relation to the financial statement as a whole.

Ryan & Juraska LLP

Chicago, Illinois
February 26, 2021

Huatai Financial USA Inc
Statement of Financial Condition
December 31, 2020

Assets

Cash and cash equivalents	\$ 1,012,590
Cash segregated or in separate accounts as required under federal or other regulation	2,243,913
Receivable from clearing brokers	7,541,124
Computer equipment, net of accumulated depreciation of \$17,697	4,653
Other assets	<u>143,718</u>
 Total Assets	 \$ <u>10,945,998</u>

Liabilities

Payable to customers	\$ 7,952,923
Accrued expenses and other payables	184,509
Loan Payable	<u>171,500</u>
	<u>8,308,932</u>

Shareholder's Equity

Share capital, \$.01 par value; 1,000 shares authorized 1,000 shares issued and outstanding	10
Additional paid in capital	8,299,990
Retained deficit	<u>(5,662,934)</u>
	<u>2,637,066</u>
 Total Liabilities and Shareholder's Equity	 \$ <u>10,945,998</u>

See accompanying notes.

1. COMPANY BACKGROUND INFORMATION

Organization and Business

Huatai Financial USA Inc (the "Company") was organized on April 13, 2015, in the State of Delaware. The Company is wholly owned by Huatai Capital Management (Hong Kong) Limited.

The Company is registered as a Futures Commission Merchant ("FCM") with the Commodity Futures Trading Commission ("CFTC") and is a member of the National Futures Association ("NFA"). The Company commenced customer business in 2019.

The Company's primary source of revenue is from providing clearing and execution services for futures and options transactions on behalf of customers, both domestically and internationally.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

Accounting Policies

The Company adheres to generally accepted accounting principles (GAAP) as set forth by the Financial Accounting Standards Board in the United States of America ("FASB").

Revenue Recognition

The Company buys and sells futures and options contracts on behalf of its customers.

The Company recognizes revenue in accordance with FASB Account Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers*. The guidance was amended to require business entities to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Each time a customer enters into a buy or sell transaction, the Company charges a commission. Commissions and related clearing expenses are recorded on trade date (the date the Company fills the trade order by finding and contracting with a counterparty and confirms the trade with the customer). The Company believes that the performance obligation is satisfied on the trade date of the trade execution as there are no further performance obligations once the transactions are executed by the Company. Commission related expenses, including commissions or fees paid to internal and external parties, are recognized when incurred.

Interest revenue is accrued as earned. Interest revenue is generated primarily from investments in qualified securities and interest-bearing accounts using customer funds deposited with the Company to satisfy margin and Company funds.

Use of Estimates

The preparation of the financial statements in conformity with GAAP, pursuant to the accrual basis of accounting, requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported

amounts of revenues and expenses during the reporting period. Management has determined that the estimates utilized in the preparation of its financial statements are reasonable. Actual results could differ from such estimates.

Cash and Cash Equivalents

Cash and Cash Equivalents include cash and short-term investments. The Company considers short-term securities with original maturities of ninety days or less to be cash equivalents.

Cash Segregated or in Separate Accounts as Required by Federal or Other Regulations

Pursuant to the Commodity Exchange Act (“CEA”), funds deposited by customers relating to regulated futures and options contracts must be segregated from funds of the Company and its employees and carried in designated accounts, as applicable. The Company does not include the market value of option positions owned by customers nor securities owned by customers and held by the Company as collateral or as margin. The Company did not hold any option positions nor securities owned by customers at December 31, 2020.

Receivables from Clearing Brokers

Receivables from clearing brokers represent balances arising from futures and options transactions, including unrealized gains and losses on open futures contracts, cash and marketable securities. Marketable securities are U.S. government securities deposited as margin with clearing brokers. At December 31, 2020, the Company did not hold any U.S. Government Securities.

Payable to Customers

Payable to customers arise primarily from futures and options transactions on behalf of customers, including unrealized gains and losses on open futures contracts and cash.

Securities Valuation

Securities are valued in the statement of financial condition at fair value in accordance with FASB ASC 820 Topic No. 820 *Fair Value Measurement and Disclosure*. See Note 3.

Foreign Currencies

The Company translates its assets and liabilities denominated in foreign currencies in U.S. Dollars at the appropriate spot rates as of December 31, 2020. The Company’s functional currency is the U.S. dollar.

Depreciation

Fixed assets are recorded at cost and are depreciated using the straight-line method over the estimated useful life for financial reporting purposes.

