

# **J.P. Morgan Securities LLC and Subsidiaries**

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

## **Consolidated Statement of Financial Condition June 30, 2021 (unaudited)**

**J.P. Morgan Securities LLC and Subsidiaries**  
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**Table of Contents**

**June 30, 2021 (unaudited)**

	Page
Consolidated Statement of Financial Condition .....	1
<b>Notes to Consolidated Statement of Financial Condition .....</b>	
Note 1. Organization .....	2
Note 2. Significant accounting policies .....	3
Note 3. Fair value measurement of financial instruments .....	7
Note 4. Fair value option .....	16
Note 5. Customer activities .....	17
Note 6. Derivative instruments .....	18
Note 7. Employee benefits and compensation .....	23
Note 8. Securities financing activities .....	24
Note 9. Variable interest entities .....	25
Note 10. Short-term borrowings .....	28
Note 11. Long-term debt .....	28
Note 12. Subordinated borrowings .....	28
Note 13. Related parties .....	28
Note 14. Regulatory requirements .....	29
Note 15. Commitments, guarantees, pledged assets, collateral and contingencies .....	30
Note 16. Subsequent events .....	33

**J.P. Morgan Securities LLC and Subsidiaries**  
(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)  
**Consolidated Statement of Financial Condition**  
**June 30, 2021 (unaudited)**

(in millions)

<b>Assets</b>	
Cash	\$ 6,327
Securities purchased under resale agreements, at fair value	139,830
Securities borrowed (included \$48,032 at fair value)	148,465
Securities received as collateral, at fair value (included assets pledged of \$38,681)	41,321
Receivables from customers	52,398
Receivables from brokers, dealers, clearing organizations and others	51,826
Financial instruments owned, at fair value (included assets pledged of \$72,334)	169,350
Goodwill	1,356
Other assets (included \$2 at fair value)	3,668
<b>Total assets<sup>(a)</sup></b>	<b>\$ 614,541</b>
<b>Liabilities</b>	
Short-term borrowings (included \$9,454 at fair value)	\$ 56,816
Securities sold under repurchase agreements (included \$153,857 at fair value)	254,682
Securities loaned (included \$61 at fair value)	5,715
Obligation to return securities received as collateral, at fair value	45,293
Payables to customers	116,041
Payables to brokers, dealers, clearing organizations and others	15,142
Financial instruments sold, not yet purchased, at fair value	57,379
Other liabilities and accrued expenses	3,743
Beneficial interests issued by consolidated variable interest entities ("VIEs"), (included \$26 at fair value)	45
Long-term debt, at fair value	17,130
<b>Total liabilities<sup>(a)</sup></b>	<b>571,986</b>
Commitments and contingencies (refer to Note 15)	
<b>Subordinated borrowings</b>	<b>29,000</b>
<b>Member's equity</b>	
Member's interest	6,169
Retained earnings	7,386
<b>Total member's equity</b>	<b>13,555</b>
<b>Total liabilities and member's equity</b>	<b>\$ 614,541</b>

(a) The following table presents information on assets and liabilities related to VIEs that are consolidated by the Company at June 30, 2021. The assets of the consolidated VIEs are used to settle the liabilities of those entities. The holders of the beneficial interests do not have recourse to the general credit of the Company. The assets and liabilities in the table below include third-party assets and liabilities of consolidated VIEs and exclude intercompany balances that eliminate in consolidation. Refer to Note 9 for further information.

(in millions)

<b>Assets</b>	
Financial instruments owned, at fair value	\$ 56
<b>Total assets</b>	<b>\$ 56</b>
<b>Liabilities</b>	
Beneficial interests issued by consolidated VIEs, (included \$26 at fair value)	\$ 45
<b>Total liabilities</b>	<b>\$ 45</b>

The accompanying Notes are an integral part of the Consolidated Statement of Financial Condition.

# J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

## Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

### 1. Organization

The Consolidated Statement of Financial Condition includes the accounts of J.P. Morgan Securities LLC (“J.P. Morgan Securities”) and its subsidiaries (collectively the “Company”). The Company is a wholly-owned subsidiary of J.P. Morgan Broker-Dealer Holdings Inc. (“Broker-Dealer Holdings”). The member’s interest of the Company is indirectly held by JPMorgan Chase Holdings LLC (the “IHC”), which is an intermediate holding company wholly-owned by JPMorgan Chase & Co. (“JPMorgan Chase”), a leading global financial services firm and one of the largest banking institutions in the United States of America (“U.S.”), with operations worldwide. For purposes of this report, an “affiliate” is defined as JPMorgan Chase or a direct or indirect subsidiary of JPMorgan Chase. The Company is registered as a broker-dealer and investment adviser with the U.S. Securities and Exchange Commission (“SEC”), as a futures commission merchant (“FCM”) with the Commodities Futures Trading Commission (“CFTC”) and is provisionally registered as a swap dealer with the National Futures Association (“NFA”) as it progresses toward final registration. The Company is also a member firm of the Financial Industry Regulatory Authority (“FINRA”), the NFA, the Securities Investor Protection Corporation (“SIPC”) and various exchanges.

The Company’s Board of Managers is responsible for the oversight of management of the Company. The Company accomplishes this function acting directly and through the principal standing committees of JPMorgan Chase’s Board of Directors and the Company’s own committees and forums.

JPMorgan Chase’s Board of Directors’ Risk Committee is the principal committee that oversees risk matters. The Audit Committee oversees the control environment, and the Compensation & Management Development Committee oversees compensation and other management-related matters. Each committee of the Board oversees reputation risk and conduct risk issues within its scope of responsibility.

The Company relies on each of JPMorgan Chase’s lines of business and Corporate areas giving rise to risk to operate within the parameters identified by JPMorgan Chase’s Independent Risk Management function (consisting of the Risk Management and Compliance organizations), and within its own management-identified risk and control standards.

#### Nature of business

The Company acts as a primary dealer in U.S. government securities; makes markets in money market instruments and U.S. government agency securities; underwrites and trades various types of debt and equity securities (including securities issued by JPMorgan Chase or its affiliates); advises clients on business strategies, capital structures and financial strategies; structures derivative transactions to meet client needs; engages in the execution and clearance of exchange-traded futures and options; clears over-the-counter (“OTC”) derivative contracts in connection with JPMorgan Chase’s and its affiliates’ client-driven market-making and risk management activities; and offers brokerage and investment advisory products and services to a range of retail investors. The Company provides securities clearing and customer financing, and engages in secured financing transactions to finance its securities activities, including through J.P. Morgan Securities’ wholly-owned subsidiary J.P. Morgan Prime Inc. (“J.P. Morgan Prime”) for certain prime brokerage customer transactions. Additionally, the Company acts as a clearing broker carrying and clearing (i) customer cash and margin accounts for correspondents and certain activities of its affiliates on either a fully disclosed or omnibus basis, and (ii) proprietary trading accounts of hedge funds, brokers and dealers and other professional trading firms (collectively “clearing clients”).

#### Credit ratings

The credit ratings of the Company as of June 30, 2021, were as follows.

	Moody’s Investors Service (“Moody’s”)	Standard & Poor’s (“S&P”)	Fitch
Outlook	Stable	Positive	Stable
Long-term issuer rating	Aa3	A+	AA
Short-term issuer rating	P-1	A-1	F1+

#### Regulatory capital actions

During the six months ended June 30, 2021, the Company distributed \$6.0 billion of capital to the IHC. Refer to Note 14 for further information on the Company’s regulatory requirements.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

# Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

## 2. Significant accounting policies

The accounting and financial reporting policies of the Company and its subsidiaries conform to accounting principles generally accepted in the U.S. (“U.S. GAAP”). Additionally, where applicable, the policies conform to the accounting and reporting guidelines prescribed by regulatory authorities.

### (a) Accounting and reporting developments

#### Financial Accounting Standards Board (“FASB”) Standards adopted since January 1, 2021

##### *Reference rate reform*

On March 12, 2020, the FASB issued an accounting standards update providing various elective options, referred to as “practical expedients,” that are intended to simplify the operations impact of applying generally accepted accounting principles to contracts affected by reference rate reform. The Company elected to apply certain of the practical expedients related to contract modifications beginning in the second half of 2020. Effective January 7, 2021, the FASB issued an update, which provided an election to account for derivatives modified to change the rate used for discounting, margining, or contract price alignment (collectively “discounting transition”) as modifications. These elections did not have a material impact on the Consolidated Statement of Financial Condition.

### (b) Basis of presentation

#### Consolidation

The Consolidated Statement of Financial Condition includes the accounts of the Company and other entities in which the Company has a controlling financial interest as of June 30, 2021. All material intercompany balances and transactions have been eliminated.

Assets held for clients in an agency or fiduciary capacity by the Company are not assets of the Company and are not included on the Consolidated Statement of Financial Condition.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity (“VIE”).

#### *Voting interest entities*

Voting interest entities are entities that have sufficient equity and provide the equity investors voting rights that enable them to make significant decisions relating to the entity’s operations. For these types of entities, the Company’s determination of whether it has a controlling interest is primarily based on the amount of voting equity interests held. Entities in which the Company has a controlling financial interest, through ownership of the majority of the entities’ voting equity interests, or through other contractual rights that give the Company control, are consolidated by the Company. Investments in companies in which the Company has significant influence over operating and financing decisions (but does not own a majority of the voting equity interests) are accounted for (i) in accordance with the equity method of accounting (which requires the Company to recognize its proportionate share of the entity’s net earnings), or (ii) at fair value if the fair value option was elected.

#### *Variable interest entities*

VIEs are entities that, by design, either (1) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) have equity investors that do not have the ability to make significant decisions relating to the entity’s operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity.

The most common type of VIE is a special purpose entity (“SPE”). SPEs are commonly used in securitization transactions in order to isolate certain assets and distribute the cash flows from those assets to investors. The basic SPE structure involves a company selling assets to the SPE; the SPE funds the purchase of those assets by issuing securities to investors. The legal documents that govern the transaction specify how the cash earned on the assets must be allocated to the SPE’s investors and other parties that have rights to those cash flows. SPEs are generally structured to insulate investors from claims on the SPE’s assets by creditors of other entities, including the creditors of the seller of the assets.

The primary beneficiary of a VIE (i.e., the party that has a controlling financial interest) is required to consolidate the assets and liabilities of the VIE. The primary beneficiary is the party that has both (1) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance; and (2) through its interests in the VIE, the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE.

## **J.P. Morgan Securities LLC and Subsidiaries**

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### **Notes to Consolidated Statement of Financial Condition**

**June 30, 2021 (unaudited)**

To assess whether the Company has the power to direct the activities of a VIE that most significantly impact the VIE's economic performance, the Company considers all facts and circumstances, including its role in establishing the VIE and its ongoing rights and responsibilities. This assessment includes, first, identifying the activities that most significantly impact the VIE's economic performance; and second, identifying which party, if any, has power over those activities. In general, the parties that make the most significant decisions affecting the VIE (such as asset managers, collateral managers, servicers, owners of call options or liquidation rights over the VIE's assets) or have the right to unilaterally remove those decision-makers are deemed to have the power to direct the activities of a VIE.

To assess whether the Company has the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE, the Company considers all of its economic interests, including debt and equity investments, derivatives or other arrangements deemed to be variable interests in the VIE. This assessment requires that the Company apply judgment in determining whether these interests, in the aggregate, are considered potentially significant to the VIE. Factors considered in assessing significance include: the design of the VIE, including its capitalization structure; subordination of interests; payment priority; relative share of interests held within the VIE's capital structure; and the reasons why the interests are held by the Company.

The Company performs ongoing reassessments of (1) whether any entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain events, and are therefore subject to the VIE consolidation framework; and (2) whether changes in the facts and circumstances regarding the Company's involvement with a VIE cause the Company's consolidation conclusion to change. Refer to Note 9 for further information related to VIEs.

#### **Use of estimates in the preparation of the Consolidated Statement of Financial Condition**

The preparation of the Consolidated Statement of Financial Condition requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities. Actual results could be different from these estimates. In the opinion of management, all normal, recurring adjustments have been included such that this interim financial information is fairly stated.

#### **Foreign currency translation**

The Company revalues assets and liabilities denominated in non-U.S. currencies into U.S. dollars using applicable exchange rates.

#### **Offsetting assets and liabilities**

U.S. GAAP permits entities to present derivative receivables and derivative payables with the same counterparty and the related cash collateral receivables and payables on a net basis on the Consolidated Statement of Financial Condition when a legally enforceable master netting agreement exists. U.S. GAAP also permits securities financing activities to be presented on a net basis when specified conditions are met, including the existence of a legally enforceable master netting agreement. The Company has elected to net such balances when the specified conditions are met.

The Company uses master netting agreements to mitigate counterparty credit risk in certain transactions, including derivatives transactions, resale and repurchase agreements, and securities borrowed and loaned agreements. A master netting agreement is a single agreement with a counterparty that permits multiple transactions governed by that agreement to be terminated or accelerated and settled through a single payment in a single currency in the event of a default (e.g., bankruptcy, failure to make a required payment or securities transfer or deliver collateral or margin when due). Upon the exercise of termination rights by the non-defaulting party (i) all transactions are terminated, (ii) all transactions are valued and the positive value or "in the money" transactions are netted against the negative value or "out of the money" transactions and (iii) the only remaining payment obligation is of one of the parties to pay the netted termination amount. Upon exercise of repurchase agreement and securities loaned default rights in general (i) all transactions are terminated and accelerated, (ii) all values of securities or cash held or to be delivered are calculated, and all such sums are netted against each other and (iii) the only remaining payment obligation is of one of the parties to pay the netted termination amount.

