

INTL FCSTONE INC.
Form 10-Q
August 06, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period From _____ to _____
Commission File Number 000-23554

INTL FCStone Inc.
(Exact name of registrant as specified in its charter)

Delaware 59-2921318
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
708 Third Avenue, Suite 1500
New York, NY 10017
(Address of principal executive offices) (Zip Code)
(212) 485-3500
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of August 2, 2018, there were 18,906,669 shares of the registrant's common stock outstanding.

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INTL FCStone Inc.

Quarterly Report on Form 10-Q for the Quarterly Period Ended June 30, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

INTL FCStone Inc.

Condensed Consolidated Balance Sheets
(Unaudited)

(in millions, except par value and share amounts)	June 30, 2018	September 30, 2017
ASSETS		
Cash and cash equivalents	\$347.8	\$ 314.9
Cash, securities and other assets segregated under federal and other regulations (including \$675.4 and \$54.5 at fair value at June 30, 2018 and September 30, 2017, respectively)	1,212.6	518.8
Collateralized transactions:		
Securities purchased under agreements to resell	769.6	406.6
Securities borrowed	176.3	86.6
Deposits with and receivables from broker-dealers, clearing organizations and counterparties (including \$716.4 and \$204.7 at fair value at June 30, 2018 and September 30, 2017, respectively)	2,165.2	2,625.1
Receivables from customers, net	218.5	232.7
Notes receivable	11.0	10.6
Income taxes receivable	0.2	0.4
Financial instruments owned, at fair value (includes securities pledged as collateral that can be sold or repledged of \$17.3 and \$19.4 at June 30, 2018 and September 30, 2017, respectively)	2,003.4	1,731.8
Physical commodities inventory, net (including \$111.1 and \$73.2 at fair value at June 30, 2018 and September 30, 2017, respectively)	212.8	124.8
Deferred income taxes, net	22.7	42.6
Property and equipment, net	41.0	38.7
Goodwill and intangible assets, net	56.4	59.4
Other assets	47.4	50.4
Total assets	\$7,284.9	\$ 6,243.4
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and other accrued liabilities (including \$1.0 at fair value at September 30, 2017)	\$128.1	\$ 135.6
Payables to:		
Customers	3,354.7	3,072.9
Broker-dealers, clearing organizations and counterparties (including \$7.1 and \$4.8 at fair value at June 30, 2018 and September 30, 2017, respectively)	130.8	125.7
Lenders under loans	360.6	230.2
Income taxes payable	12.5	7.3
Collateralized transactions:		
Securities sold under agreements to repurchase	1,599.0	1,393.1
Securities loaned	204.3	111.1
Financial instruments sold, not yet purchased, at fair value	1,007.2	717.6
Total liabilities	6,797.2	5,793.5
Commitments and contingencies (Note 11)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value. Authorized 1,000,000 shares; no shares issued or outstanding	—	—

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Common stock, \$0.01 par value. Authorized 30,000,000 shares; 21,012,531 issued and 18,890,574 outstanding at June 30, 2018 and 20,855,243 issued and 18,733,286 outstanding at September 30, 2017	0.2	0.2	
Common stock in treasury, at cost - 2,121,957 shares at June 30, 2018 and September 30, 2017	(46.3)	(46.3)
Additional paid-in capital	265.7		259.0
Retained earnings	301.3		261.5
Accumulated other comprehensive loss, net	(33.2)	(24.5)
Total stockholders' equity	487.7		449.9
Total liabilities and stockholders' equity	\$7,284.9		\$ 6,243.4
See accompanying notes to condensed consolidated financial statements.			

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INTL FCStone Inc.
 Condensed Consolidated Income Statements
 (Unaudited)

(in millions, except share and per share amounts)	Three Months Ended		Nine Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Revenues:				
Sales of physical commodities	\$6,866.2	\$ 5,317.0	\$20,836.4	\$ 16,486.3
Trading gains, net	103.4	79.9	296.9	246.9
Commission and clearing fees	96.6	73.0	271.6	212.5
Consulting, management, and account fees	18.3	16.3	53.2	47.5
Interest income	33.7	19.6	85.6	47.7
Other income	0.1	0.1	0.2	0.2
Total revenues	7,118.3	5,505.9	21,543.9	17,041.1
Cost of sales of physical commodities	6,858.5	5,308.3	20,811.3	16,462.2
Operating revenues	259.8	197.6	732.6	578.9
Transaction-based clearing expenses	49.0	33.9	136.6	101.2
Introducing broker commissions	34.1	29.2	101.4	86.1
Interest expense	22.1	11.2	55.4	30.1
Net operating revenues	154.6	123.3	439.2	361.5
Compensation and other expenses:				
Compensation and benefits	86.9	75.5	252.3	222.7
Trading systems and market information	8.6	8.3	25.7	25.7
Occupancy and equipment rental	4.2	3.9	12.5	11.1
Professional fees	4.8	3.7	13.4	11.9
Travel and business development	3.7	3.0	10.2	9.6
Non-trading technology and support	3.8	3.2	10.3	8.9
Depreciation and amortization	2.8	2.4	8.4	7.2
Communications	1.3	1.5	4.1	3.9
Bad debts	1.6	0.1	2.9	3.9
Other	6.0	6.7	20.4	18.9
Total compensation and other expenses	123.7	108.3	360.2	323.8
Other gain	2.0	—	2.0	—
Income before tax	32.9	15.0	81.0	37.7
Income tax expense	8.9	2.3	41.2	7.7
Net income	\$24.0	\$ 12.7	\$39.8	\$ 30.0
Earnings per share:				
Basic	\$1.27	\$ 0.67	\$2.10	\$ 1.59
Diluted	\$1.25	\$ 0.66	\$2.06	\$ 1.58
Weighted-average number of common shares outstanding:				
Basic	18,597,163	18,447,053	18,524,846	18,365,939
Diluted	18,976,898	18,702,128	18,876,259	18,659,138
See accompanying notes to condensed consolidated financial statements.				