Reclassification

For the statement of cash flows, certain prior year balances have been reclassified to conform to the current year presentation.

Income Taxes

The Company has no federal income tax expense or payable as there is a net operating loss for the period and a carryforward net operating loss from prior periods. The Company had available at December 31, 2020, approximately \$1,500,000 of unused federal and state operating loss carryforwards from 2015 through 2017 that may be applied against future taxable income through 2037. In addition, the Company had available at December 31, 2020, approximately \$4,100,000 of unused federal and state operating loss carryforwards that may be applied against future taxable income indefinitely. The Company has fully reserved the deferred tax asset, which amounted to approximately \$1,740,000 at December 31, 2020, associated with these net operating losses carry forwards.

The Company evaluates all significant tax positions as required by GAAP. As of December 31, 2020, the Company does not believe that it has taken any tax positions that would require the recording of any additional tax liability nor does it believe that there are any unrealized tax benefits that would either increase or decrease within the next twelve months. If the Company were to incur an income tax liability in the future, the interest on any tax liability would be reported as interest expense and penalties and any income tax liability would be reported as income taxes. The Company's income tax returns are subject to examination by the appropriate taxing jurisdictions for the current and past 3 years.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 820 defines fair value, establishes a framework for measuring fair value, and establishes a hierarchy of fair value inputs. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market, income or cost approach, as specified by FASB ASC 820, are used to measure fair value. The fair value hierarchy prioritized the inputs to valuation techniques used to measure fair value into three broad levels:

- Level I: Quoted prices in active markets for identical assets or liabilities, accessible by the Company at the measurement date.
- Level II: Other than quoted prices for similar assets or liabilities in active markets, that are observable for the asset or liability, either directly or indirectly.
- Level III: Unobservable inputs for assets or liabilities. Reliance is placed on management's own assumptions and developed based upon the best information available.

Assets and liabilities are estimated to approximate fair market value at December 31, 2020. At December 31, 2020, The Company held no Level I, II or Level III assets.

4. ASSETS SEGREGATED OR HELD IN SEPARATE ACCOUNTS UNDER FEDERAL AND OTHER REGULATION

At December 31, 2020, assets segregated or held in separate accounts under federal regulations included in the statement of financial condition are as follows:

Segregated for customers trading on U.S. futures exchanges

Cash and cash equivalents	\$	2,086,235
Receivable from clearing brokers		7,360,152
	\$	<u>9,446,387</u>

Held in separate accounts for foreign futures and options customers

Cash and cash equivalents	\$	157,678
Receivable from clearing brokers		165,542
	\$	<u>323,220</u>

Customer funds regulated under the CEA as amended are required to be segregated from funds of the Company and its employees. Customers' segregated funds and equities in customers' regulated trading accounts, as shown in the statement of financial condition, do not reflect the market value of options positions owned by customers and securities owned by customers and held by the Company as collateral or as margin. At December 31, 2020, the Company did not hold any option positions on behalf of customers nor customer owned securities.

5. NET CAPITAL REQUIREMENT

The Company is subject to the net capital requirements under NFA Financial Requirements and CFTC Regulation 1.17. Under these requirements, as of December 31, 2020, the Company is required to maintain minimum net capital, as defined, of \$1,000,000. At December 31, 2020, the Company had adjusted net capital and excess net capital of \$2,482,156 and \$1,482,156, respectively.

6. OFF BALANCE SHEET RISK AND CONCENTRATION OF CREDIT RISK

As of December 31, 2020, the Company, in its normal course of business, executes and clears futures and options transactions on behalf of its clients. The Company guarantees to other FCMs its clients' performance under those contracts. Such transactions may expose the Company to significant off-balance sheet risk in the event that margin deposits or such other collateral deposited by clients is not sufficient.

The Company maintains deposits in excess of federally insured limits which is identified as a concentration of credit risk. The Company attempts to mitigate this risk

by maintaining deposits with high quality financial institutions.

7. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company carries out various transactions with related group companies. Transactions are conducted under terms and conditions that are equivalent to those that apply to arm's length transactions and are substantiated by the Company with proper documentation.