Typical master netting agreements for these types of transactions also often contain a collateral/margin agreement that provides for a security interest in, or title transfer of, securities or cash collateral/margin to the party that has the right to demand margin (the "demanding party"). The collateral/margin agreement typically requires a party to transfer collateral/margin to the demanding party with a value equal to the amount of the margin deficit on a net basis across all transactions governed by the master netting agreement, less any threshold. The collateral/margin agreement grants to the demanding party, upon default by the counterparty, the right to set-off any amounts payable by the counterparty against any posted

## **J.P. Morgan Securities LLC and Subsidiaries**

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### **Notes to Consolidated Statement of Financial Condition**

**June 30, 2021 (unaudited)**

collateral or the cash equivalent of any posted collateral/margin. It also grants to the demanding party the right to liquidate collateral/margin and to apply the proceeds to an amount payable by the counterparty. Refer to Notes 6 and 8, respectively, for further information on the Company's derivative instruments and securities financing activities.

#### **(c) Cash**

Cash represents funds deposited with financial institutions, which predominantly includes cash segregated to satisfy rules regarding the protection of assets of customers as required by the CFTC and/or the SEC, the Company's primary regulators. Refer to Note 14 for further information.

#### **(d) Securities financing agreements**

Resale and repurchase agreements, and securities borrowed and loaned agreements (collectively, "securities financing agreements"), are treated as collateralized transactions. The Company has elected the fair value option for certain securities financing agreements. Securities financing agreements not elected under the fair value option are measured at amortized cost. Additionally, the Company may receive securities as collateral in securities-for-securities transactions. If the Company is the lender in these transactions and where the Company is permitted to sell or repledge the collateral received, the Company reports the fair value of the securities received as collateral and the related obligation to return securities received as collateral on the Consolidated Statement of Financial Condition. Refer to Note 8 for further information.

#### **(e) Customer transactions**

Receivables from and payables to customers primarily include amounts arising from securities and margin transactions. These customer securities transactions are recorded on the Consolidated Statement of Financial Condition on a settlement date basis. In the event of fails to deliver or receive securities, the Company records corresponding receivables from customers or payables to customers, respectively. The Company does not reflect the clients' underlying securities or derivative contracts on its Consolidated Statement of Financial Condition.

The Company monitors the market value of collateral held to secure receivables from customers. It is the Company's policy to request and obtain additional collateral when appropriate. As such, generally no allowance for credit losses is held against these receivables.

#### **(f) Brokers, dealers, clearing organizations and others**

Receivables from brokers, dealers, clearing organizations and others include margin deposits, as well as receivables when the Company fails to deliver securities to a purchaser by the settlement date. Payables to brokers, dealers, clearing organizations and others include payables when the Company fails to receive securities from a seller by the settlement date. Brokers, dealers, clearing organizations and other receivables and payables additionally include the variation margin related to futures contracts cleared on domestic and international derivative exchanges, accrued interest receivables and payables, as well as net receivables or net payables arising from unsettled trades. Clearing organizations generally settle unsettled trades, including fails, on a daily basis. Because of this daily settlement, the amount of unsettled credit exposures is limited to the amount owed to the Company for a very short period of time. As such, generally no allowance for credit losses is held against these receivables. No allowance is held against variation margin receivables that are posted with clearing organizations, due to the remote probability of default by the clearing organization and the robust multi-layered credit protection inherent in its design and operations. The Company does not record an allowance on accrued interest receivables, due to its policy to write these receivables off no later than 90 days past due by reversing interest income.

#### **(g) Financial instruments**

Financial instruments owned and financial instruments sold, not yet purchased are accounted for at fair value. These securities transactions in regular way trades are recorded on the trade date, the date on which an agreement is executed to purchase or sell a security. Principal securities transactions in non-regular way trades are recorded on the settlement date (the date on which the payment of funds and delivery of securities are to take place) with changes in value recorded on the Consolidated Statement of Financial Condition between trade and settlement dates. Refer to Note 3 for further information related to the Company's valuation methodologies under fair value measurement.

Balances reflect the reduction of financial instruments owned (long positions) by the amount of identical financial instruments sold, not yet purchased (short positions) when the long and short positions have identical Committee on Uniform Security Identification Procedures numbers ("CUSIPs").

## **J.P. Morgan Securities LLC and Subsidiaries**

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### **Notes to Consolidated Statement of Financial Condition**

**June 30, 2021 (unaudited)**

#### **(h) Goodwill**

Goodwill is recorded upon completion of a business combination as the difference between the purchase price and the fair value of the net assets acquired, and can be adjusted up to one year from the acquisition date as more information is obtained about the fair value of assets acquired and liabilities assumed. Subsequent to initial recognition, goodwill is not amortized but is tested for impairment during the fourth quarter of each fiscal year, or more often if events or circumstances, such as adverse changes in the business climate, indicate that there may be an impairment.

#### ***Goodwill impairment testing***

The goodwill impairment test is performed by comparing the current fair value of the Company with its carrying value. If the fair value is in excess of the carrying value, then the Company's goodwill is considered not to be impaired. If the fair value is less than the carrying value, then an impairment charge is recognized for the amount by which the Company's carrying value exceeds its fair value, up to the amount of the Company's goodwill.

Unanticipated declines in business performance, increases in credit losses, increases in capital requirements, as well as deterioration in economic or market conditions, adverse regulatory or legislative changes or increases in the estimated market cost of equity, could cause the estimated fair value of the Company to decline in the future, which could result in a material impairment charge to earnings in a future period related to some portion of the associated goodwill.

As of June 30, 2021, the Company reviewed current economic conditions, estimated market cost of equity, as well as actual business results and projections of business performance and has concluded that goodwill was not impaired as of June 30, 2021, nor was goodwill written off due to impairment during the six months ended June 30, 2021.

#### **(i) Other assets, and other liabilities and accrued expenses**

Other assets can consist of syndicate receivables, dividend receivables, cash collateral receivables resulting from derivative transactions, prepaid expenses and other. Other liabilities and accrued expenses can consist of syndicate payables, dividend payables, cash collateral payables resulting from derivative transactions, accrued compensation and benefits, reserves and other.

#### **(j) Income taxes**

The results of operations of the Company are included in the consolidated federal, New York State, New York City and other state income tax returns filed by JPMorgan Chase.

J.P. Morgan Securities, as a disregarded entity, is included as part of the tax return filing of its direct parent, Broker-Dealer Holdings. The Company adopted ASU 2019-12, Income Tax Simplification, as of January 1, 2021, which amends ASC 740 to specify that there is no requirement to allocate income tax expense to a legal entity that is both not subject to tax and disregarded by the taxing authority, although an entity may elect to do so. As such, the Company has elected to not allocate federal or state income tax provision to J.P. Morgan Securities. If the Company incurs any taxes as a standalone regarded entity under foreign tax law, such taxes would be recorded on J.P. Morgan Securities. As a result of the adoption, current tax liabilities totaling \$242 million and deferred tax assets of \$417 million recorded on J.P. Morgan Securities as of December 31, 2020 were transferred to its parent, Broker-Dealer Holdings on January 1, 2021.

J.P. Morgan Prime is taxable as a corporation. As such, pursuant to a tax sharing agreement, JPMorgan Chase allocates to J.P. Morgan Prime its share of the consolidated income tax expense or benefit based upon statutory rates applied to its earnings as if it were filing a separate income tax return. Furthermore, JPMorgan Chase will reimburse J.P. Morgan Prime currently for losses irrespective of whether J.P. Morgan Prime would utilize losses on a separate return basis. The tax sharing agreement between JPMorgan Chase and J.P. Morgan Prime allows for intercompany payments to or from JPMorgan Chase for outstanding current tax assets or liabilities.

J.P. Morgan Prime uses the separate return adjusted for benefits-for-loss allocation methodology to provide for income taxes on all transactions recorded on the Consolidated Statement of Financial Condition. Valuation allowances are established when necessary to reduce deferred tax assets to an amount that in the opinion of management, is more likely than not to be realized. State and local income taxes are provided on J.P. Morgan Prime's taxable income at the effective income tax rate applicable to the consolidated JPMorgan Chase entity.

The guidance on accounting for uncertainty in income taxes describes how uncertain tax positions should be recognized, measured, presented and disclosed on the Consolidated Statement of Financial Condition. This guidance requires the evaluation of tax positions taken or expected to be taken in the course of preparing the Company's Consolidated Statement of Financial Condition to determine whether the tax positions are more likely than not to be realized as a tax benefit or expense



## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

# Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

in the current year. After-tax interest and penalties, as well as the related unrecognized tax benefits, are recognized as income tax expense. J.P. Morgan Prime has concluded that there are no significant uncertain income tax positions and related interest and penalties. Any historical audit adjustments for J.P. Morgan Securities will be reflected on its direct parent, Broker-Dealer Holdings.

### 3. Fair value measurement of financial instruments

The Company carries a portion of its assets and liabilities at fair value. These assets and liabilities are predominantly carried at fair value on a recurring basis (i.e., assets and liabilities that are measured and reported at fair value on the Company's Consolidated Statement of Financial Condition). Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, they are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment).

Fair value is defined as 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. Fair value is based on quoted market prices or inputs, where available. If prices or quotes are not available, fair value is based on valuation models and other valuation techniques that consider relevant transaction characteristics (such as maturity) and use, as inputs, observable or unobservable market parameters, including yield curves, interest rates, volatilities, prices (such as commodity, equity or debt prices), correlations, foreign exchange ("FX") rates and credit curves. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, as described below.

The level of precision in estimating unobservable market inputs or other factors can affect the amount of gain or loss recorded for a particular position. Furthermore, while the Company believes its valuation methods are appropriate and consistent with those of other market participants, the methods and assumptions used reflect management judgment and may vary across the Company's businesses and portfolios.

The Company uses various methodologies and assumptions in the determination of fair value. The use of different methodologies or assumptions by other market participants compared with those used by the Company could result in the Company deriving a different estimate of fair value at the reporting date.

#### Valuation process

Risk-taking functions are responsible for providing fair value estimates for assets and liabilities carried on the Consolidated Statement of Financial Condition at fair value. JPMorgan Chase's Valuation Control Group ("VCG"), which is part of JPMorgan Chase's Finance function and independent of the risk-taking functions, is responsible for verifying these estimates and determining any fair value adjustments that may be required to ensure that the Company's positions are recorded at fair value. JPMorgan Chase's Firmwide Valuation Governance Forum ("VGF") is composed of senior finance and risk executives and is responsible for overseeing the management of risks arising from valuation activities conducted across JPMorgan Chase. JPMorgan Chase's VGF is chaired by the JPMorgan Chase Firmwide head of the VCG (under the direction of JPMorgan Chase's Controller), and includes sub-forums covering the Company.

#### Price verification process

The VCG verifies fair value estimates provided by the risk-taking functions by leveraging independently derived prices, valuation inputs and other market data, where available. Where independent prices or inputs are not available, the VCG performs additional review to ensure the reasonableness of the estimates. The additional review may include evaluating the limited market activity including client unwinds, benchmarking valuation inputs to those used for similar instruments, decomposing the valuation of structured instruments into individual components, comparing expected to actual cash flows, reviewing profit and loss trends, and reviewing trends in collateral valuation. There are also additional levels of management review for more significant or complex positions.

The VCG determines any valuation adjustments that may be required to the estimates provided by the risk-taking functions. No adjustments to quoted prices are applied for instruments classified within level 1 of the fair value hierarchy (refer to the discussion below for further information on the fair value hierarchy). For other positions, judgment is required to assess the need for valuation adjustments to appropriately reflect liquidity considerations, unobservable parameters, and, for certain portfolios that meet specified criteria, the size of the net open risk position. The determination of such adjustments follows a consistent framework across JPMorgan Chase.

- Liquidity valuation adjustments are considered where an observable external price or valuation parameter exists but is of lower reliability, potentially due to lower market activity. Liquidity valuation adjustments are made based on current

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

market conditions. Factors that may be considered in determining the liquidity adjustment include analysis of: (1) the estimated bid-offer spread for the instrument being traded; (2) alternative pricing points for similar instruments in active markets; and (3) the range of reasonable values that the price or parameter could take.

- The Company manages certain portfolios of financial instruments on the basis of net open risk exposure and, as permitted by U.S. GAAP, has elected to estimate the fair value of such portfolios on the basis of a transfer of the entire net open risk position in an orderly transaction. Where this is the case valuation adjustments may be necessary to reflect the cost of exiting a larger-than-normal market-size net open risk position. Where applied, such adjustments are based on factors that a relevant market participant would consider in the transfer of the net open risk position, including the size of the adverse market move that is likely to occur during the period required to reduce the net open risk position to a normal market-size.
- Uncertainty adjustments related to unobservable parameters may be made when positions are valued using prices or input parameters to valuation models that are unobservable due to a lack of market activity or because they cannot be implied from observable market data. Such prices or parameters must be estimated and are, therefore, subject to management judgment. Adjustments are made to reflect the uncertainty inherent in the resulting valuation estimate.
- Where appropriate, the Company also applies adjustments to its estimates of fair value in order to appropriately reflect counterparty credit quality, JPMorgan Chase's own creditworthiness and the impact of funding, using a consistent framework across the Company.

#### Valuation model review and approval

If prices or quotes are not available for an instrument or a similar instrument, fair value is generally determined using valuation models that consider relevant transaction terms such as maturity and use as inputs market-based or independently sourced parameters. Where this is the case the price verification process described above is applied to the inputs in those models.

Under JPMorgan Chase's Estimations and Model Risk Management Policy, the Model Risk Governance and Review ("MRGR") reviews and approves new models, as well as material changes to existing models, prior to implementation in the operating environment. In certain circumstances exceptions may be granted to JPMorgan Chase's policy to allow a model to be used prior to review or approval. JPMorgan Chase's MRGR may also require the user to take appropriate actions to mitigate the model risk if it is to be used in the interim. These actions will depend on the model and may include, for example, limitation of trading activity.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

#### Valuation hierarchy

A three-level valuation hierarchy has been established under U.S. GAAP for disclosure of fair value measurements. The valuation hierarchy is based on the observability of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows.