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INTL FCStone Inc.
 Condensed Consolidated Statements of Comprehensive Income
 (Unaudited)

	Three Months		Nine Months	
	Ended June		Ended June	
	30,	30,	30,	30,
(in millions)	2018	2017	2018	2017
Net income	\$24.0	\$12.7	\$39.8	\$30.0
Other comprehensive loss, net of tax:				
Foreign currency translation adjustment	(4.9)	(1.9)	(8.7)	(2.1)
Other comprehensive loss	(4.9)	(1.9)	(8.7)	(2.1)
Comprehensive income	\$19.1	\$10.8	\$31.1	\$27.9

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited)

(in millions)	Nine Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 39.8	\$ 30.0
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	8.4	7.2
Bad debts	2.9	3.9
Deferred income taxes	19.7	(5.8)
Amortization of debt issuance costs	0.8	1.7
Amortization of share-based compensation	4.9	4.6
Gain on sale of property and equipment	—	(0.3)
Changes in operating assets and liabilities, net:		
Cash, securities and other assets segregated under federal and other regulations	(731.0)	458.8
Securities purchased under agreements to resell	(363.4)	87.9
Securities borrowed	(89.7)	(112.7)
Deposits with and receivables from broker-dealers, clearing organizations, and counterparties	409.7	(432.1)
Receivables from customers, net	22.5	(87.2)
Notes receivable	(0.4)	9.8
Income taxes receivable	(0.8)	(0.4)
Financial instruments owned, at fair value	(254.0)	(174.6)
Physical commodities inventory, net	(89.0)	(48.9)
Other assets	1.5	0.5
Accounts payable and other accrued liabilities	1.5	(13.3)

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Payables to customers	319.7		(4.8)
Payables to broker-dealers, clearing organizations and counterparties	10.0		(65.4)
Income taxes payable	6.4		1.7	
Securities sold under agreements to repurchase	206.0		291.2	
Securities loaned	93.2		130.5	
Financial instruments sold, not yet purchased, at fair value	294.2		(97.2)
Net cash used in operating activities	(87.1)	(14.9)
Cash flows from investing activities:				
Cash paid for acquisitions, net	—		(6.0)
Purchase of property and equipment	(9.3)	(8.6)
Net cash used in investing activities	(9.3)	(14.6)
Cash flows from financing activities:				
Net change in payable to lenders under loans	131.0		62.5	
Repayment of senior unsecured notes	—		(45.5)
Payments of note payable	(0.6)	(0.6)
Deferred payments on acquisitions	(5.5)	—	
Debt issuance costs	(0.4)	(0.3)
Exercise of stock options	2.6		3.1	
Withholding taxes on stock option exercises	(0.8)		
Income tax benefit on stock options and awards	—		(0.2)
Net cash provided by financing activities	126.3		19.0	
Effect of exchange rates on cash and cash equivalents	3.0		0.4	
Net increase (decrease) in cash and cash equivalents	32.9		(10.1)
Cash and cash equivalents at beginning of period	314.9		316.2	
Cash and cash equivalents at end of period	\$ 347.8		\$ 306.1	

Supplemental disclosure
of cash flow information:

Cash paid for interest	\$	54.2	\$	27.2
Income taxes paid, net of cash refunds	\$	15.8	\$	12.4

Supplemental disclosure
of non-cash investing and
financing activities:

Identified intangible assets from asset acquisition	\$	—	\$	6.0
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See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.
 Condensed Consolidated Statement of Stockholders' Equity
 (Unaudited)

(in millions)	Common Stock	Treasury Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss, net	Total
Balances as of September 30, 2017	\$ 0.2	\$ (46.3)	\$ 259.0	\$ 261.5	\$ (24.5)	\$ 449.9
Net income				39.8		39.8
Other comprehensive loss					(8.7)	(8.7)
Exercise of stock options			1.8			1.8
Share-based compensation			4.9			4.9
Balances as of June 30, 2018	\$ 0.2	\$ (46.3)	\$ 265.7	\$ 301.3	\$ (33.2)	\$ 487.7

See accompanying notes to condensed consolidated financial statements.

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INTL FCStone Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1 – Basis of Presentation and Consolidation and Accounting Standards Adopted

INTL FCStone Inc., a Delaware corporation, and its consolidated subsidiaries (collectively “INTL” or “the Company”), is a diversified global financial services organization providing execution, risk management and advisory services, market intelligence, and clearing services across asset classes and markets around the world. The Company’s services include comprehensive risk management advisory services for commercial customers; execution of listed futures and options on futures contracts on all major commodity exchanges; structured over-the-counter (“OTC”) products in a wide range of commodities; physical trading and hedging of precious metals and select other commodities; trading of more than 140 foreign currencies; market-making in international equities; fixed income; debt origination and asset management.

The Company provides these services to a diverse group of more than 20,000 predominantly wholesale organizations located throughout the world, including producers, processors and end-users of nearly all widely-traded physical commodities to manage their risks and enhance margins; to commercial counterparties who are end-users of the Company’s products and services; to governmental and non-governmental organizations; and to commercial banks, brokers, institutional investors and major investment banks.

Basis of Presentation and Consolidation

The accompanying unaudited condensed consolidated balance sheet as of September 30, 2017, which has been derived from audited consolidated financial statements, and the unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and disclosures normally included in annual consolidated financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to those rules and regulations. The Company believes that the disclosures made are adequate to make the information presented not misleading. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the condensed consolidated financial statements for the interim periods presented have been reflected as required by Rule 10-01 of Regulation S-X.

Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. These interim condensed consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and related notes contained in the Company’s Form 10-K for the fiscal year ended September 30, 2017 filed with the SEC.

These condensed consolidated financial statements include the accounts of INTL FCStone Inc. and all other entities in which the Company has a controlling financial interest. All material intercompany transactions and balances have been eliminated in consolidation.

The Company’s fiscal year end is September 30, and the fiscal quarters end on December 31, March 31, June 30 and September 30. Unless otherwise stated, all dates refer to fiscal years and fiscal interim periods.