8. COMMITMENTS/LEASES

The Company leases office space under a non-cancelable lease that expires on January 31, 2025. The lease is subject to escalation clauses based on the operating expenses of the lessors. The minimum annual rental commitments under this non-cancelable operating lease are as follows as of December 31, 2020:

<u>Year Ending December 31,</u>	<u>Amount</u>
2021	\$ 97,323
2022	99,764
2023	102,260
2024	104,811
2025	<u>8,752</u>
Total	\$ <u>412,910</u>

9. LOAN PAYABLE

On April 18, 2020, the Company was granted a loan (the "Loan") from BMO Harris Bank National Association in the aggregate amount of \$171,500, pursuant to the Paycheck Protection Program (the "PPP") established as part of the Coronavirus Aid Relief and Economic Security Act ("CARES Act").

The Loan, which was in the form of a Note dated April 18, 2020 issued by the Company, matures on April 18, 2022 and bears interest at a rate of 1.00% per annum, payable monthly commencing on November 18, 2020. The Note may be prepaid by the Company at any time prior to maturity with no prepayment penalties. Funds from the Loan may only be used for payroll costs, costs used to continue health care benefits, mortgage payments, rent, utilities, and interest on other debt obligations. The Company used the entire Loan amount for qualifying expenses. Under the terms of the PPP, on January 22, 2021, the Small Business Administration (SBA) approved the forgiveness of the entire Loan amount.

10. EMPLOYEE BENEFIT PLAN

The Company established a 401(k) plan for qualified employees in December 2016. The Company is required to match a percentage of employees' contributions up to a defined

maximum, and make further discretionary contributions to the plan, subject to certain limitations as set forth in the plan agreement.

11. GUARANTEES

Accounting Standards Codification Topic 460 (“ASC 460”), Guarantees, requires the Company to disclose information about its obligations under certain guarantee arrangements. ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments as the guaranteed party based on changes on the underlying (such as interest or foreign exchange rate, security or commodity price, an index or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. This guidance also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity’s failure to perform under the agreement, as well as indirect guarantees of the indebtedness of others. At December 31, 2020, the Company had not entered into any agreements that would include such guarantees.

12. RECENT ACCOUNTING PRONOUNCEMENTS

FASB issued ASU No. 2016-02, Leases, (Topic 842), which requires the recognition of lease assets and lease liabilities for all leases with terms longer than 12 months. Leases are to be classified as either finance or operating, with classification determining the expense recognition in the statement of income. This guidance is effective for non-public entities for fiscal periods after December 15, 2021. The Company is currently evaluating the impact that this ASU may have on its financial statements.

13. SUBSEQUENT EVENTS

The Company has made a review of subsequent events from January 1, 2021 through February 26, 2021, the date that these financial statements were available to be issued, noting there were no material subsequent events requiring disclosure in the Company's financial statements, other than as noted in Note 9; the entire \$171,500 PPP loan was forgiven on January 22, 2021.

Supplemental Schedules

Schedule 1

Huatai Financial USA Inc
Reconciliation of Statement of Financial Condition to Net Capital Computation
As of December 31, 2020

Total assets per Statement of Financial Condition			\$ 10,945,998
Deduct: Noncurrent assets (as defined)			
Computer Equipment	\$	4,653	
Other assets		<u>143,718</u>	<u>148,371</u>
Current Assets (as defined)			\$ <u>10,797,627</u>

Huatai Financial USA Inc
Calculation of Net Capital Computation pursuant to CFTC Regulation 1.17 of the Commodity Exchange Act
As of December 31, 2020

Current assets, as defined		\$	10,797,627
Total liabilities per statement of financial condition			<u>8,308,932</u>
Net capital			2,488,695
Charges against net capital			
Twenty percent (20%) of the market value of uncovered inventories	\$	217	
Five percent (5%) of all unsecured receivables from foreign brokers		<u>6,322</u>	<u>6,539</u>
Adjusted net Capital (net capital less charges against net capital)			2,482,156
Net capital required using risk-based requirement			
Amount of customer risk margin	\$	2,449,675	
8% of customer risk-based requirement		\$	195,974
Amount of house risk margin		-	
8% of house risk-based requirement			<u>-</u>
			<u>195,974</u>
Minimum dollar amount required	\$	<u>1,000,000</u>	
Amount required			<u>1,000,000</u>
Excess net capital		\$	<u>1,482,156</u>
Computation of Early Warning Level			
150% of risk-based amount required		\$	<u>1,500,000</u>

There are no material differences between the above computation and the Company's corresponding unaudited Form 1-FR-FCM filing as of December 31, 2020 and pursuant to CFTC rule 1.17.

See accompanying notes.