- Level 1 - inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 - one or more inputs to the valuation methodology are unobservable and significant to the fair value measurement.

A financial instrument's categorization within the valuation hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The following is a description of the valuation methodologies generally used by the Company to measure its more significant products/instruments at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

<b>Product/ instrument</b>	<b>Valuation methodology</b>	<b>Classifications in the valuation hierarchy</b>
Securities financing agreements	Valuations are based on discounted cash flows, which consider: <ul style="list-style-type: none"><li>• Derivative features: refer to the discussion of derivatives below for further information</li><li>• Market rates for the respective maturity</li><li>• Collateral characteristics</li></ul>	Level 2
Debt and equity instruments	Quoted market prices. In the absence of quoted market prices, financial instruments are valued based on: <ul style="list-style-type: none"><li>• Observable market prices for similar securities (excludes loans)</li><li>• Observable market prices for loans (circumstances are infrequent)</li><li>• Relevant broker quotes</li><li>• Discounted cash flows</li></ul> In addition, the following inputs to discounted cash flows are used for the following products: Mortgage- and asset-backed securities specific inputs: <ul style="list-style-type: none"><li>• Collateral characteristics</li><li>• Deal-specific payment and loss allocations</li><li>• Current market assumptions related to yield, prepayment speed, conditional default rates and loss severity</li></ul> Collateralized loan obligations ("CLOs") specific inputs: <ul style="list-style-type: none"><li>• Collateral characteristics</li><li>• Deal-specific payment and loss allocations</li><li>• Expected prepayment speed, conditional default rates, loss severity</li><li>• Credit spreads</li><li>• Credit rating data</li></ul> Other (predominantly includes structured notes issued by affiliates of the Company): <ul style="list-style-type: none"><li>• Valuations are based on discounted cash flow analyses that consider the embedded derivative and the terms and payment structure of the financial instrument.</li><li>• The embedded derivative features are considered using models such as the Black-Scholes option pricing model, simulation models, or a combination of models that may use observable or unobservable valuation inputs, depending on the embedded derivative. The specific inputs used vary according to the nature of the embedded derivative features, as described in the discussion below regarding derivatives valuation.</li></ul>	Level 1 Level 2 or 3

# J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

## Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

<b>Product/ instrument</b>	<b>Valuation methodology</b>	<b>Classifications in the valuation hierarchy</b>
Derivatives	<p>Exchange-traded derivatives that are actively traded and valued using the exchange price.</p> <p>Derivatives that are valued using models such as the Black-Scholes option pricing model, simulation models, or a combination of models that may use observable or unobservable valuation inputs as well as considering the contractual terms.</p> <p>The key valuation inputs used will depend on the type of derivative and the nature of the underlying instruments and may include equity prices, commodity prices, interest rate yield curves, foreign exchange rates, volatilities, correlations, credit default swap (“CDS”) spreads and recovery rates. Additionally, the credit quality of the counterparty and of the Company as well as market funding levels may also be considered.</p> <p>In addition, specific inputs used for derivatives that are valued based on models with significant unobservable inputs are as follows:</p> <p>Structured credit derivatives specific inputs include:</p> <ul style="list-style-type: none"><li>• CDS spreads and recovery rates</li><li>• Credit correlation between the underlying debt instruments</li></ul> <p>Equity option specific inputs include:</p> <ul style="list-style-type: none"><li>• Forward equity price</li><li>• Equity volatility</li><li>• Equity correlation</li><li>• Equity-foreign exchange (“equity-FX”) correlation</li><li>• Equity-interest rate (“equity-IR”) correlation</li></ul> <p>Interest rate and FX exotic options specific inputs include:</p> <ul style="list-style-type: none"><li>• Interest rate volatility</li><li>• Interest rate correlation</li><li>• Foreign exchange correlation</li><li>• Interest rate-foreign exchange (“IR-FX”) correlation</li></ul> <p>Commodity derivative specific inputs include:</p> <ul style="list-style-type: none"><li>• Commodity volatility</li><li>• Forward commodity price</li><li>• Commodity correlation</li></ul>	<p>Level 1</p> <p>Level 2 or 3</p>
Beneficial interests issued by consolidated VIEs	<p>Valued using observable market information, where available.</p>	Level 2
	<p>In the absence of observable market information, valuations are based on the fair value of the underlying assets held by the VIE.</p>	
Structured notes (included in short-term borrowings and long-term debt)	<ul style="list-style-type: none"><li>• Valuations are based on discounted cash flow analyses that consider the embedded derivative and the terms and payment structure of the note.</li><li>• The embedded derivative features are considered using models such as the Black-Scholes option pricing model, simulation models, or a combination of models that may use observable or unobservable valuation inputs, depending on the embedded derivative. The specific inputs used vary according to the nature of the embedded derivative features, as described in the discussion below regarding derivatives valuation.</li></ul>	Level 2 or 3

**J.P. Morgan Securities LLC and Subsidiaries**  
(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

**Notes to Consolidated Statement of Financial Condition**  
**June 30, 2021 (unaudited)**

The following table presents the assets and liabilities reported at fair value as of June 30, 2021, by major product category and fair value hierarchy.

**Assets and liabilities measured at fair value on a recurring basis**

(in millions)	Fair value hierarchy			Derivative netting adjustments	Total fair value
	Level 1	Level 2	Level 3		
Securities purchased under resale agreements <sup>(a)</sup>	\$ –	\$ 139,830	\$ –	\$ –	\$ 139,830
Securities borrowed	–	48,032	–	–	48,032
Securities received as collateral <sup>(b)</sup>	39,575	1,746	–	–	41,321
Financial instruments owned:					
Mortgage-backed securities:					
U.S. Government-sponsored enterprises (“GSEs”) and government agencies <sup>(c)</sup>	–	34,435	12	–	34,447
Residential - nonagency	–	1,149	6	–	1,155
Commercial - nonagency	–	1,242	9	–	1,251
<b>Total mortgage-backed securities</b>	–	<b>36,826</b>	<b>27</b>	–	<b>36,853</b>
U.S. Treasury, GSEs and government agencies <sup>(a)(c)</sup>	63,519	8,727	–	–	72,246
Obligations of U.S. states and municipalities	–	1,108	2	–	1,110
Certificates of deposit, bankers’ acceptances and commercial paper	–	1,928	10	–	1,938
Non-U.S. government debt securities	5	–	–	–	5
Corporate debt securities	–	9,371	10	–	9,381
Equity securities	41,651	215	80	–	41,946
Asset-backed securities	–	1,968	25	–	1,993
Loans <sup>(d)</sup>	–	36	–	–	36
Other	–	2,298	685	–	2,983
<b>Total debt and equity instruments<sup>(e)</sup></b>	<b>105,175</b>	<b>62,477</b>	<b>839</b>	–	<b>168,491</b>
Derivative receivables:					
Interest rate	687	5,098	64	(5,621)	228
Credit	–	1,150	1	(911)	240
Foreign exchange	–	183	84	(238)	29
Equity <sup>(f)</sup>	–	41,073	2,943	(43,654)	362
Commodity	–	301	–	(301)	–
<b>Total derivative receivables<sup>(g)</sup></b>	<b>687</b>	<b>47,805</b>	<b>3,092</b>	<b>(50,725)</b>	<b>859</b>
<b>Total financial instruments owned</b>	<b>105,862</b>	<b>110,282</b>	<b>3,931</b>	<b>(50,725)</b>	<b>169,350</b>
Other assets	–	–	2	–	2
<b>Total assets measured at fair value on a recurring basis</b>	<b>\$ 145,437</b>	<b>\$ 299,890</b>	<b>\$ 3,933</b>	<b>\$ (50,725)</b>	<b>\$ 398,535</b>
Short-term borrowings	\$ –	\$ 9,119	\$ 335	\$ –	\$ 9,454
Securities sold under repurchase agreements	–	153,857	–	–	153,857
Securities loaned	–	61	–	–	61
Obligation to return securities received as collateral <sup>(b)</sup>	43,547	1,746	–	–	45,293
Financial instruments sold, not yet purchased:					
Debt and equity instruments <sup>(e)</sup>	43,445	6,422	5	–	49,872
Derivative payables:					
Interest rate	748	5,376	8	(5,727)	405
Credit	–	1,030	1	(985)	46
Foreign exchange	–	364	–	(261)	103
Equity <sup>(f)</sup>	–	48,477	6,656	(48,180)	6,953
Commodity	–	349	–	(349)	–
<b>Total derivative payables<sup>(g)</sup></b>	<b>748</b>	<b>55,596</b>	<b>6,665</b>	<b>(55,502)</b>	<b>7,507</b>
<b>Total financial instruments sold, not yet purchased</b>	<b>44,193</b>	<b>62,018</b>	<b>6,670</b>	<b>(55,502)</b>	<b>57,379</b>
Beneficial interests issued by consolidated VIEs	–	26	–	–	26
Long-term debt	–	9,594	7,536	–	17,130
<b>Total liabilities measured at fair value on a recurring basis</b>	<b>\$ 87,740</b>	<b>\$ 236,421</b>	<b>\$ 14,541</b>	<b>\$ (55,502)</b>	<b>\$ 283,200</b>

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

- (a) Includes securities that were segregated to satisfy SEC and CFTC rules regarding the protection of assets of customers. Refer to Note 14 for further information.
- (b) Represents securities-for-securities lending transactions when the Company is acting as the lender.
- (c) Includes total U.S. GSE obligations of \$21.1 billion, which were predominantly mortgage-related. U.S. GSEs are quasi-governmental, privately held entities established by Congress to improve the flow of credit to specific sectors of the economy and provide certain essential services to the public. U.S. GSEs include Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”), but do not include Government National Mortgage Association (“Ginnie Mae”), which is directly owned by the U.S. Department of Housing and Urban Development. U.S. GSE obligations are not explicitly guaranteed as to the timely payment of principal and interest by the full faith and credit of the U.S. government.
- (d) Represents residential first-lien mortgages.
- (e) Balances reflect the reduction of financial instruments owned (long positions) by the amount of identical financial instruments sold, not yet purchased (short positions).
- (f) Equity derivative receivables and payables in level 3 primarily relate to positions with affiliates.
- (g) As permitted under U.S. GAAP, the Company has elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. For purposes of the table above, the Company does not reduce derivative receivables and derivative payables balances for this netting adjustment, either within or across the levels of the fair value hierarchy, as such netting is not relevant to a presentation based on the transparency of inputs to the valuation of an asset or liability. The level 3 balances would be reduced if netting were applied, including the netting benefit associated with cash collateral. Refer to Note 6 for further information.

#### Level 3 valuations

The Company has established well-structured processes for determining fair value, including for instruments where fair value is estimated using significant unobservable inputs (level 3).

Estimating fair value requires the application of judgment. The type and level of judgment required is largely dependent on the amount of observable market information available to the Company. For instruments valued using internally developed valuation models and other valuation techniques that use significant unobservable inputs and are therefore classified within level 3 of the fair value hierarchy, judgments used to estimate fair value are more significant than those required when estimating the fair value of instruments classified within levels 1 and 2.

In arriving at an estimate of fair value for an instrument within level 3, management must first determine the appropriate valuation model or other valuation technique to use. Second, due to the lack of observability of significant inputs, management must assess relevant empirical data in deriving valuation inputs including transaction details, yield curves, interest rates, prepayment speed, default rates, volatilities, correlations, prices (such as commodity, equity or debt prices), valuations of comparable instruments, foreign exchange rates and credit curves.

The following table presents, as of June 30, 2021, the Company’s primary level 3 financial instruments, the valuation techniques used to measure the fair value of those financial instruments, the significant unobservable inputs, the range of values for those inputs and the weighted or arithmetic averages of such inputs. While the determination to classify an instrument within level 3 is based on the significance of the unobservable inputs to the overall fair value measurement, level 3 financial instruments typically include observable components (that is, components that are actively quoted and can be validated to external sources) in addition to the unobservable components. The level 1 and/or level 2 inputs are not included in the table. In addition, the Company manages the risk of the observable components of level 3 financial instruments using securities and derivative positions that are classified within levels 1 or 2 of the fair value hierarchy.

The range of values presented in the table is representative of the highest and lowest level input used to value the significant groups of instruments within a product/instrument classification. Where provided, the weighted averages of the input values presented in the table are calculated based on the fair value of the instruments that the input is being used to value.

In the Company’s view, the input range, weighted and arithmetic average values do not reflect the degree of input uncertainty or an assessment of the reasonableness of the Company’s estimates and assumptions. Rather, they reflect the characteristics of the various instruments held by the Company and the relative distribution of instruments within the range of characteristics. For example, two option contracts may have similar levels of market risk exposure and valuation uncertainty, but may have significantly different implied volatility levels because the option contracts have different underlyings, tenors, or strike prices. The input range and weighted average values will therefore vary from period-to-period and parameter-to-parameter based on the characteristics of the instruments held by the Company at each Consolidated Statement of Financial Condition date.