The preparation of condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities as of the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates and assumptions relate to fair value measurement for financial instruments and investments, revenue recognition, the provision for bad debts, valuation of inventories, valuation of goodwill and intangible assets, incomes taxes, and contingencies. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

In the condensed consolidated income statements, the total revenues reported combine gross revenues for the physical commodities business and net revenues for all other businesses. The subtotal ‘operating revenues’ in the condensed consolidated income statements is calculated by deducting physical commodities cost of sales from total revenues. The subtotal ‘net operating revenues’ in the condensed consolidated income statements is calculated as operating revenues less transaction-based clearing expenses, introducing broker commissions and interest expense.

Transaction-based clearing expenses represent variable expenses paid to executing brokers, exchanges, clearing organizations and banks in relation to transactional volumes. Introducing broker commissions include commission paid to non-employee third parties that have introduced customers to the Company. Net operating revenues represent revenues available to pay variable compensation to risk management consultants and traders and direct non-variable expenses, as well as variable and non-variable expenses of operational and administrative employees.

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Foreign Currency Translation

The Company's condensed consolidated financial statements are reported in U.S. dollars. The Company's foreign subsidiaries maintain their records either in U.S. dollars or in certain instances the currency of the country in which they operate. The method of translating local currency financial information into U.S. dollars depends on whether the economy in which the foreign subsidiary operates has been designated as highly inflationary or not. Economies with a three-year cumulative inflation rate of more than 100% are considered highly inflationary.

Assets and liabilities of foreign subsidiaries in non-highly inflationary economies are translated into U.S. dollars using rates of exchange at the balance sheet date. Translation adjustments are recorded in other comprehensive income (loss). Revenues and expense are translated at rates of exchange in effect during the year. Transaction gains and losses are recorded in earnings.

Foreign subsidiaries that operate in highly inflationary countries use the U.S. dollar as their functional currency. Local currency monetary assets and liabilities are remeasured into U.S. dollars using rates of exchange as of each balance sheet date, with remeasurement adjustments and other transaction gains and losses recognized in earnings.

Nonmonetary assets and liabilities do not fluctuate with changes in the local currency exchange rates to the dollar as the translated amounts for nonmonetary assets and liabilities at the end of the accounting period in which the economy becomes highly inflationary becomes the accounting basis for those assets and liabilities in the period of change and subsequent periods. Revenues and expenses are translated at rates of exchange in effect during the year.

The Company operates asset management and debt trading businesses in Argentina through various wholly owned subsidiaries. Net operating revenues from the Argentinean subsidiaries represented approximately 4% of the consolidated net operating revenues for the nine months ended June 30, 2018. The operating environment in Argentina continues to present business challenges, including ongoing devaluation of the Argentine peso and significant inflation. For the nine months ended June 30, 2018, the Argentine peso declined approximately 67% (from 17.3 to 28.9 pesos to the U.S. dollar). Based upon inflationary data published by the International Practices Task Force (IPTF) of the Center for Audit Quality (CAQ), the economy of Argentina became highly inflationary during the three months ended June 30, 2018.

Beginning July 1, 2018, the Company has designated Argentina's economy as highly inflationary for accounting purposes. As a result, the Company will account for the Argentinean entities using the U.S. dollar as their functional currency beginning in the quarter ending September 30, 2018. Argentine peso-denominated monetary assets and liabilities will be remeasured at each balance sheet date to the currency exchange rate then in effect, with currency remeasurement gains and losses recognized in earnings. The translated balances for nonmonetary assets and liabilities as of June 30, 2018, will become the accounting basis for those assets in the period of change and subsequent periods. At June 30, 2018, the Company had net monetary assets denominated in Argentine pesos of \$11.2 million, including cash of \$2.6 million. At June 30, 2018, the Company had net nonmonetary assets denominated in Argentine pesos of \$1.1 million, including \$0.1 million of goodwill.

Reclassifications

During the three and nine months ended June 30, 2018, the Company separately classified non-trading technology and support costs that were previously included within 'Other' on the condensed consolidated income statements.

Additionally, during the three and nine months ended June 30, 2018, the Company separately classified communications related expenses separately from trading systems and market information related costs. In performing these reclassifications, the Company has made immaterial, retrospective adjustments to conform to the current period presentation. For the three and nine months ended June 30, 2017, 'Other' expenses included \$3.2 million and \$8.9 million, respectively, of expenses that are now included within 'Non-trading technology and support' on the condensed consolidated income statements. For the three and nine months ended June 30, 2017, 'Trading systems and market information' included \$1.5 million and \$3.9 million, respectively, of expenses that are now included within 'Communications' on the condensed consolidated income statements.

Accounting Standards Adopted

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"), which simplifies several aspects of the accounting for share-based payment transactions. Under ASU

2016-09, excess tax benefits and tax deficiencies are recognized as income tax expense or benefit in the income statement instead of additional paid in capital. ASU 2016-09 also provides entities with the option to elect an accounting policy to estimate forfeitures of share-based awards over the service period or account for forfeitures when they occur. Under ASU 2016-09, previously unrecognized excess tax benefits should be recognized using a modified retrospective transition. In addition, amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement, as well as changes in the computation of weighted-average diluted shares outstanding, should be applied prospectively. ASU 2016-09 is effective for and was adopted by the Company in the first quarter of 2018 and the impact of the adoption resulted in the following:

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During the nine months ended June 30, 2018, the Company recognized excess tax benefits from share-based compensation of \$0.4 million within income tax expense on the condensed consolidated income statement and within net income on the condensed consolidated cash flow statement. Prior to adoption, the tax effect of share-based awards would have been recognized in additional paid-in-capital on the condensed consolidated balance sheets and separately stated in the financing activities in the condensed consolidated cash flow statements. The Company has elected to adopt this guidance prospectively.

The Company has elected to account for forfeitures of share-based awards as they occur. The Company elected to account for forfeitures as they occur using a modified retrospective transition method. The adoption of this guidance did not have a material impact on the condensed consolidated financial statements.

The excess tax benefits from the assumed proceeds available to repurchase shares were excluded in the computation of diluted earnings per share for the three and nine months ended June 30, 2018. The Company has elected to adopt this guidance prospectively.