Huatai Financial USA Inc
Statement of Segregation Requirements and Funds in Segregation for Customers Trading on U.S Commodity
December 31, 2020

Segregation Requirements

Net ledger balance		
Cash	\$	15,999,637
Securities(at market)		-
Net unrealized profit in open futures contracts traded on a contract market		(8,046,775)
Exchange traded options		
Market value of open option contracts purchased on a contract market		-
Market value of open option contracts granted(sold) on a contract market		-
Net equity(deficit)		7,952,862
Accounts liquidating to a deficit and accounts with debit balances - gross amount	\$	-
Less: Amount offset by customer owned securities		-
Amount required to be segregated	\$	<u>7,952,862</u>

Funds in Segregated accounts

Deposited in segregated funds bank accounts		
Cash		2,086,235
Securities representing investments of customers' funds(at market)		-
Securities held for particular customers or option customers in lieu of cash(at market)		-
Margins on deposit with derivatives clearing organizations of contract markets		
Cash		-
Securities representing investments of customers' funds(at market)		-
Securities held for particular customers or option customers in lieu of cash(at market)		-
Net settlement from derivatives clearing organizations of contract markets		-
Exchange traded options		
Value of long option contracts		-
Value of short option contracts		-
Net equities with other FCMs		
Net liquidating equity		7,360,152
Securities representing investments of customers' funds(at market)		-
Securities held for particular customers or option customers in lieu of cash(at market)		-
Segregated funds on hand		-
Total amount in segregation	\$	<u>9,446,387</u>
Excess(deficiency) funds in segregation	\$	<u>1,493,525</u>
Management Target Amount Excess funds in segregation	\$	<u>600,000</u>
Excess(deficiency) funds in segregation over management target amount excess	\$	<u>893,525</u>

There are no material differences between the above computation and the Company's corresponding unaudited Form 1-FR-FCM filing as of December 31, 2020 and pursuant to CFTC rule 1.17.

See accompanying notes.

Huatai Financial USA Inc
Statement of Segregation Requirements and Funds in Segregation for Customers' Dealer Options Accounts
December 31, 2020

The Company does not carry customers' dealer option accounts as defined by the Commodity Exchange Act Regulation 32.6. Therefore, the Company is exempt from such regulation.

Huatai Financial USA Inc
Secured Requirement and Funds Held in Separate Accounts
December 31, 2020

Amount required to be set aside in separate Section 30.7 accounts

Net ledger balance		
Cash	\$	61
Net unrealized profit in open futures contracts traded on a foreign board of trade		—
Exchange traded options		
Market value of open option contracts purchased on a foreign board of trade		—
Market value of open option contracts sold on a foreign board of trade		—
		<u>61</u>
Net equity		61
Accounts liquidating to a deficit and accounts with debit balances - gross amount (offset by customer owned securities totaling \$0)		—
		<u>—</u>
Amount required to be set aside as the secured amount - Net liquidating equity method		<u>61</u>

Funds on deposit in separate Section 30.7 accounts:

Cash in banks		
Banks located in the United States	\$	157,678
Other banks designated by the Commission		—
		<u>157,678</u>
Equities with registered futures commission merchants (Phillip Capital and R.J. O'Brien)		
Cash	\$	39,331
Securities		—
Unrealized gain on open futures contracts		—
Value of long option contracts		—
Value of short option contracts		—
		<u>39,331</u>
Amounts held by clearing organizations of foreign boards of trade		
Cash	\$	—
Amount due to clearing organization - daily variation		—
		<u>—</u>
Amounts held by members of foreign boards of trade (G.H. Financials (HK) Limited)		
Cash	\$	126,211
Unrealized gain on open futures contracts		—
		<u>126,211</u>
Total amount in separate Section 30.7 accounts	\$	<u>323,220</u>
Excess funds in separate Section 30.7 accounts	\$	<u>323,159</u>
Management target amount for excess funds in separate 30.7 accounts	\$	<u>150,000</u>
Excess funds in separate 30.7 accounts over management target excess	\$	<u>173,159</u>

There are no material differences between the above computation and the Company's corresponding unaudited Form 1FR-FCM filing as of December 31, 2020.

**Huatai Financial USA Inc
Cleared Swaps Segregation Requirements and Funds in Cleared Swaps Customer Accounts Under 4D(F) of the
December 31, 2020**

The Company does not carry customers' cleared swaps accounts as defined by the Commodity Exchange Act Regulation 4D(F). Therefore, the Company is exempt from such regulation.