# J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

## Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

### Level 3 inputs<sup>(a)</sup>

Product/instrument	Fair value (in millions)	Principal valuation technique	Unobservable inputs <sup>(f)</sup>	Range of input values	Average <sup>(h)</sup>
Residential mortgage-backed securities <sup>(b)</sup>	\$ 18	Discounted cash flows	Yield	(3)% – 18%	1%
			Prepayment speed	1% – 30%	19%
			Conditional default rate	0% – 4%	1%
			Loss severity	(11)% – 100%	83%
Commercial mortgage-backed securities <sup>(c)</sup>	9	Market comparables	Price	\$0 – \$102	\$98
Corporate debt securities	10	Market comparables	Price	\$0 – \$99	\$48
Asset-backed securities	25	Market comparables	Price	\$0 – \$101	\$79
Net interest rate derivatives	56	Option pricing	Interest rate correlation	(65)% – 99%	36%
			IR-FX correlation	(35)% – 50%	(1)%
Net foreign exchange derivatives	84	Option pricing	IR-FX correlation	(40)% – 65%	19%
Net equity derivatives	(3,713)	Option pricing	Forward equity price <sup>(g)</sup>	89% – 109%	100%
			Equity volatility	6% – 146%	29%
			Equity correlation	27% – 100%	65%
			Equity-FX correlation	(80)% – 45%	(27)%
			Equity-IR correlation	15% – 30%	22%
Other debt and equity instruments <sup>(d)</sup>	685	Option pricing	Interest rate correlation	(65)% – 99%	36%
			IR-FX correlation	(35)% – 50%	(1)%
			Equity correlation	27% – 100%	65%
			Equity-FX correlation	(80)% – 45%	(27)%
			Equity-IR correlation	15% – 30%	22%
Short-term borrowings and long-term debt <sup>(d)</sup>	7,871	Option pricing	Interest rate correlation	(65)% – 99%	36%
			IR-FX correlation	(35)% – 50%	(1)%
			Equity correlation	27% – 100%	65%
			Equity-FX correlation	(80)% – 45%	(27)%
			Equity-IR correlation	15% – 30%	22%
Other level 3 assets and liabilities, net <sup>(e)</sup>	89				

(a) The categories presented in the table have been aggregated based upon the product type, which may differ from their classification on the Consolidated Statement of Financial Condition. Furthermore, the inputs presented for each valuation technique in the table are, in some cases, not applicable to every instrument valued using the technique as the characteristics of the instruments can differ.

(b) Comprises U.S. GSEs and government agency securities of \$12 million and nonagency securities of \$6 million.

(c) Represents nonagency securities.

(d) Other debt and equity instruments predominantly include structured notes issued by affiliates of the Company. Short-term borrowings and long-term debt include structured notes issued to affiliates of the Company. These structured notes are predominantly financial instruments that contain embedded derivatives. The estimate of the fair value of the structured notes includes the derivative features embedded within the instruments. The significant unobservable inputs are broadly consistent with those presented for derivatives.

(e) Includes level 3 assets and liabilities, which mostly represent equity securities that are insignificant both individually and in aggregate.

(f) Price is a significant unobservable input for certain instruments. When quoted market prices are not readily available, reliance is generally placed on price-based internal valuation techniques. The price input is expressed assuming a par value of \$100.

(g) Forward equity price is expressed as a percentage of the current equity price.

(h) Amounts represent weighted averages except for derivative related inputs where arithmetic averages are used.

### Changes in and ranges of unobservable inputs

The following discussion provides a description of the impact on a fair value measurement of a change in each unobservable input in isolation, and the interrelationship between unobservable inputs, where relevant and significant. The impact of changes in inputs may not be independent, as a change in one unobservable input may give rise to a change in another unobservable input. Where relationships do exist between two unobservable inputs, those relationships are discussed below. Relationships may also exist between observable and unobservable inputs (for example, as observable interest rates rise, unobservable prepayment rates decline); such relationships have not been included in the discussion below. In addition, for each of the individual relationships described below, the inverse relationship would also generally apply.

The following discussion also provides a description of attributes of the underlying instruments and external market factors that affect the range of inputs used in the valuation of the Company's positions.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

*Yield* - The yield of an asset is the interest rate used to discount future cash flows in a discounted cash flow calculation. An increase in the yield, in isolation, would result in a decrease in a fair value measurement.

The yield of a particular mortgage-backed security primarily reflects the risk inherent in the instrument. The yield is also impacted by the absolute level of the coupon paid by the instrument (which may not correspond directly to the level of inherent risk). Therefore, the range of the yield reflects the range of risk inherent in various instruments owned by the Company. The risk inherent in mortgage-backed securities is driven by the subordination of the security being valued and the characteristics of the underlying mortgages within the collateralized pool, including borrower Fair Isaac Corporation (“FICO”) scores, loan-to-value (“LTV”) ratios for residential mortgages and the nature of the property and/or any tenants for commercial mortgages.

*Prepayment speed* - The prepayment speed is a measure of the voluntary unscheduled principal repayments of a prepayable obligation in a collateralized pool. Prepayment speeds generally decline as borrower delinquencies rise. An increase in prepayment speeds, in isolation, would result in a decrease in a fair value measurement of assets valued at a premium to par and an increase in a fair value measurement of assets valued at a discount to par.

Prepayment speeds may vary from collateral pool to collateral pool, and are driven by the type and location of the underlying borrower, and the remaining tenor of the obligation as well as the level and type (e.g., fixed or floating) of interest rate being paid by the borrower. Typically collateral pools with higher borrower credit quality have a higher prepayment rate than those with lower borrower credit quality, all other factors being equal.

*Conditional default rate* - The conditional default rate is a measure of the reduction in the outstanding collateral balance underlying a collateralized obligation as a result of defaults. While there is typically no direct relationship between conditional default rates and prepayment speeds, collateralized obligations for which the underlying collateral has high prepayment speeds will tend to have lower conditional default rates. An increase in conditional default rates would generally be accompanied by an increase in loss severity and an increase in credit spreads. An increase in the conditional default rate, in isolation, would result in a decrease in a fair value measurement. Conditional default rates reflect the quality of the collateral underlying a securitization and the structure of the securitization itself. Based on the types of securities owned in the Company’s market-making portfolios, conditional default rates are most typically at the lower end of the range presented.

*Loss severity* - The loss severity (the inverse concept is the recovery rate) is the expected amount of future realized losses resulting from the ultimate liquidation of a particular loan, expressed as the net amount of loss relative to the outstanding loan balance. An increase in loss severity is generally accompanied by an increase in conditional default rates. An increase in the loss severity, in isolation, would result in a decrease in a fair value measurement.

The loss severity applied in valuing a mortgage-backed security investment depends on factors relating to the underlying mortgages, including the LTV ratio, the nature of the lender’s lien on the property and other instrument-specific factors.

*Correlation* - Correlation is a measure of the relationship between the movements of two variables. Correlation is a pricing input for a derivative product where the payoff is driven by one or more underlying risks. Correlation inputs are related to the type of derivative (e.g., interest rate, credit, equity, foreign exchange and commodity) due to the nature of the underlying risks. When parameters are positively correlated, an increase in one parameter will result in an increase in the other parameter. When parameters are negatively correlated, an increase in one parameter will result in a decrease in the other parameter. An increase in correlation can result in an increase or a decrease in a fair value measurement. Given a short correlation position, an increase in correlation, in isolation, would generally result in a decrease in a fair value measurement.

The level of correlation used in the valuation of derivatives with multiple underlying risks depends on a number of factors including the nature of those risks. For example, the correlation between two credit risk exposures would be different than that between two interest rate risk exposures. Similarly, the tenor of the transaction may also impact the correlation input, as the relationship between the underlying risks may be different over different time periods. Furthermore, correlation levels are very much dependent on market conditions and could have a relatively wide range of levels within or across asset classes over time, particularly in volatile market conditions.

*Volatility* - Volatility is a measure of the variability in possible returns for an instrument, parameter or market index given how much the particular instrument, parameter or index changes in value over time. Volatility is a pricing input for options, including equity options, commodity options, and interest rate options. Generally, the higher the volatility of the underlying,



## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

the riskier the instrument. Given a long position in an option, an increase in volatility, in isolation, would generally result in an increase in a fair value measurement.

The level of volatility used in the valuation of a particular option-based derivative depends on a number of factors, including the nature of the risk underlying the option (e.g., the volatility of a particular equity security may be significantly different from that of a particular commodity index), the tenor of the derivative as well as the strike price of the option.

*Forward price* - Forward price is the price at which the buyer agrees to purchase the asset underlying a forward contract on the predetermined future delivery date, and is such that the value of the contract is zero at inception.

The forward price is used as an input in the valuation of certain derivatives and depends on a number of factors including interest rates, the current price of the underlying asset, and the expected income to be received and costs to be incurred by the seller as a result of holding that asset until the delivery date. An increase in the forward can result in an increase or a decrease in a fair value measurement.

#### **Transfers between levels for instruments carried at fair value on a recurring basis**

During the six months ended June 30, 2021, significant transfers from level 2 into level 3 included the following:

- \$192 million of gross equity derivative receivables and \$375 million of gross equity derivative payables as a result of a decrease in observability and an increase in the significance of unobservable inputs.

During the six months ended June 30, 2021, significant transfers from level 3 into level 2 included the following:

- \$895 million of gross equity derivative receivables and \$451 million of gross equity derivative payables as a result of an increase in observability and a decrease in the significance of unobservable inputs.

All transfers are based on changes in the observability and/or significance of the valuation inputs and are assumed to occur at the beginning of the quarterly period in which they occur.

#### **Additional disclosures about the fair value of financial instruments that are not carried on the Consolidated Statement of Financial Condition at fair value**

U.S. GAAP requires disclosure of the estimated fair value of certain financial instruments, which are included in the following table. Certain financial instruments that are not carried at fair value on the Consolidated Statement of Financial Condition are carried at amounts that approximate fair value, due to their short-term nature and generally negligible credit risk. These instruments include cash, securities borrowed, receivables from customers and from brokers, dealers, clearing organizations and others, other assets, short-term borrowings, securities sold under repurchase agreements, securities loaned, payables to customers and to brokers, dealers, clearing organizations and others, and other liabilities and accrued expenses.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

The following table presents by fair value hierarchy classification the carrying values and estimated fair values as of June 30, 2021, of financial assets and liabilities, excluding financial instruments that are carried at fair value on a recurring basis, and their classification within the fair value hierarchy.

(in millions)	Carrying value	Estimated fair value hierarchy			Total estimated fair value
		Level 1	Level 2	Level 3	
<b>Financial assets</b>					
Cash <sup>(a)</sup>	\$ 6,327	\$ 6,327	\$ –	\$ –	\$ 6,327
Securities borrowed	100,433	–	100,433	–	100,433
Receivables from customers	52,398	–	52,398	–	52,398
Receivables from brokers, dealers, clearing organizations and others <sup>(a)</sup>	51,826	–	51,826	–	51,826
Other assets	3,506	10	3,505	6	3,521
<b>Financial liabilities</b>					
Short-term borrowings	\$ 47,362	\$ –	\$ 47,362	\$ –	\$ 47,362
Securities sold under repurchase agreements	100,825	–	100,825	–	100,825
Securities loaned	5,654	–	5,654	–	5,654
Payables to customers	116,041	–	116,039	2	116,041
Payables to brokers, dealers, clearing organizations and others	15,142	–	15,138	4	15,142
Other liabilities and accrued expenses	3,110	–	3,110	–	3,110
Beneficial interests issued by consolidated VIEs	19	–	19	–	19
Subordinated borrowings	29,000	–	29,247	–	29,247

(a) Includes cash that was segregated to satisfy CFTC rules regarding the protection of assets of customers. Refer to Note 14 for further information.

#### 4. Fair value option

The fair value option provides an option to elect fair value as an alternative measurement for selected financial assets, financial liabilities and unrecognized firm commitments.

The Company has elected to measure certain instruments at fair value for several reasons, including to mitigate income statement volatility caused by the differences in the measurement basis of elected instruments (e.g., certain instruments that otherwise would be accounted for on an accrual basis) while the associated risk management arrangements are accounted for on a fair value basis, as well as to better reflect those instruments that are managed on a fair value basis.

The Company's election of fair value includes the following instruments:

- Loans managed on a fair value basis.
- Certain securities financing agreements.
- Certain debt and equity investments to better reflect those which are managed on a fair value basis.
- Structured notes, which are predominantly financial instruments that contain embedded derivatives.
- Certain long-term beneficial interests issued by consolidated securitization trusts where the underlying assets are carried at fair value.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

#### Difference between aggregate fair value and aggregate remaining contractual principal balance outstanding

The following table reflects the difference between the aggregate fair value and the aggregate remaining contractual principal balance outstanding as of June 30, 2021, for loans reported as financial instruments owned and long-term debt for which the fair value option has been elected.

(in millions)	Contractual principal outstanding	Fair value	Fair value over/ (under) contractual principal outstanding
<b>Loans reported as financial instruments owned</b>	<b>\$ 39</b>	<b>\$ 36</b>	<b>\$ (3)</b>
Long-term debt			
Principal-protected debt	\$ 1,063 <sup>(b)</sup>	\$ 1,299	\$ 236
Nonprincipal-protected debt <sup>(a)</sup>	NA	15,831	NA
<b>Total long-term debt</b>	<b>NA</b>	<b>\$ 17,130</b>	<b>NA</b>
Long-term beneficial interests issued by consolidated VIEs			
Nonprincipal-protected debt <sup>(a)</sup>	NA	\$ 26	NA
<b>Total long-term beneficial interests issued by consolidated VIEs</b>	<b>NA</b>	<b>\$ 26</b>	<b>NA</b>

(a) Remaining contractual principal is not applicable to nonprincipal-protected notes. Unlike principal-protected structured notes, for which the Company is obligated to return a stated amount of principal at the maturity of the note, nonprincipal-protected structured notes do not obligate the Company to return a stated amount of principal at maturity, but to return an amount based on the performance of an underlying variable or derivative feature embedded in the note. However, investors are exposed to the credit risk of the Company as issuer for both nonprincipal-protected and principal-protected notes.

(b) Where the Company issues principal-protected zero-coupon or discount notes, the balance reflects the contractual principal payment at maturity or, if applicable, the contractual principal payment at the Company's next call date.

## 5. Customer activities

### Customer credit risks

The Company's activities for both clearing clients and customers, including affiliates (collectively "customers"), involve the execution, settlement and financing of customers' securities and derivative transactions. Derivative transactions primarily include futures, swaps, forwards, options and various structured products. The Company provides the ability for customers to execute and settle securities and derivative transactions on listed exchanges, as well as in the OTC markets. Securities and derivative transactions may be settled on a cash basis or financed on a margin basis. The collateral requirements on a margin loan are established based on either regulatory guidelines or internal risk-based requirements for clients that use leverage products offered by the Company.