For the nine months ended June 30, 2018, the Company has classified as a financing activity in the condensed consolidated cash flow statement \$0.8 million of cash paid to taxing authorities for restricted stock shares withheld to satisfy statutory income tax withholding obligations. The retrospective application of this guidance had no impact on the condensed consolidated cash flow statement for the nine months ended June 30, 2017.

In July 2015, the FASB issued ASU No. 2015-11, "Simplifying the Measurement of Inventory (Topic 330)." Under ASU 2015-11, inventory that is measured using the first-in, first-out (FIFO), specific identification, or average cost methods should be measured at the lower of cost or net realizable value. This ASU does not impact inventory measurement under the last-in, first-out (LIFO) or retail inventory methods. The Company adopted this ASU prospectively in the first quarter of 2018. The adoption of this ASU did not have a material impact on the condensed consolidated financial statements.

Note 2 – Earnings per Share

The Company presents basic and diluted earnings per share ("EPS") using the two-class method which requires all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends and therefore participate in undistributed earnings with common stockholders be included in computing earnings per share. Under the two-class method, net income is reduced by the amount of dividends declared in the period for each class of common stock and participating security. The remaining undistributed earnings are then allocated to common stock and participating securities, based on their respective rights to receive dividends. Restricted stock awards granted to certain employees and directors contain non-forfeitable rights to dividends at the same rate as common stock, and are considered participating securities. Basic EPS has been computed by dividing net income by the weighted-average number of common shares outstanding.

The following is a reconciliation of the numerator and denominator of the diluted earnings per share computations for the periods presented below.

(in millions, except share amounts)	Three Months		Nine Months	
	Ended June 30,		Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income	\$24.0	\$ 12.7	\$39.8	\$ 30.0
Less: Allocation to participating securities	(0.3)	(0.3)	(0.6)	(0.6)
Net income allocated to common stockholders	\$23.7	\$ 12.4	\$39.2	\$ 29.4
Denominator:				
Weighted average number of:				
Common shares outstanding	18,597,165	16,447,053	18,524,846	16,365,939
Dilutive potential common shares outstanding:				
Share-based awards	379,733	255,075	351,413	293,199
Diluted weighted-average common shares	18,976,898	16,702,128	18,876,259	16,659,138

The dilutive effect of share-based awards is reflected in diluted earnings per share by application of the treasury stock method, which includes consideration of unamortized share-based compensation expense required under the

Compensation – Stock Compensation Topic of the ASC.

Options to purchase 76,587 and 210,543 shares of common stock for the three months ended June 30, 2018 and 2017, respectively, and options to purchase 147,640 and 242,778 shares of common stock for the nine months ended June 30, 2018 and 2017, respectively, were excluded from the calculation of diluted earnings per share as they would have been anti-dilutive.

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Note 3 – Assets and Liabilities, at Fair Value

Fair value is defined by U.S. GAAP as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants on the measurement date.

Fair value is a market-based measure considered from the perspective of a market participant rather than an entity-specific measure. Therefore, even when market assumptions are not readily available, the Company is required to develop a set of assumptions that reflect those that market participants would use in pricing the asset or liability at the measurement date. The Company uses prices and inputs that are current as of the measurement date, including periods of market dislocation. In periods of market dislocation, the observability of prices and inputs may be reduced for many assets and liabilities. This condition could cause a security to be reclassified to a lower level within the fair value hierarchy.

The Company has designed independent price verification controls and periodically performs such controls to ensure the reasonableness of such values.

In accordance with FASB ASC 820, Fair Value Measurement, the Company groups its assets and liabilities measured at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities. Level 1 consists of financial assets and liabilities whose fair values are estimated using quoted market prices.

Level 2 - Valuation is based upon quoted prices for identical or similar assets or liabilities in markets that are less active, that is, markets in which there are few transactions for the asset or liability that are observable for substantially the full term. Included in Level 2 are those financial assets and liabilities for which fair values are estimated using models or other valuation methodologies. These models are primarily industry-standard models that consider various observable inputs, including time value, yield curve, volatility factors, observable current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures.

Level 3 - Valuation is based on prices or valuation techniques that require an input that is both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity). Level 3 comprises financial assets and liabilities whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are not readily observable from objective sources.

Financial and nonfinancial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A market is active if there are sufficient transactions on an ongoing basis to provide current pricing information for the asset or liability, pricing information is released publicly, and price quotations do not vary substantially either over time or among market participants. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the reporting entity.

The guidance requires the Company to consider counterparty credit risk of all parties of outstanding derivative instruments that would be considered by a market participant in the transfer or settlement of such contracts (exit price). The Company's exposure to credit risk on derivative financial instruments relates to the portfolio of OTC derivative contracts as all exchange-traded contracts held can be settled on an active market with a credit guarantee from the respective exchange. The Company requires most counterparties to deposit margin collateral for all OTC instruments and is also required to deposit margin collateral with counterparties, which mitigates the impact of counterparty credit risk in the evaluation of the fair value of OTC derivative contracts.

Fair value of financial and nonfinancial assets and liabilities that are carried on the Condensed Consolidated Balance Sheets at fair value on a recurring basis

Cash and cash equivalents reported at fair value on a recurring basis includes certificates of deposit, which are stated at cost plus accrued interest, which approximates fair value.

Cash, securities and other assets segregated under federal and other regulations reported at fair value on a recurring basis include the value of pledged investments, primarily U.S. Treasury obligations and commodities warehouse receipts.

Deposits with and receivables from broker-dealers, clearing organizations and counterparties and payable to customers and broker-dealers, clearing organizations and counterparties include the value of pledged investments, primarily U.S. Treasury obligations and foreign government obligations. These balances also include the fair value of exchange-traded options on futures and exchange-cleared OTC swaps and options determined by quoted prices on the applicable exchange.

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Financial instruments owned and sold, not yet purchased reported at fair value on a recurring basis include the value of common and preferred stock, American Depository Receipts (“ADRs”), and Global Depository Receipts (“GDRs”), exchangeable foreign ordinary equities, ADRs, and GDRs, corporate and municipal bonds, U.S. Treasury obligations, U.S. government agency obligations, foreign government obligations, agency mortgage-backed obligations, asset-backed obligations, derivative financial instruments, commodities leases, commodities warehouse receipts, exchange firm common stock, and mutual funds and investments in managed funds.

Physical commodities inventory recorded at fair value on a recurring basis includes precious metals that are a part of the trading activities of a regulated broker-dealer subsidiary and is recorded at fair value using spot prices. Physical commodities inventory also includes agricultural commodities that are a part of the trading activities of a non-broker dealer subsidiary and are also recorded at net realizable value using spot prices. Precious metals inventory held by subsidiaries that are not broker-dealers are valued at fair value on a non-recurring basis. Except as disclosed in Note 6, the Company did not have any fair value adjustments for assets or liabilities measured at fair value on a non-recurring basis as of June 30, 2018 and September 30, 2017.

The following section describes the valuation methodologies used by the Company to measure classes of financial instruments at fair value and specifies the level within the fair value hierarchy where various financial instruments are classified.

The Company uses quoted prices in active markets, where available, and classifies such instruments within Level 1 of the fair value hierarchy. Examples include U.S. Treasury obligations, commodities warehouse receipts, some common and preferred stock, ADRs, and GDRs, some exchangeable foreign ordinary equities, ADRs, and GDRs, some corporate and municipal obligations, physical precious metals held by a regulated broker-dealer subsidiary, exchange firm common stock, mutual funds, as well as exchange traded options on futures contracts.

When instruments are traded in secondary markets and observable prices are not available for substantially the full term, the Company generally relies on internal valuation techniques that use observable inputs or prices obtained from third-party pricing services or brokers or a combination thereof, and accordingly, classified these instruments as Level 2. Examples include U.S. government agency obligations, agency-mortgage backed obligations, asset-backed obligations, foreign government obligations, some common and preferred stock, ADRs, and GDRs, certain exchangeable foreign ordinary equities, ADRs, and GDRs, OTC commodity and foreign exchange forwards, swaps, and options, physical agricultural commodity inventory, and OTC firm purchase and sale commitments related to the Company’s agricultural and energy commodities.

With the exception of certain derivative instruments, financial instruments owned and sold are primarily valued using third party pricing sources. Third party vendors compile prices from various sources and often apply matrix pricing for similar securities when no prices are observable. The Company reviews the pricing methodologies provided by the various vendors in order to determine if observable market information is being used, versus unobservable inputs.

When evaluating the propriety of an internal trader price compared with vendor prices, considerations include the range and quality of vendor prices. Trader or broker prices are used to ensure the reasonableness of a vendor price; however valuing financial instruments involves judgments acquired from knowledge of a particular market. If a trader asserts that a vendor or market price is not reflective of market value, justification for using the trader price, including recent sales activity where possible, must be provided to and approved by the appropriate levels of management.

Financial instruments owned and sold are included within either Level 1 or Level 2 of the fair value hierarchy based upon the observability of the inputs used and the level of activity in the market.

Level 3 comprises financial assets and liabilities whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are not readily observable from objective sources. Included in Level 3 are some common stock and ADRs, some corporate and municipal obligations, and contingent liabilities. Level 3 assets and liabilities are valued using an income approach based upon management developed discounted cash flow projections, which are an unobservable input.

The fair value estimates presented herein are based on pertinent information available to management as of June 30, 2018 and September 30, 2017. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these condensed consolidated financial statements since those respective dates and current estimates of fair value may differ

significantly from the amounts presented herein.

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The following tables set forth the Company's financial and nonfinancial assets and liabilities accounted for at fair value, on a recurring basis, as of June 30, 2018 by level in the fair value hierarchy.

(in millions)	June 30, 2018			Netting and Collateral (1)	Total
	Level 1	Level 2	Level 3		
Assets:					
Unrestricted cash equivalents - certificate of deposits	\$3.8	\$—	\$	—\$—	\$3.8
Commodities warehouse receipts	74.9	—	—	—	74.9
U.S. Treasury obligations	600.5	—	—	—	600.5
Cash, securities and other assets segregated under federal and other regulations	675.4	—	—	—	675.4
U.S. Treasury obligations	666.7	—	—	—	666.7
"To be announced" (TBA) and forward settling securities	—	4.4	—	(0.1)	4.3
Foreign government obligations	—	5.5	—	—	5.5
Derivatives	6,131.7	24.2	—	(6,116.0)	39.9
Deposits with and receivables from broker-dealers, clearing organization and counterparties	6,798.4	34.1	—	(6,116.1)	716.4
Common and preferred stock, ADRs, and GDRs	33.2	2.9	—	—	36.1
Exchangeable foreign ordinary equities, ADRs, and GDRs	29.7	1.4	—	—	31.1
Corporate and municipal bonds	64.1	0.2	—	—	64.3
U.S. Treasury obligations	99.7	—	—	—	99.7
U.S. government agency obligations	—	352.8	—	—	352.8
Foreign government obligations	—	8.5	—	—	8.5
Agency mortgage-backed obligations	—	1,036.2	—	—	1,036.2
Asset-backed obligations	—	47.4	—	—	47.4
Derivatives	0.7	1,473.7	—	(1,169.4)	305.0
Commodities leases	—	77.9	—	(70.6)	7.3
Commodities warehouse receipts	0.1	—	—	—	0.1
Exchange firm common stock	10.0	—	—	—	10.0
Mutual funds and other	4.9	—	—	—	4.9
Financial instruments owned	242.4	3,001.0	—	(1,240.0)	2,003.4
Physical commodities inventory, net	8.9	102.2	—	—	111.1
Total assets at fair value	\$7,728.9	\$3,137.3	\$	—\$(7,356.1)	\$3,510.1
Liabilities:					
TBA and forward settling securities	—	7.2	—	(0.1)	7.1
Derivatives	6,175.9	3.4	—	(6,179.3)	—
Payable to broker-dealers, clearing organizations and counterparties	6,175.9	10.6	—	(6,179.4)	7.1
Common and preferred stock, ADRs, and GDRs	39.3	8.8	—	—	48.1
Exchangeable foreign ordinary equities, ADRs, and GDRs	31.2	—	—	—	31.2
Corporate and municipal bonds	1.5	—	—	—	1.5
U.S. Treasury obligations	511.4	—	—	—	511.4
U.S. government agency obligations	—	38.1	—	—	38.1
Agency mortgage-backed obligations	—	0.1	—	—	0.1
Derivatives	—	1,490.6	—	(1,184.8)	305.8
Commodities leases	—	69.9	—	1.1	71.0
Financial instruments sold, not yet purchased	583.4	1,607.5	—	(1,183.7)	1,007.2
Total liabilities at fair value	\$6,759.3	\$1,618.1	\$	—\$(7,363.1)	\$1,014.3

(1) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

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The following table sets forth the Company's financial and nonfinancial assets and liabilities accounted for at fair value, on a recurring basis, as of September 30, 2017 by level in the fair value hierarchy.