In connection with certain customer activities, the Company executes and settles customer transactions involving the short sale of securities ("short sales"). When a customer sells a security short, the Company may be required to borrow securities to settle a customer short sale transaction and, as such, these transactions may expose the Company to a potential loss if customers are unable to fulfill their contractual obligations and customers' collateral balances are insufficient to fully cover their losses. In the event customers fail to satisfy their obligations, the Company may be required to purchase financial instruments at prevailing market prices to fulfill the customers' obligations.

It is the policy of the Company to mitigate the risks associated with its customers' activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels and, pursuant to such guidelines, may require customers to deposit additional cash or other collateral, or to reduce positions, when deemed necessary. These transactions may expose the Company to a potential loss if customers are unable to fulfill their contractual obligations and customers' collateral balances are insufficient to fully cover their losses. The Company also establishes credit limits for customers and monitors compliance with such credit limits. Additional collateral is obtained when necessary. To further control these risks, the Company has developed automated risk control systems that analyze the customers' sensitivity to major market movements. The Company will require customers to deposit additional margin collateral, or reduce positions, if it is determined that customers' activities may be subject to elevated market risk. Additionally, with respect to the Company's correspondent clearing activities, introducing correspondent firms generally guarantee the contractual obligations of their customers. Further, it is the standard practice of the Company to reduce credit risk by entering into legally enforceable master netting agreements with customers, which permit receivables and payables with such customers to be offset in the event of a customer default.

## **J.P. Morgan Securities LLC and Subsidiaries**

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### **Notes to Consolidated Statement of Financial Condition**

**June 30, 2021 (unaudited)**

In connection with the Company's customer financing and securities settlement activities, the Company may pledge customers' securities as collateral to satisfy the Company's margin deposit requirements with exchanges or to support its various secured financing sources such as securities borrowings, securities loaned and repurchase agreements. In the event counterparties are unable to meet their contractual obligations to return customers' securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices to satisfy its obligations to such customers. The Company seeks to control this risk by monitoring the market values of securities pledged and by requiring adjustments of collateral levels in the event of excess exposure. Moreover, the Company establishes credit limits for such activities and monitors compliance with such credit limits.

#### **Concentrations of credit risks**

The Company is engaged in providing securities processing services to a diverse group of individuals and institutional investors, including affiliates. A substantial portion of the Company's transactions are collateralized and may be executed with, or made on behalf of, institutional investors, including other brokers and dealers, commercial banks, insurance companies, pension plans, mutual funds, hedge funds and other financial institutions. The Company's exposure to credit risk associated with the nonperformance of customers in fulfilling their contractual obligations pursuant to securities and derivative transactions can be directly affected by volatile or illiquid trading markets, which may impair customers' ability to satisfy their obligations to the Company. The Company attempts to minimize credit risk associated with these activities by monitoring customers' credit exposure and collateral values and requiring, when deemed necessary, additional collateral to be deposited with the Company.

A significant portion of the Company's securities processing activities include clearing and settling transactions for hedge funds and other professional traders, including affiliates. Due to the nature of these operations, which may include significant levels of credit extension such as leveraged purchases, short selling and option writing, the Company may have significant credit exposure should these customers be unable to meet their commitments. In addition, the Company may be subject to concentration risk through providing margin to those customers holding large positions in certain types of securities, securities of a single issuer, including sovereign governments, issuers located in a particular country or geographic area or issuers engaged in a particular industry, where the Company receives such large positions as collateral. The Company seeks to control these risks by monitoring for concentration.

The Company acts as a clearing broker for securities and futures and options activities of certain affiliates on either a fully disclosed or omnibus basis. Such activities are conducted on either a cash or margin basis. The Company requires its affiliates to maintain margin collateral in compliance with various regulatory guidelines. The Company monitors required margin levels and requests additional collateral when deemed appropriate.

#### **6. Derivative instruments**

Derivative contracts derive their value from underlying asset prices, indices, reference rates, other inputs or a combination of these factors and may expose counterparties to risks and rewards of an underlying asset or liability without having to initially invest in, own or exchange the asset or liability. The Company makes markets in derivatives for clients and also uses derivatives to hedge or manage either its own risk exposures or that of affiliates. Predominantly all of the Company's derivatives are entered into for market-making or risk management purposes.

##### ***Market-making derivatives***

Clients use derivatives to mitigate or modify interest rate, credit, foreign exchange, equity and commodity risks. The Company actively manages the risks from its exposure to these derivatives by entering into other derivative contracts or by purchasing or selling other financial instruments that partially or fully offset the exposure from client derivatives.

##### ***Risk management derivatives***

The Company manages certain market and credit risk exposures using derivative instruments.

The Company generally uses interest rate derivatives to manage the risk associated with changes in interest rates. Fixed-rate assets and liabilities appreciate or depreciate in market value as interest rates change.

Foreign currency derivatives are used to manage the foreign exchange risk associated with certain foreign currency-denominated (i.e., non-U.S. dollar) assets and liabilities. As a result of fluctuations in foreign currencies, the U.S. dollar-equivalent values of the foreign currency-denominated assets and liabilities increase or decrease.

Commodity derivatives are used to manage the price risk of certain commodities-linked exchange-traded funds ("ETFs").

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

Credit derivatives are used to manage the counterparty credit risk associated with debt-related securities. Credit derivatives compensate the purchaser when the entity referenced in the contract experiences a credit event, such as bankruptcy or a failure to pay an obligation when due. Credit derivatives primarily consist of CDS.

#### **Derivative counterparties and settlement types**

The Company enters into OTC derivatives, which are negotiated and settled bilaterally with the derivative counterparty. The Company also enters into, as principal, certain exchange-traded derivatives (“ETDs”) such as futures and options, and cleared over-the-counter (“OTC-cleared”) derivative contracts with central counterparties (“CCPs”). ETD contracts are generally standardized contracts traded on an exchange and cleared by the CCP, which is the counterparty from the inception of the transactions. OTC-cleared derivatives are traded on a bilateral basis and then novated to the CCP for clearing.

#### **Derivative clearing services**

The Company provides clearing services for clients in which the Company acts as a clearing member at certain exchanges and clearing houses. The Company does not reflect the clients’ derivative contracts on its Consolidated Statement of Financial Condition. Refer to Note 15 for further information on the Company’s clearing services.

#### **Accounting for derivatives**

All free-standing derivatives that the Company executes for its own account are required to be recorded on the Consolidated Statement of Financial Condition at fair value. As permitted under U.S. GAAP, the Company nets derivative assets and liabilities, and the related cash collateral receivables and payables, when a legally enforceable master netting agreement exists between the Company and the derivative counterparty. The accounting for changes in value of a derivative depends on whether or not the transaction has been designated and qualifies for hedge accounting. Derivatives that are not designated as hedges are reported and measured at fair value through earnings. The Company does not have any derivatives that are designated as hedges.

#### **Notional amount of derivative contracts**

The following table summarizes the notional amount of derivative contracts outstanding as of June 30, 2021.

(in millions)	Notional amounts <sup>(b)</sup>
<b>Interest rate contracts</b>	
Swaps	\$ 395,128
Futures and forwards	644,712
Written options	2,307
Purchased options	5,705
<b>Total interest rate contracts</b>	<b>1,047,852</b>
<b>Credit derivatives<sup>(a)</sup></b>	<b>29,889</b>
<b>Foreign exchange contracts</b>	
Cross-currency swaps	1,260
Spot, futures and forwards	31,016
Written options	26
Purchased options	15
<b>Total foreign exchange contracts</b>	<b>32,317</b>
<b>Equity contracts</b>	
Swaps	212,156
Futures and forwards	78,038
Written options	404,635
Purchased options	357,820
<b>Total equity contracts</b>	<b>1,052,649</b>
<b>Commodity contracts</b>	
Spot, futures and forwards	275
Written options	4,575
Purchased options	8,944
<b>Total commodity contracts</b>	<b>13,794</b>
<b>Total derivative notional amounts</b>	<b>\$ 2,176,501</b>

(a) Refer to the Credit derivatives discussion in this Note for more information on volumes and types of credit derivative contracts.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

(b) Represents the sum of gross long and gross short notional derivative contracts with third-parties and affiliates.

While the notional amounts disclosed above give an indication of the volume of the Company's derivative activity, the notional amounts significantly exceed, in the Company's view, the possible losses that could arise from such transactions. For most derivative contracts, the notional amount is not exchanged; it is simply a reference amount used to calculate payments.

#### Impact of derivatives on the Consolidated Statement of Financial Condition

The following table summarizes information on derivative receivables and payables (before and after netting adjustments) that are reflected on the Company's Consolidated Statement of Financial Condition as of June 30, 2021, by contract type. This includes derivative receivables and payables with affiliates. Refer to Note 13 for further information on derivative balances with affiliates.

#### Derivative receivables and payables<sup>(a)</sup>

(in millions)	Gross derivative receivables	Net derivative receivables <sup>(b)</sup>	Gross derivative payables	Net derivative payables <sup>(b)</sup>
<b>Financial instruments owned and financial instruments sold, not yet purchased</b>				
Interest rate	\$ 5,849	\$ 228	\$ 6,132	\$ 405
Credit	1,151	240	1,031	46
Foreign exchange	267	29	364	103
Equity	44,016	362	55,133	6,953
Commodity	301	—	349	—
<b>Total fair value of financial instruments owned and financial instruments sold, not yet purchased</b>	<b>\$ 51,584</b>	<b>\$ 859</b>	<b>\$ 63,009</b>	<b>\$ 7,507</b>

(a) Balances exclude structured notes for which the fair value option has been elected. Refer to Note 4 for further information.

(b) As permitted under U.S. GAAP, the Company has elected to net derivative receivables and derivative payables and the related cash collateral receivables and payables when a legally enforceable master netting agreement exists.

#### Derivatives netting

The following table presents, as of June 30, 2021, gross and net derivative receivables and payables by contract and settlement type under U.S. GAAP. Derivative receivables and payables, as well as the related cash collateral from the same counterparty have been netted on the Consolidated Statement of Financial Condition where the Company has obtained an appropriate legal opinion with respect to the master netting agreement. Where such a legal opinion has not been either sought or obtained, amounts are not eligible under U.S. GAAP for netting on the Consolidated Statement of Financial Condition, and those derivative receivables and payables are shown separately in the following table.

In addition to the cash collateral received and transferred that is presented on a net basis with derivative receivables and payables, the Company receives and transfers additional collateral (financial instruments and cash). These amounts mitigate counterparty credit risk associated with the Company's derivative instruments, but are not eligible for net presentation:

- collateral that consists of certain liquid securities and other cash collateral held at third-party custodians, which are shown separately as "Collateral not nettable on the Consolidated Statement of Financial Condition" in the table below, up to the fair value exposure amount;
- the amount of collateral held or transferred exceeds the fair value exposure at the individual counterparty level, as of the date presented, which is excluded from the table below; and
- collateral held or transferred that relates to derivative receivables or payables where an appropriate legal opinion has not been either sought or obtained with respect to the master netting agreement, which is excluded from the table below.

**Notes to Consolidated Statement of Financial Condition**  
**June 30, 2021 (unaudited)**

(in millions)	Derivative receivables			Derivative payables		
	Gross derivatives	Amounts netted on the Consolidated Statement of Financial Condition	Net derivatives	Gross derivatives	Amounts netted on the Consolidated Statement of Financial Condition	Net derivatives
<b>U.S. GAAP nettable derivatives</b>						
<b>Interest rate contracts:</b>						
OTC	\$ 5,364	\$ (5,320)	\$ 44	\$ 5,477	\$ (5,426)	\$ 51
OTC-cleared	340	(300)	40	301	(300)	1
Exchange-traded <sup>(a)</sup>	1	(1)	–	2	(1)	1
<b>Total interest rate contracts</b>	<b>5,705</b>	<b>(5,621)</b>	<b>84</b>	<b>5,780</b>	<b>(5,727)</b>	<b>53</b>
<b>Credit contracts:</b>						
OTC	1,128	(911)	217	1,028	(985)	43
<b>Total credit contracts</b>	<b>1,128</b>	<b>(911)</b>	<b>217</b>	<b>1,028</b>	<b>(985)</b>	<b>43</b>
<b>Foreign exchange contracts:</b>						
OTC	258	(238)	20	308	(261)	47
<b>Total foreign exchange contracts</b>	<b>258</b>	<b>(238)</b>	<b>20</b>	<b>308</b>	<b>(261)</b>	<b>47</b>
<b>Equity contracts:</b>						
OTC	24,131	(23,771)	360	29,194	(28,297)	897
Exchange-traded <sup>(a)</sup>	19,885	(19,883)	2	25,939	(19,883)	6,056
<b>Total equity contracts</b>	<b>44,016</b>	<b>(43,654)</b>	<b>362</b>	<b>55,133</b>	<b>(48,180)</b>	<b>6,953</b>
<b>Commodity contracts:</b>						
OTC	301	(301)	–	349	(349)	–
<b>Total commodity contracts</b>	<b>301</b>	<b>(301)</b>	<b>–</b>	<b>349</b>	<b>(349)</b>	<b>–</b>
<b>Derivatives with appropriate legal opinion</b>	<b>51,408</b>	<b>(50,725)</b>	<b>683</b> <sup>(d)</sup>	<b>62,598</b>	<b>(55,502)</b>	<b>7,096</b> <sup>(d)</sup>
<b>Derivatives where an appropriate legal opinion has not been either sought or obtained</b>	<b>176</b>		<b>176</b>	<b>411</b>		<b>411</b>
<b>Total derivatives recognized on the Consolidated Statement of Financial Condition</b>	<b>\$ 51,584</b>		<b>\$ 859</b>	<b>\$ 63,009</b>		<b>\$ 7,507</b>
<b>Collateral not nettable on the Consolidated Statement of Financial Condition</b> <sup>(b)(c)</sup>			<b>(213)</b>			<b>–</b>
<b>Net amounts</b>			<b>\$ 646</b>			<b>\$ 7,507</b>

(a) Exchange-traded derivative balances that relate to futures contracts are settled daily.

(b) Includes certain liquid securities and other cash collateral held at third-party custodians related to derivative instruments where an appropriate legal opinion has been obtained. For some counterparties, the collateral amounts of financial instruments may exceed the derivative receivable and derivative payable balances. Where this is the case the total amount reported is limited to the net derivative receivable and net derivative payable balances with that counterparty.

(c) Derivative collateral relates only to OTC and OTC-cleared derivative instruments.

(d) Net derivative receivables included cash collateral netted of \$708 million and net derivative payables included cash collateral netted of \$5.5 billion. Derivative cash collateral relates to OTC and OTC-cleared derivative instruments.

**Liquidity risk and credit-related contingent features**

In addition to the specific market risks introduced by each derivative contract type, derivatives expose the Company to credit risk – the risk that derivative counterparties may fail to meet their payment obligations under the derivative contracts and the collateral, if any, held by the Company proves to be of insufficient value to cover the payment obligation. It is the policy of the Company to actively pursue, where possible, the use of legally enforceable master netting arrangements and collateral agreements to mitigate derivative counterparty credit risk inherent in derivative receivables.

## **J.P. Morgan Securities LLC and Subsidiaries**

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### **Notes to Consolidated Statement of Financial Condition**

**June 30, 2021 (unaudited)**

While derivative receivables expose the Company to credit risk, derivative payables expose the Company to liquidity risk, as the derivative contracts typically require the Company to post cash or securities collateral with counterparties as the fair value of the contracts moves in the counterparties' favor. Where the Company has legally enforceable master netting agreements and margin agreements with its affiliates, any associated derivatives are marked to market daily and the fair value of the related collateral is monitored with margin calls made daily between the Company and the affiliates.

The aggregate fair value of net derivative payables that contain contingent collateral or termination features that may be triggered upon a ratings downgrade of the Company or its affiliates at June 30, 2021, was not material.

#### **Credit derivatives**

Credit derivatives are financial instruments whose value is derived from the credit risk associated with the debt of a third-party issuer (the reference entity) and which allow one party (the protection purchaser) to transfer that risk to another party (the protection seller). Credit derivatives expose the protection purchaser to the creditworthiness of the protection seller, as the protection seller is required to make payments under the contract when the reference entity experiences a credit event, such as a bankruptcy, a failure to pay its obligation or a restructuring. The seller of credit protection receives a premium for providing protection but has the risk that the underlying instrument referenced in the contract will be subject to a credit event.

The Company is both a purchaser and seller of protection in the credit derivatives market. The Company uses credit derivatives primarily to manage the credit risk arising from certain financial instruments including corporate debt securities and mortgage-backed securities in the Company's market-making businesses. Additionally, the Company enters into derivative transactions in its capacity as a market-maker.

#### **Credit default swaps**

Credit derivatives may reference the credit of either a single reference entity ("single-name") or a broad-based index. The Company purchases and sells protection on both single-name and index-reference obligations. Single-name CDS and index CDS contracts are either OTC or OTC-cleared derivative contracts. Single-name CDS are used to manage the default risk of a single reference entity, while index CDS contracts are used to manage the credit risk associated with the broader credit markets or credit market segments. Like the S&P 500 and other market indices, a CDS index consists of a portfolio of CDS across many reference entities. New series of CDS indices are periodically established with a new underlying portfolio of reference entities to reflect changes in the credit markets. If one of the reference entities in the index experiences a credit event, then the reference entity that defaulted is removed from the index. CDS can also be referenced against specific portfolios of reference names or against customized exposure levels based on specific client demands: for example, to provide protection against the first \$1 million of realized credit losses in a \$10 million portfolio of exposure. Such structures are commonly known as tranche CDS.

For both single-name CDS contracts and index CDS contracts, upon the occurrence of a credit event, under the terms of a CDS contract neither party to the CDS contract has recourse to the reference entity. The protection purchaser has recourse to the protection seller for the difference between the face value of the CDS contract and the fair value of the reference obligation at settlement of the credit derivative contract, also known as the recovery value. The protection purchaser does not need to hold the debt instrument of the underlying reference entity in order to receive amounts due under the CDS contract when a credit event occurs.

The following table presents a summary of the notional amounts of credit derivatives the Company sold and purchased as of June 30, 2021.

The Company does not use notional amounts of credit derivatives as the primary measure of risk management for such derivatives because the notional amount does not take into account the probability of occurrence of a credit event, the recovery value of the reference obligation, or related cash instruments and economic hedges, each of which reduces, in the Company's view, the risk associated with such derivatives.



## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

#### Total credit derivatives

(in millions)	Maximum payout/Notional amount		
	Protection sold	Purchased protection with identical underlyings <sup>(b)</sup>	Net protection purchased <sup>(c)</sup>
<b>Credit derivatives</b>			
Credit default swaps	\$ (10,102)	\$ 11,056	\$ 954
Other credit derivatives <sup>(a)</sup>	–	8,731	8,731
<b>Total</b>	<b>\$ (10,102)</b>	<b>\$ 19,787</b>	<b>\$ 9,685</b>

(a) Represents total return swaps with affiliates.

(b) Represents the notional amount of protection purchased where the underlying reference instrument is identical to the reference instrument on protection sold; the notional amount of protection purchased for each individual identical underlying reference instrument may be greater or lower than the notional amount of protection sold.

(c) Does not take into account the fair value of the reference obligation at the time of settlement, which would generally reduce the amount the seller of protection pays to the buyer of protection in determining settlement value.

The following table summarizes the notional amounts by the ratings, maturity profile and total fair value of credit derivatives as of June 30, 2021 where the Company is the seller of protection. The maturity profile is based on the remaining contractual maturity of the credit derivative contracts. The ratings profile is based on the rating of the reference entity on which the credit derivative contract is based. The ratings and maturity profile of credit derivatives where the Company is the purchaser of protection are comparable to the profile reflected below.

#### Protection sold – credit derivatives ratings<sup>(a)</sup>/maturity profile

(in millions)	Under 1 year	1 - 5 years	After 5 years	Total notional amount	Fair value receivables <sup>(b)</sup>	Fair value payables <sup>(b)</sup>	Net fair value
<b>Risk rating of reference entity</b>							
Investment-grade	\$ –	\$ (7)	\$ (5,766)	\$ (5,773)	\$ 42	\$ (170)	\$ (128)
Noninvestment-grade	(1)	–	(4,328)	(4,329)	2	(785)	(783)
<b>Total</b>	<b>\$ (1)</b>	<b>\$ (7)</b>	<b>\$ (10,094)</b>	<b>\$ (10,102)</b>	<b>\$ 44</b>	<b>\$ (955)</b>	<b>\$ (911)</b>

(a) The ratings scale is primarily based on external credit ratings defined by S&P and Moody's.

(b) Amounts are shown on a gross basis, before the benefit of legally enforceable master netting agreements including cash collateral netting.

## 7. Employee benefits and compensation

The Company's employees participate, to the extent they meet eligibility requirements, in various benefit plans sponsored by JPMorgan Chase and its affiliates. The following is a discussion of JPMorgan Chase's significant benefit plans.

### Pension and other postretirement employee benefits

JPMorgan Chase and its affiliates have various defined benefit pension plans and other postretirement employee benefit ("OPEB") plans that provide benefits to the Company's employees that include a qualified noncontributory U.S. defined benefit pension plan sponsored by JPMorgan Chase Bank, National Association (the "Plan"), and a U.S. defined contribution plan. JPMorgan Chase has frozen the Plan which was overfunded as of December 31, 2020. Interest credits on the U.S. defined benefit pension plan continue to accrue for participants in the Plan.

In addition, postretirement medical and life insurance benefits are offered to certain retirees, and postretirement medical benefits are offered to qualifying U.S. employees, through JPMorgan Chase's U.S. OPEB plans, which have been prefunded by JPMorgan Chase. There are no separate plans solely for employees of the Company and, therefore, pension expense, defined contribution expense and OPEB expense for the Company is determined based upon employee participation in these plans and are recorded through an intercompany charge, which is settled in cash monthly.

### Employee share-based awards

Certain employees of the Company participate in JPMorgan Chase's long-term share-based incentive plans, which provide for grants of common stock-based awards, including restricted stock units ("RSUs"), performance share units ("PSUs"), stock appreciation rights ("SARs") and stock options. Employees receive annual incentive compensation based on their performance, the performance of their business and JPMorgan Chase's consolidated operating results.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

During the six months ended June 30, 2021, in connection with its annual incentive grant for the 2020 performance year, JPMorgan Chase granted employees of the Company 5 million RSUs and 33 thousand PSUs with weighted-average grant date fair values of \$139.18 per RSU and \$139.26 per PSU.

#### 8. Securities financing activities

The Company enters into resale, repurchase, securities borrowed and securities loaned agreements primarily to finance the Company's inventory positions, acquire securities to cover short sales, accommodate customers' financing needs, settle other securities obligations and to deploy excess cash.

Securities financing agreements are treated as collateralized financings on the Company's Consolidated Statement of Financial Condition. Where appropriate under applicable accounting guidance, securities financing agreements with the same counterparty are reported on a net basis. Refer to Note 2 for further discussion of the offsetting of assets and liabilities.

The Company has elected the fair value option for certain securities financing agreements. Refer to Note 4 for further information regarding the fair value option. The securities financing agreements for which the fair value option has been elected are reported within securities purchased under resale agreements, securities loaned or sold under repurchase agreements, and securities borrowed on the Consolidated Statement of Financial Condition.

Securities financing agreements not elected under the fair value option are measured at amortized cost. As a result of the Company's credit risk mitigation practices described below, the Company did not hold any allowance for credit losses with respect to resale and securities borrowed arrangements as of June 30, 2021.

##### Credit risk mitigation practices

Securities financing agreements expose the Company primarily to credit and liquidity risk. To manage these risks, the Company monitors the value of the underlying securities (predominantly high-quality securities collateral, including government-issued debt and U.S. GSEs and government agency mortgage-backed securities) that it has received from or provided to its counterparties compared to the value of cash proceeds and exchanged collateral, and either requests additional collateral or returns securities or collateral when appropriate. Margin levels are initially established based upon the counterparty, the type of underlying securities, and the permissible collateral, and are monitored on an ongoing basis.

In resale and securities borrowed agreements, the Company is exposed to credit risk to the extent that the value of the securities received is less than initial cash principal advanced and any collateral amounts exchanged. In repurchase and securities loaned agreements, credit risk exposure arises to the extent that the value of underlying securities advanced exceeds the value of the initial cash principal received, and any collateral amounts exchanged.

Additionally, the Company typically enters into master netting agreements and other similar arrangements with its counterparties, which provide for the right to liquidate the underlying securities and any collateral amounts exchanged in the event of a counterparty default. It is also the Company's policy to take possession, where possible, of the securities underlying resale and securities borrowed agreements. Refer to Note 15 for further information regarding assets pledged and collateral received in securities financing agreements.

The table below summarizes the gross and net amounts of the Company's securities financing agreements as of June 30, 2021. When the Company has obtained an appropriate legal opinion with respect to a master netting agreement with a counterparty and where other relevant netting criteria under U.S. GAAP are met, the Company nets, on the Consolidated Statement of Financial Condition, the balances outstanding under its securities financing agreements with the same counterparty. In addition, the Company exchanges securities and/or cash collateral with its counterparty to reduce the economic exposure with the counterparty, but such collateral is not eligible for net Consolidated Statement of Financial Condition presentation. Where the Company has obtained an appropriate legal opinion with respect to the counterparty master netting agreement, such collateral, along with securities financing balances that do not meet all these relevant netting criteria under U.S. GAAP, is presented in the table below as "Amounts not nettable on the Consolidated Statement of Financial Condition" and reduces the "Net amounts" presented. Where a legal opinion has not been either sought or obtained, the securities financing balances are presented gross in the "Net amounts" below.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

(in millions)	Gross amounts	Amounts netted on the Consolidated Statement of Financial Condition	Amounts presented on the Consolidated Statement of Financial Condition	Amounts not nettable on the Consolidated Statement of Financial Condition <sup>(c)</sup>	Net amounts <sup>(d)</sup>
<b>Assets</b>					
Securities purchased under resale agreements <sup>(a)</sup>	\$ 354,870	\$ (215,040)	\$ 139,830	\$ (138,032)	\$ 1,798
Securities borrowed	148,689	(224)	148,465	(101,149)	47,316
<b>Liabilities</b>					
Securities sold under repurchase agreements	\$ 469,722	\$ (215,040)	\$ 254,682	\$ (228,525)	\$ 26,157
Securities loaned	5,939	(224)	5,715	(5,294)	421
Obligation to return securities received as collateral <sup>(b)</sup>	45,293	—	45,293	(45,293)	—

(a) Includes securities that were segregated to satisfy SEC rules regarding the protection of assets of customers. Refer to Note 14 for further information.

(b) Represents securities-for-securities lending transactions when the Company is acting as the lender with the corresponding asset recognized as securities received as collateral, at fair value on the Consolidated Statement of Financial Condition.

(c) In some cases, collateral exchanged with a counterparty exceeds the net asset or liability balance with that counterparty. In such cases, the amounts reported in this column are limited to the related asset or liability with that counterparty.

(d) Includes securities financing agreements that provide collateral rights, but where an appropriate legal opinion with respect to the master netting agreement has not been either sought or obtained. At June 30, 2021, included \$1.0 billion of securities purchased under resale agreements; \$44.6 billion of securities borrowed; \$20.7 billion of securities sold under repurchase agreements; and \$37 million of securities loaned.

The following tables present, as of June 30, 2021, the types of financial assets pledged in securities financing agreements and the remaining contractual maturity of the securities financing agreements.