(in millions)	September 30, 2017				Total
	Level 1	Level 2	Level 3	Netting and Collateral (1)	
Assets:					
Unrestricted cash equivalents - certificates of deposits	\$3.8	\$—	\$ —	\$—	\$3.8
Commodities warehouse receipts	21.0	—	—	—	21.0
U.S. Treasury obligations	33.5	—	—	—	33.5
Cash, securities and other assets segregated under federal and other regulations	54.5	—	—	—	54.5
U.S. Treasury obligations	244.7	—	—	—	244.7
"To be announced" (TBA) and forward settling securities	—	8.8	—	—	8.8
Foreign government obligations	—	6.4	—	—	6.4
Derivatives	2,608.6	289.1	—	(2,952.9)	(55.2)
Deposits with and receivables from broker-dealers, clearing organizations, and counterparties	2,853.3	304.3	—	(2,952.9)	204.7
Common and preferred stock, ADRs, and GDRs	31.2	3.4	0.1	—	34.7
Exchangeable foreign ordinary equities, ADRs, and GDRs	9.2	1.2	—	—	10.4
Corporate and municipal bonds	28.2	0.9	—	—	29.1
U.S. Treasury obligations	60.0	—	—	—	60.0
U.S. government agency obligations	—	368.9	—	—	368.9
Foreign government obligations	—	10.2	—	—	10.2
Agency mortgage-backed obligations	—	920.9	—	—	920.9
Asset-backed obligations	—	47.3	—	—	47.3
Derivatives	1.3	1,413.4	—	(1,252.6)	162.1
Commodities leases	—	174.1	—	(138.7)	35.4
Commodities warehouse receipts	38.5	—	—	—	38.5
Exchange firm common stock	8.3	—	—	—	8.3
Mutual funds and other	6.0	—	—	—	6.0
Financial instruments owned	182.7	2,940.3	0.1	(1,391.3)	1,731.8
Physical commodities inventory, net	73.2	—	—	—	73.2
Total assets at fair value	\$3,167.5	\$3,244.6	\$ 0.1	\$(4,344.2)	\$2,068.0
Liabilities:					
Accounts payable and other accrued liabilities - contingent liabilities	\$—	\$—	\$ 1.0	\$—	\$1.0
TBA and forward settling securities	—	4.9	—	(0.1)	4.8
Derivatives	2,476.2	292.8	—	(2,769.0)	—
Payable to broker-dealers, clearing organizations and counterparties	2,476.2	297.7	—	(2,769.1)	4.8
Common and preferred stock, ADRs, and GDRs	33.7	0.7	—	—	34.4
Exchangeable foreign ordinary equities, ADRs, and GDRs	10.3	0.2	—	—	10.5
Corporate and municipal bonds	0.3	—	—	—	0.3
U.S. Treasury obligations	285.9	—	—	—	285.9
U.S. government agency obligations	—	27.9	—	—	27.9
Agency mortgage-backed obligations	—	0.1	—	—	0.1
Derivatives	—	1,427.2	—	(1,110.2)	317.0
Commodities leases	—	191.1	—	(149.6)	41.5

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Financial instruments sold, not yet purchased	330.2	1,647.2	—	(1,259.8)	717.6
Total liabilities at fair value	\$2,806.4	\$1,944.9	\$ 1.0	\$(4,028.9)	\$723.4

(1) Represents cash collateral and the impact of netting across the levels of the fair value hierarchy. Netting among positions classified within the same level is included in that level.

Realized and unrealized gains and losses are included in 'trading gains, net', 'interest income', and 'cost of sales of physical commodities' in the condensed consolidated income statements.

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Information on Level 3 Financial Assets and Liabilities

The following tables set forth a summary of changes in the fair value of the Company's Level 3 financial assets and liabilities during the three and nine months ended June 30, 2018 and 2017, including a summary of unrealized gains (losses) during the respective periods on the Company's Level 3 financial assets and liabilities held during the periods.

(in millions)	Level 3 Financial Assets For the Three and Nine Months Ended June 30, 2018						
	Balance at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in (out) of Level 3	Balance at end of period
Assets:							
Common and preferred stock, ADRs, and GDRs	\$0.1	\$ —	\$(0.1)	\$ —	\$ —	\$ —	\$ —
	\$0.1	\$ —	\$(0.1)	\$ —	\$ —	\$ —	\$ —

(in millions)	Level 3 Financial Assets and Financial Liabilities For the Three Months Ended June 30, 2017						
	Balance at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in (out) of Level 3	Balance at end of period
Assets:							
Common and preferred stock, ADRs, and GDRs	\$0.2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.2
Corporate and municipal bonds	—	—	—	—	—	—	—
	\$0.2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.2

(in millions)	Level 3 Financial Assets and Financial Liabilities For the Three Months Ended June 30, 2017						
	Balance at beginning of period	Realized (gains) losses during period	Unrealized (gains) losses during period	Purchases/issuances	Settlements	Transfers in (out) of Level 3	Balance at end of period
Liabilities:							
Contingent liabilities	\$0.9	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.9