(in millions)	Gross liability balance		
	Securities sold under repurchase agreements	Securities loaned	Obligation to return securities received as collateral <sup>(a)</sup>
<b>Mortgage-backed securities</b>			
U.S. GSEs and government agencies	\$ 27,329	\$ —	\$ —
Residential - nonagency	588	—	—
Commercial - nonagency	1,546	—	—
U.S. Treasury, GSEs and government agencies	366,466	47	—
Obligations of U.S. states and municipalities	1,211	—	—
Non-U.S. government debt securities	901	1	14
Corporate debt securities	31,396	336	1,587
Equity securities	39,475	5,553	43,692
Asset-backed securities	810	2	—
<b>Total</b>	<b>\$ 469,722</b>	<b>\$ 5,939</b>	<b>\$ 45,293</b>

(in millions)	Remaining contractual maturity of the agreements				
	Overnight and continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Securities sold under repurchase agreements	\$ 223,006	\$ 117,581	\$ 78,289	\$ 50,846	\$ 469,722
Securities loaned	4,746	192	1,001	—	5,939
Obligation to return securities received as collateral <sup>(a)</sup>	45,293	—	—	—	45,293

(a) Represents securities-for-securities lending transactions when the Company is acting as the lender with the corresponding asset recognized as securities received as collateral, at fair value on the Consolidated Statement of Financial Condition.

#### 9. Variable interest entities

For a further description of the Company's accounting policies regarding consolidation of VIEs, refer to Note 2.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

This Note summarizes the most significant types of JPMorgan Chase-sponsored VIEs. JPMorgan Chase considers a “sponsored” VIE to include any entity where: (1) JPMorgan Chase is the primary beneficiary of the structure; (2) the VIE is used by JPMorgan Chase to securitize its assets; (3) the VIE issues financial instruments with the JPMorgan Chase name; or (4) the entity is a JPMorgan Chase-administered asset-backed commercial paper conduit.

#### Mortgage and other securitization trusts

The Company engages in underwriting and trading activities involving securities issued by JPMorgan Chase-sponsored securitization trusts. As a result, the Company at times retains senior and/or subordinated interests (including residual interests) in residential and commercial mortgage securitizations upon securitization, and/or reacquires positions in the secondary market in the normal course of business. In certain instances as a result of the positions retained or reacquired, when considered together with the power to direct the activities of the VIEs, the Company is deemed to be the primary beneficiary of certain securitization trusts.

The Company does not consolidate residential or commercial mortgage securitizations (JPMorgan Chase-sponsored or third-party-sponsored) when it or an affiliate is not the servicer (and therefore does not have the power to direct the most significant activities of the trust) or does not hold a beneficial interest in the trust that could potentially be significant to the trust.

The following table presents at June 30, 2021, the total unpaid principal amount of assets held in JPMorgan Chase-sponsored private-label securitization entities in which the Company has continuing involvement. The Company’s continuing involvement includes holding senior interests or subordinated interests and derivative transactions. The Company’s maximum loss exposure from retained and purchased interests is the carrying value of these interests.

(in millions)	Principal amount outstanding		JPMorgan Chase interest in securitized assets in nonconsolidated VIEs <sup>(c)(d)(e)</sup>
	Assets held in nonconsolidated securitization VIEs with continuing involvement	Financial instruments owned	
<b>Securitization-related<sup>(a)</sup></b>			
Residential mortgage:			
Prime/Alt-A and option adjustable rate mortgages (“ARMs”)	\$	16,734	\$ 257
Subprime		227	1
Commercial and other <sup>(b)</sup>		70,727	524
<b>Total</b>	<b>\$</b>	<b>87,688</b>	<b>\$ 782</b>

(a) Excludes U.S. GSEs and government agency securitizations and re-securitizations, which are not JPMorgan Chase-sponsored.

(b) Consists of securities backed by commercial real estate loans and non-mortgage-related consumer receivables purchased from third-parties.

(c) Excludes the following: securities retained from loan sales to U.S. GSEs and government agencies; interest rate and foreign exchange derivatives primarily used to manage interest rate and foreign exchange risks of securitization entities; senior and subordinated securities of \$149 million and \$81 million, respectively, which the Company purchased in connection with secondary market-making activities.

(d) Includes interests held in re-securitization transactions.

(e) As of June 30, 2021, 69% of the Company’s retained securitization interests, which are carried at fair value, were risk-rated “A” or better, on an S&P-equivalent basis. The retained interests in prime residential mortgages consisted of \$241 million of investment-grade retained interests, and \$16 million of noninvestment-grade retained interests. The retained interests in commercial and other securitization trusts consisted of \$332 million of investment-grade retained interests, and \$192 million of noninvestment-grade retained interests.

#### Re-securitizations

The Company engages in certain re-securitization transactions in which debt securities are transferred to a VIE in exchange for new beneficial interests. These transfers occur in connection with both U.S. GSEs and government agency sponsored VIEs, which are backed by residential mortgages. The Company’s consolidation analysis is largely dependent on the Company’s role and interests in the re-securitization trusts.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

The following table presents, for the six months ended June 30, 2021, the principal amount of securities transferred to re-securitization VIEs.

(in millions)

#### Transfers of securities to VIEs

U.S. GSEs and government agencies	\$ 31,899
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Most re-securitizations with which the Company is involved are client-driven transactions in which a specific client or group of clients is seeking a specific return or risk profile. For these transactions, the Company has concluded that the decision-making power of the entity is shared between the Company and its clients, considering the joint effort and decisions in establishing the re-securitization trust and its assets, as well as the significant economic interest the client holds in the re-securitization trust; therefore the Company does not consolidate the re-securitization VIE.

The Company did not transfer any private label securities to re-securitization VIEs during the six months ended June 30, 2021, and retained interests in any such JPMorgan Chase-sponsored VIEs as of June 30, 2021 were immaterial.

Additionally, the Company may invest in beneficial interests of third-party-sponsored re-securitizations and generally purchases these interests in the secondary market. In these circumstances, the Company does not have the unilateral ability to direct the most significant activities of the re-securitization trust, either because it was not involved in the initial design of the trust, or the Company is involved with an independent third-party-sponsor and demonstrates shared power over the creation of the trust; therefore the Company does not consolidate the re-securitization VIE.

The following table presents information on the Company's interests in nonconsolidated re-securitization VIEs at June 30, 2021.

(in millions)

#### U.S. GSE and government agencies

Interest in VIEs	\$ 3,068
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As of June 30, 2021, the Company did not consolidate any U.S. GSE and government agency re-securitization VIEs or any JPMorgan Chase-sponsored private-label re-securitizations VIEs.

#### Consolidated VIE assets and liabilities

The following table presents information on assets and liabilities related to VIEs consolidated by the Company as of June 30, 2021.

(in millions)	Assets		Liabilities
	Financial instruments owned <sup>(b)</sup>		Beneficial interests issued by consolidated VIEs <sup>(c)</sup>
Mortgage securitization entities <sup>(a)</sup>		\$36	\$26
Municipal bond vehicles		20	19
<b>Total</b>		<b>\$56</b>	<b>\$45</b>

(a) Represents residential mortgage securitizations.

(b) The assets of the consolidated VIEs included in the program types above are used to settle the liabilities of those entities. The assets and liabilities include third-party assets and liabilities of consolidated VIEs and exclude intercompany balances that eliminate in consolidation.

(c) The holders of these beneficial interests generally do not have recourse to the general credit of the Company.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

#### 10. Short-term borrowings

The following is a summary of the Company's variable rate short-term borrowings, which have maturities of less than one year, at June 30, 2021.

	Amount (in millions)	Interest rates	Secured/unsecured
Commercial paper <sup>(a)</sup>	\$ 10,420	0.17 - 0.31% <sup>(b)</sup>	Unsecured
Short-term borrowings with third-parties	24,955	0.14 - 0.41% <sup>(b)</sup>	Secured <sup>(e)</sup>
Short-term borrowings with the IHC	17,740	0.09 - 0.13% <sup>(c)</sup>	Unsecured
Structured notes payable to affiliates	2,978	Various <sup>(d)</sup>	Unsecured
Other	723	NA	Unsecured
<b>Total</b>	<b>\$ 56,816</b>		

(a) Maturities ranged from July 2021 to April 2022.

(b) Predominantly includes U.S. dollar denominated notes issued at a spread to either the one-month or three-month London Interbank Borrowing Offered Rate ("LIBOR") or the Secured Overnight Financing Rate ("SOFR"), depending on the tenor of issuance.

(c) As of June 30, 2021, \$17.2 billion bears interest at rates approximating the U.S. Federal Funds Effective Rate pursuant to a committed \$18.0 billion credit facility and \$500 million bears interest at a spread to one-month LIBOR pursuant to a term borrowing agreement.

(d) The interest rates are based primarily on the performance of a single equity security or basket of equity securities, or an equity index. The Company has elected to measure these instruments at fair value under the fair value option.

(e) These borrowings are secured by certain financial instruments owned and securities received in as collateral.

#### 11. Long-term debt

The following table is a summary of long-term debt carrying values representing the Company's unsecured long-term structured notes payable to affiliates (including unamortized premiums and discounts, issuance costs, valuation adjustments and fair value adjustments, where applicable) by remaining contractual maturity as of June 30, 2021. The interest rates are based primarily on the performance of a single equity security or basket of equity securities, or an equity index. The Company has elected to measure these instruments at fair value under the fair value option.

(in millions)		Under 1 year	1 - 5 years	After 5 years	Total
Long-term debt	Variable rate notes	\$ 5,874	\$ 10,398	\$ 858	\$ 17,130

#### 12. Subordinated borrowings

At June 30, 2021, the Company had the following subordinated borrowings payable to the IHC under subordinated borrowing agreements, and they mature as follows.

	Amount (in millions)	Interest rates	Term <sup>(c)</sup>
Debt subordination	\$ 16,000	0.80% <sup>(a)</sup>	8/1/2022
Equity subordination	8,000	1.58% <sup>(b)</sup>	11/30/2022
Equity subordination	5,000	1.80% <sup>(b)</sup>	5/1/2023
<b>Total subordinated borrowings</b>	<b>\$ 29,000</b>		

(a) Includes spreads to three-month LIBOR depending on the tenor of issuance.

(b) Includes spreads to one-month LIBOR depending on the tenor of issuance.

(c) The dates represent the current maturity dates of each borrowing. The scheduled maturity dates will be automatically extended unless notification to not extend is given by the relevant party to the borrowings under the provisions of each agreement.

All subordinated borrowings of the Company have received regulatory approval and therefore qualify as capital in computing net capital under the SEC's Uniform Net Capital Rule ("Net Capital Rule"). The subordinated borrowing obligations may only be repaid if the Company is in compliance with the applicable terms of the Net Capital Rule.

#### 13. Related parties

The Company regularly enters into transactions with JPMorgan Chase affiliates. These JPMorgan Chase affiliates engage the Company to arrange for the purchase or sale of securities, clearing activities, collateralized transactions, manage portfolios of securities, market derivative instruments, structure complex transactions and provide and receive operational support and services. Balances with related parties as of June 30, 2021, are listed in the following table.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

(in millions)

<b>Assets</b>	
Cash <sup>(a)</sup>	\$ 5,486
Securities purchased under resale agreements, at fair value <sup>(b)</sup>	45,904
Securities borrowed (included \$108 at fair value)	5,916
Receivables from customers	64
Receivables from brokers, dealers, clearing organizations and others	3,981
Financial instruments owned, at fair value <sup>(c)</sup>	3,436
Other assets	366
<b>Liabilities</b>	
Short-term borrowings (included \$2,978 at fair value)	\$ 20,820
Securities sold under repurchase agreements (included \$34,523 at fair value)	77,515
Securities loaned	3,267
Payables to customers	18,301
Payables to brokers, dealers, clearing organizations and others	6,936
Financial instruments sold, not yet purchased, at fair value <sup>(c)</sup>	155
Other liabilities and accrued expenses	191
Long-term debt, at fair value	17,130
Subordinated borrowings	29,000

(a) Includes cash that was segregated to satisfy CFTC rules regarding the protection of assets of customers. Refer to Note 14 for further information.

(b) Includes securities that were segregated to satisfy SEC rules regarding the protection of assets of customers. Refer to Note 14 for further information.

(c) Financial instruments owned includes \$3.1 billion of structured notes from affiliates and \$344 million of corporate debt obligations. Financial instruments sold, not yet purchased represents corporate debt obligations.

#### 14. Regulatory requirements

J.P. Morgan Securities is a registered broker-dealer and FCM and, accordingly, is subject to regulatory capital requirements, including those imposed by the SEC, CFTC, FINRA and the NFA.

SEC Rule 15c3-1 and CFTC Rule 1.17 specify minimum net capital requirements. Under these rules, J.P. Morgan Securities is required to maintain minimum net capital, as defined, under SEC Rule 15c3-1, of not less than the greater of \$500 million or 2% of aggregate debit items arising from customer transactions, or, as defined in CFTC Rule 1.17, 8% of customer risk maintenance margin requirements plus 8% of non-customer risk maintenance margin requirements. Excess margin collateral collected on resale agreements, as defined in SEC Rule 15c3-1, is also added to the minimum requirement.

The SEC has approved J.P. Morgan Securities' use of Appendix E of the Net Capital Rule, which establishes alternative net capital requirements for broker-dealers that are part of entities subject to consolidated supervision at the ultimate holding company level. Appendix E allows J.P. Morgan Securities to calculate net capital charges for market risk and derivatives-related credit risk based on mathematical models provided that it holds tentative net capital in excess of \$1.0 billion and net capital in excess of \$500 million. J.P. Morgan Securities is also required to notify the SEC in the event that tentative net capital is less than \$5.0 billion. FINRA may require a member firm to reduce its business if its net capital is less than 4% of aggregate debit items and may prohibit a member firm from expanding its business or paying capital distributions if its net capital is less than 5% of aggregate debit items.

At June 30, 2021, J.P. Morgan Securities' net capital of \$27.0 billion exceeded the minimum net capital requirement of \$5.2 billion by \$21.8 billion.

Customers of J.P. Morgan Securities are protected under SEC Rule 15c3-3 of the Securities Exchange Act of 1934. As of June 30, 2021, qualified securities segregated in a special reserve account for the exclusive benefit of customers was \$19.9 billion and was reported within securities purchased under resale agreements on the Consolidated Statement of Financial Condition.

J.P. Morgan Securities also performs the computation for assets in the proprietary accounts of broker-dealers ("PAB") in accordance with the PAB reserve computation set forth in SEC Rule 15c3-3 under the Securities Exchange Act of 1934, so as to enable introducing brokers to include PAB assets as allowable assets in their net capital computations (to the extent allowable

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

under the Net Capital Rule). As of June 30, 2021, there was no required deposit for the PAB, and therefore no cash or securities were on deposit.

Additionally, J.P. Morgan Securities, in its capacity as an FCM must segregate amounts due to its customers as required under 4d(a)(2) and 4d(f) of the Commodity Exchange Act and Commission Regulation 30.7. Cash and securities, including those owned by customers, segregated under these regulations as of June 30, 2021 totaled \$75.8 billion, which exceeded requirements by \$3.1 billion. The assets included \$4.9 billion of cash, \$5.7 billion of financial instruments owned and \$32.5 billion of net receivables from brokers, dealers, clearing organizations and others. The assets also included \$32.7 billion of customer owned assets which are not reflected on the Consolidated Statement of Financial Condition.

The Company prepares its Financial and Operational Combined Uniform Single (“FOCUS”) Report on an unconsolidated basis. The following is a summary of certain consolidating financial information of the Company at June 30, 2021.

(in millions)	J.P. Morgan Securities (FOCUS Report)	J.P. Morgan Prime (FOCUS Report)	Eliminations	Company
Total assets	\$ 618,679	\$ 91,361	\$ (95,499)	\$ 614,541
Total liabilities <sup>(a)</sup>	605,124	91,131	(95,269)	600,986
Total member’s equity	13,555	230	(230)	13,555
Total liabilities and member’s equity	618,679	91,361	(95,499)	614,541

(a) Includes subordinated borrowings.

#### 15. Commitments, guarantees, pledged assets, collateral and contingencies

The Company provides various commitments and guarantees to meet the financing needs of its customers. The contractual amount of these financial instruments represents the maximum possible credit risk to the Company should the counterparty draw upon the commitment or the Company be required to fulfill its obligation under the guarantee, and should the counterparty subsequently fail to perform according to the terms of the contract. Most of these commitments and guarantees expire without being drawn or a default occurring. As a result, the total contractual amount of these instruments is not, in the Company’s view, representative of its actual future credit exposure or funding requirements.

The following table summarizes the contractual amounts and carrying values of commitments and guarantees at June 30, 2021.

(in millions)	Contractual amount				Total	Carrying value
	Expires in 1 year or less	Expires after 1 year through 3 years	Expires after 3 years through 5 years	Expires after 5 years		
<b>Commitments and guarantees</b>						
Unfunded commitments to extend credit <sup>(a)</sup>	\$ 2,900	\$ –	\$ –	\$ –	\$ 2,900	\$ –
Derivatives qualifying as guarantees	442	–	–	–	442	60
Unsettled securities purchased under resale and securities borrowing agreements	30,943	–	–	–	30,943	–
Unsettled securities sold under repurchase and securities lending agreements	25,140	–	–	–	25,140	–
Exchange and clearing house guarantees and commitments <sup>(b)</sup>	78,795	–	–	–	78,795	–
Other guarantees	15	–	–	–	15	–

(a) Represents committed customer margin lending facilities.

(b) Includes guarantees to the Fixed Income Clearing Corporation under the sponsored member repo program and commitments and guarantees associated with the Company’s membership in certain clearing houses.

#### Committed customer margin lending facilities

Committed customer margin lending facilities are conditional lending commitments issued by the Company for secured financings. The Company has such facilities in place with certain customers and certain clearing houses of which it is a member. The Company does not hold collateral to support undrawn commitments under these facilities. However, before



## **J.P. Morgan Securities LLC and Subsidiaries**

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### **Notes to Consolidated Statement of Financial Condition**

**June 30, 2021 (unaudited)**

advancing funds the Company takes possession of collateral (generally securities) and continues to monitor the market value of the collateral during the term of the financing, which includes requesting or returning additional collateral when appropriate.

#### **Derivatives qualifying as guarantees**

The Company transacts certain derivative contracts that have the characteristics of a guarantee under U.S. GAAP. These contracts include written put options that require the Company to purchase assets upon exercise by the option holder at a specified price by a specified date in the future. The Company may enter into written put option contracts in order to meet client needs, or for other trading purposes. The terms of written put options are typically five years or less.

The fair value of derivative guarantees reflects the probability, in the Company's view, of whether the Company will be required to perform under the contract. The Company reduces exposures to these contracts by entering into offsetting transactions, or by entering into contracts that hedge the market risk related to the derivative guarantees.

In addition to derivative contracts that meet the characteristics of a guarantee, the Company is both a purchaser and seller of credit protection in the credit derivatives market. Refer to Note 6 for further information on credit derivatives.

#### **Unsettled securities financing agreements**

In the normal course of business, the Company enters into resale and securities borrowed agreements. At settlement, these commitments result in the Company advancing cash to and receiving securities collateral from the counterparty. The Company also enters into repurchase and securities loaned agreements. At settlement, these commitments result in the Company receiving cash from and providing securities collateral to the counterparty. Such agreements settle at a future date. These agreements generally do not meet the definition of a derivative, and therefore, are not recorded on the Consolidated Statement of Financial Condition until settlement date. These agreements predominantly have regular-way settlement terms.

#### **Clearing services**

The Company provides clearing services for clients entering into securities purchases and sales, and derivative transactions with CCPs, including ETDs such as futures and options, as well as OTC-cleared derivative contracts. As a clearing member, the Company stands behind the performance of its clients, collects cash and securities collateral (margin) as well as any settlement amounts due from or to clients, and remits them to the relevant CCP or client in whole or part. There are two types of margin: variation margin is posted on a daily basis based on the value of clients' derivative contracts and initial margin is posted at inception of a derivative contract, generally on the basis of the potential changes in the variation margin requirement for the contract.

As a clearing member, the Company is exposed to the risk of nonperformance by its clients, but is not liable to clients for the performance of the CCPs. Where possible, the Company seeks to mitigate its risks to clients through the collection of appropriate amounts of margin at inception and throughout the life of the transactions. The Company may cease providing clearing services to a client if the client does not adhere to their obligations under the clearing agreement. In the event of nonperformance by a client, the Company would close out the client's positions and access available margin. The CCP would utilize any margin it holds to make itself whole, with any remaining shortfalls required to be paid by the Company as a clearing member.

The Company reflects its exposure to nonperformance risk of clients through margin payables to CCPs and corresponding receivables from clients, but does not reflect the clients' underlying securities or derivative contracts on its Consolidated Statement of Financial Condition.

It is difficult to estimate the Company's maximum possible exposure through its role as a clearing member, as this would require an assessment of transactions that clients may execute in the future. However, based on credit risk management practices and historical experience, and the credit risk mitigants available to the Company, management believes it is unlikely that the Company will have to make any material payments under these arrangements and the risk of loss is expected to be remote.

Refer to Note 6 for information on the derivatives that the Company executes for its own account and records on its Consolidated Statement of Financial Condition.

#### **Exchange and clearing house memberships**

The Company is a member of several securities and derivative exchanges and clearing houses, both in the U.S. and other countries, and it provides clearing services to its clients. Membership in some of these organizations requires the Company to

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

pay a pro rata share of the losses incurred by the organization as a result of the default of another member. Such obligations vary with different organizations. These obligations may be limited to the amount (or a multiple of the amount) of the Company's contribution to the guarantee fund maintained by a clearing house or exchange as part of the resources available to cover any losses in the event of a member default. Alternatively, these obligations may also include a pro rata share of the residual losses after applying the guarantee fund. Additionally, certain clearing houses require the Company as a member to pay a pro rata share of losses that may result from the clearing house's investment of guarantee fund contributions and initial margin, unrelated to and independent of the default of another member. Generally a payment would only be required should such losses exceed the resources of the clearing house or exchange that are contractually required to absorb the losses in the first instance. In certain cases, it is difficult to estimate the Company's maximum possible exposure under these membership agreements, since this would require an assessment of future claims that may be made against the Company that have not yet occurred. However, based on historical experience, management expects the risk of loss to the Company to be remote. Where the Company's maximum possible exposure can be estimated, the amount is disclosed in the previous table in exchange and clearing house guarantees and commitments.

#### Sponsored member repo program

The Company acts as a sponsoring member to clear eligible overnight resale and repurchase agreements through the Government Securities Division of the Fixed Income Clearing Corporation ("FICC") on behalf of clients that become sponsored members under the FICC's rules. The Company also guarantees to the FICC the prompt and full payment and performance of its sponsored member clients' respective obligations under the FICC's rules. The Company minimizes its liability under these overnight guarantees by obtaining a security interest in the cash or high-quality securities collateral that the clients place with the clearing house, and therefore, the Company expects the risk of loss to be remote. The Company's maximum possible exposure, without taking into consideration the associated collateral, is included in the previous table in exchange and clearing house guarantees and commitments. For additional information on credit risk mitigation practices on resale agreements and the types of collateral pledged under repurchase agreements, refer to Note 8.

#### Guarantees of subsidiaries

In the normal course of business, J.P. Morgan Securities may guarantee certain of the obligations of its consolidated subsidiaries. The obligations of the consolidated subsidiaries are included on the Company's Consolidated Statement of Financial Condition; therefore, the Company has not recognized a separate liability for these guarantees. The Company believes that the occurrence of any event that would trigger payments under these guarantees is remote.

#### Pledged assets

The Company pledges or otherwise uses financial assets to collateralize repurchase and other securities financing agreements, to cover short sales, to collateralize derivative contracts and to satisfy margin deposits at clearing and depository organizations. Certain of these pledged assets may be sold or repledged or otherwise used by the secured parties and are parenthetically identified on the Consolidated Statement of Financial Condition.

The following table presents the Company's pledged assets at June 30, 2021.

(in millions)

Assets that may be sold or repledged or otherwise used by secured parties	\$	111,015
Assets that may not be sold or repledged or otherwise used by secured parties		80,113
<b>Total pledged assets</b>	<b>\$</b>	<b>191,128</b>

Total pledged assets do not include assets of consolidated VIEs; these assets are used to settle the liabilities of those entities. Refer to Note 9 for additional information on assets and liabilities of consolidated VIEs.

#### Collateral

The Company accepts financial assets as collateral that it is permitted to sell or repledge, deliver or otherwise use. This collateral is generally obtained under resale and other securities financing agreements, customer margin loans and derivative contracts. Collateral is generally used under repurchase and other securities financing agreements, to cover short sales, and to collateralize derivative contracts. In many instances, the Company is permitted to rehypothecate the financial assets it received as collateral, subject to regulations which prohibit the rehypothecation of customer fully-paid and excess margin securities, as set forth in customer protection SEC Rule 15c3-3.

## J.P. Morgan Securities LLC and Subsidiaries

(an indirect wholly-owned subsidiary of JPMorgan Chase & Co.)

### Notes to Consolidated Statement of Financial Condition

June 30, 2021 (unaudited)

The following table presents the fair value of collateral accepted at June 30, 2021.

(in millions)

Collateral that is permitted to be sold or repledged, delivered, or otherwise used	\$	797,842
Collateral sold or repledged, delivered, or otherwise used <sup>(a)</sup>		712,073

(a) Includes securities that were segregated to satisfy SEC rules regarding the protection of assets of customers. Refer to Note 14 for further information.

#### Litigation

The Company is a defendant or respondent in a number of legal proceedings, including private, civil litigations, government investigations or regulatory enforcement matters. The Company believes it has meritorious defenses to the claims asserted against it in its currently outstanding legal proceedings and it intends to defend itself vigorously. Additional legal proceedings may be initiated from time to time in the future.

The Company has established reserves for certain of its currently outstanding legal proceedings. In accordance with the provisions of U.S. GAAP for contingencies, the Company accrues for a litigation-related liability when it is probable that such a liability has been incurred and the amount of the loss can be reasonably estimated. The Company evaluates its outstanding legal proceedings each quarter to assess its litigation reserves, and makes adjustments in such reserves, upwards or downward, as appropriate, based on management's best judgment after consultation with counsel. There is no assurance that the Company's litigation reserves will not need to be adjusted in the future.

In view of the inherent difficulty of predicting the outcome of legal proceedings, the Company cannot state with confidence what will be the eventual outcomes of the currently pending matters, the timing of their ultimate resolution or the eventual losses, fines, penalties or consequences related to those matters. The Company believes, based upon its current knowledge and after consultation with counsel, and after taking into account its current litigation reserves and its estimated aggregate range of possible losses, that the legal proceedings currently pending against it should not have a material adverse effect on the Company's consolidated financial condition. The Company notes, however, that in light of the uncertainties involved in such proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves it has currently accrued or that a matter will not have material reputational consequences. As a result, the outcome of a particular matter may be material to the Company's operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of the Company's income for that period.

The Company believes the aggregate range of reasonably possible losses, in excess of reserves established, is not material based upon currently available information for those proceedings in which the Company believes that an estimate of reasonably possible loss can be made.

#### 16. Subsequent events

The Company has performed an evaluation of events that have occurred subsequent to June 30, 2021, and through August 31, 2021 (the date of the filing of this report). There have been no material subsequent events that occurred during such period that would require disclosure or recognition on the Consolidated Statement of Financial Condition as of June 30, 2021.