(in millions)	Level 3 Financial Assets and Financial Liabilities For the Nine Months Ended June 30, 2017						
	Balance at beginning of period	Realized gains (losses) during period	Unrealized gains (losses) during period	Purchases/issuances	Settlements	Transfers in (out) of Level 3	Balance at end of period
Assets:							
Common and preferred stock, ADRs, and GDRs	\$0.2	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 0.2
Corporate and municipal bonds	3.0	—	—	—	(3.0)	—	—
	\$3.2	\$ —	\$ —	\$ —	\$(3.0)	\$ —	\$ 0.2

(in millions)	Level 3 Financial Assets and Financial Liabilities For the Nine Months Ended June 30, 2017						
	Balance at beginning of period	Realized (gains) losses during period	Unrealized (gains) losses during period	Purchases/issuances	Settlements	Transfers in (out) of Level 3	Balance at end of period
Liabilities:							
Contingent liabilities	\$0.8	\$ —	\$ 0.1	\$ —	\$ —	\$ —	\$ 0.9

The Company was required to make additional future cash payments based on certain financial performance measures of an acquired business. The Company was required to remeasure the fair value of contingent consideration arrangements on a recurring basis. As of September 30, 2017, the Company had classified its liability for the contingent consideration within Level 3 of the fair value hierarchy because the fair value was determined using

significant unobservable inputs, which included projected cash flows. The estimated fair value of the contingent consideration arrangements was based upon management-developed earnings forecasts for the remaining contingency period, which was a Level 3 input in the fair value hierarchy. The fair value of the contingent consideration increased by \$0.1 million during the nine months ended June 30, 2017, with the corresponding amount classified as 'other' in the condensed consolidated income statements. The contingency period for the

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contingent consideration arrangements ended as of December 31, 2017 and the accrued balance of \$1.0 million was paid during the nine months ended June 30, 2018.

The Company reports transfers in and out of Levels 1, 2 and 3, as applicable, using the fair value of the securities as of the beginning of the reporting period in which the transfer occurred. The Company did not have any transfers in and out of Levels 1, 2, and 3 during the three and nine months ended June 30, 2018 and 2017.

Additional disclosures about the fair value of financial instruments that are not carried on the Condensed Consolidated Balance Sheets at fair value

Many, but not all, of the financial instruments that the Company holds are recorded at fair value in the Condensed Consolidated Balance Sheets. The following represents financial instruments in which the ending balance at June 30, 2018 and September 30, 2017 was not carried at fair value in accordance with U.S. GAAP on the Condensed Consolidated Balance Sheets:

Short-term financial instruments: The carrying value of short-term financial instruments, including cash and cash equivalents, cash segregated under federal and other regulations, securities purchased under agreements to re-sell and securities sold under agreements to re-purchase, and securities borrowed and loaned are recorded at amounts that approximate the fair value of these instruments due to their short-term nature and level of collateralization. These financial instruments generally expose the Company to limited credit risk and have no stated maturities or have short-term maturities and carry interest rates that approximate market rates. Under the fair value hierarchy, cash and cash equivalents and cash segregated under federal and other regulations are classified as Level 1. Securities purchased under agreements to re-sell and securities sold under agreements to re-purchase, and securities borrowed and loaned are classified as Level 2 under the fair value hierarchy as they are generally short-term in nature and are collateralized by common stock, U.S. Treasury obligations, U.S. government agency obligations, agency mortgage-backed obligations, and asset-backed obligations.

Receivables and other assets: Receivables from broker-dealers, clearing organizations, and counterparties, receivables from customers, net, notes receivables, and certain other assets are recorded at amounts that approximate fair value due to their short-term nature and are classified as Level 2 under the fair value hierarchy.

Payables: Payables to customers and payables to brokers-dealers, clearing organizations, and counterparties are recorded at amounts that approximate fair value due to their short-term nature and are classified as Level 2 under the fair value hierarchy.

Lenders under loans: Payables to lenders under loans carry variable rates of interest and thus approximate fair value and are classified as Level 2 under the fair value hierarchy.

Note 4 – Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk

The Company is party to certain financial instruments with off-balance sheet risk in the normal course of its business. The Company has sold financial instruments that it does not currently own and will therefore be obliged to purchase such financial instruments at a future date. The Company has recorded these obligations in the condensed consolidated financial statements as of June 30, 2018 and September 30, 2017 at the fair values of the related financial instruments. The Company will incur losses if the fair value of the underlying financial instruments increases subsequent to June 30, 2018. The total financial instruments sold, not yet purchased of \$1,007.2 million and \$717.6 million as of June 30, 2018 and September 30, 2017, respectively, includes \$305.8 million and \$317.0 million for derivative contracts, respectively, which represented a liability to the Company based on their fair values as of June 30, 2018 and September 30, 2017.

Derivatives

The Company utilizes derivative products in its trading capacity as a dealer in order to satisfy customer needs and mitigate risk. The Company manages risks from both derivatives and non-derivative cash instruments on a consolidated basis. The risks of derivatives should not be viewed in isolation, but in aggregate with the Company's other trading activities. The majority of the Company's derivative positions are included in the condensed consolidated balance sheets in 'Deposits with and receivables from broker-dealers, clearing organizations and counterparties', 'Financial instruments owned, at fair value', 'Financial instruments sold, not yet purchased, at fair value' and 'Payables to broker-dealers, clearing organizations and counterparties'.

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Listed below are the fair values of the Company's derivative assets and liabilities as of June 30, 2018 and September 30, 2017. Assets represent net unrealized gains and liabilities represent net unrealized losses.

(in millions)	June 30, 2018		September 30, 2017	
	Assets ⁽¹⁾	Liabilities ⁽¹⁾	Assets ⁽¹⁾	Liabilities ⁽¹⁾
Derivative contracts not accounted for as hedges:				
Exchange-traded commodity derivatives	\$4,789.5	\$ 4,771.0	\$2,094.2	\$ 1,975.0
OTC commodity derivatives	839.3	850.3	1,084.0	1,110.3
Exchange-traded foreign exchange derivatives	74.6	57.2	66.0	52.0
OTC foreign exchange derivatives	618.3	603.5	618.5	609.8
Exchange-traded interest rate derivatives	577.8	529.3	228.4	203.6
OTC interest rate derivatives	40.3	40.2	—	—
Exchange-traded equity index derivatives	690.5	818.4	221.3	245.4
TBA and forward settling securities	4.4	7.2	8.8	4.9
Gross fair value of derivative contracts	7,634.7	7,677.1	4,321.2	4,201.0
Impact of netting and collateral	(7,285.5)	(7,364.2)	(4,205.5)	(3,879.2)
Total fair value included in 'Deposits with and receivables from broker-dealers, clearing organizations, and counterparties'	\$44.2		\$(46.4)	
Total fair value included in 'Financial instruments owned, at fair value'	\$305.0		\$162.1	
Total fair value included in 'Payables to broker-dealers, clearing organizations and counterparties		\$ 7.1		\$ 4.8
Fair value included in 'Financial instruments sold, not yet purchased, at fair value'		\$ 305.8		\$ 317.0

(1) As of June 30, 2018 and September 30, 2017, the Company's derivative contract volume for open positions were approximately 9.7 million and 6.1 million contracts, respectively.

The Company's derivative contracts are principally held in its Commercial Hedging and Clearing and Execution Services segments. The Company assists its Commercial Hedging segment customers in protecting the value of their future production by entering into option or forward agreements with them on an OTC basis. The Company also provides its Commercial Hedging segment customers with option products, including combinations of buying and selling puts and calls. The Company mitigates its risk by offsetting the customer's transaction simultaneously with one of the Company's trading counterparties or with a similar but not identical exchange-traded position. The risk mitigation of these offsetting trades is not within the documented hedging designation requirements of the Derivatives and Hedging Topic of the ASC. These derivative contracts are traded along with cash transactions because of the integrated nature of the markets for these products. The Company manages the risks associated with derivatives on an aggregate basis along with the risks associated with its proprietary trading and market-making activities in cash instruments as part of its firm-wide risk management policies. In particular, the risks related to derivative positions may be partially offset by inventory, unrealized gains in inventory or cash collateral paid or received.

The Company has derivative instruments, which consist of mortgage-backed TBA securities and forward settling transactions that are used to manage risk exposures in the trading inventory of the Company's domestic institutional fixed income business. The fair value on these transactions are recorded in deposits with and receivables from or payables to broker-dealers, clearing organizations and counterparties. Realized and unrealized gains and losses on securities and derivative transactions are reflected in 'trading gains, net'.

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As of June 30, 2018 and September 30, 2017, these transactions are summarized as follows:

(in millions)	June 30, 2018		September 30, 2017	
	Gain / (Loss)	Notional Amounts	Gain / (Loss)	Notional Amounts
Unrealized gain on TBA securities purchased within deposits with and receivables from broker-dealers, clearing organizations and counterparties and payables to broker-dealers, clearing organizations and counterparties, respectively, and related notional amounts (1)	\$2.9	\$829.5	\$—	\$51.3
Unrealized loss on TBA securities purchased within deposits with and receivables from broker-dealers, clearing organizations and counterparties and payables to broker-dealers, clearing organizations and counterparties, respectively, and related notional amounts (1)	\$—	\$38.7	\$(2.9)	\$1,236.8
Unrealized gain on TBA securities sold within payables to broker-dealers, clearing organizations and counterparties and deposits with and receivables from broker-dealers, clearing organizations and counterparties, respectively, and related notional amounts (1)	\$0.1	\$(90.7)	\$5.8	\$(1,881.9)
Unrealized loss on TBA securities sold within payables to broker-dealers, clearing organizations and counterparties and deposits with and receivables from broker-dealers, clearing organizations and counterparties, respectively, and related notional amounts (1)	\$(6.9)	\$(1,838.2)	\$(0.1)	\$(404.1)
Unrealized gain (loss) on forward settling securities purchased within deposits with and receivables from broker-dealers, clearing organizations and counterparties and payables to broker-dealers, clearing organizations and counterparties, respectively, and related notional amounts (1)	\$1.4	\$563.8	\$(2.0)	\$882.9
Unrealized (loss) gain on forward settling securities sold within payables to broker-dealers, clearing organizations, and counterparties and deposits with and receivables from broker-dealers, clearing organizations and counterparties, respectively, and related notional amounts (1)	\$(0.3)	\$(245.5)	\$3.0	\$(590.2)

(1) The notional amounts of these instruments reflect the extent of the Company's involvement in TBA and forward settling securities and do not represent risk of loss due to counterparty non-performance.

The following table sets forth the Company's gains (losses) related to derivative financial instruments for the three and nine months ended June 30, 2018 and 2017 in accordance with the Derivatives and Hedging Topic of the ASC. The net gains set forth below are included in 'Cost of sales of physical commodities' and 'Trading gains, net' in the condensed consolidated income statements.

(in millions)	Three Months Ended June 30,		Nine Months Ended June 30,	
	2018	2017	2018	2017
Commodities	\$38.1	\$22.0	\$71.9	\$40.8
Foreign exchange	2.9	1.7	7.7	3.7
Interest rate	0.5	—	1.1	(1.0)
TBA and forward settling securities	—	(5.4)	10.3	3.1
Net gains from derivative contracts	\$41.5	\$18.3	\$91.0	\$46.6

Credit Risk

In the normal course of business, the Company purchases and sells financial instruments, commodities and foreign currencies as either a principal or agent on behalf of its customers. If either the customer or counterparty fails to

perform, the Company may be required to discharge the obligations of the nonperforming party. In such circumstances, the Company may sustain a loss if the fair value of the financial instrument or foreign currency is different from the contract value of the transaction.

The majority of the Company's transactions and, consequently, the concentration of its credit exposure are with commodity exchanges, customers, broker-dealers and other financial institutions. These activities primarily involve collateralized and uncollateralized arrangements and may result in credit exposure in the event that a counterparty fails to meet its contractual obligations. The Company's exposure to credit risk can be directly impacted by volatile financial markets, which may impair the ability of counterparties to satisfy their contractual obligations. The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit and/or position limits based upon a review of the counterparties' financial condition and credit ratings. The Company monitors collateral levels on a daily basis for compliance with regulatory and internal guidelines and requests changes in collateral levels as appropriate.

The Company is a party to financial instruments in the normal course of its business through customer and proprietary trading accounts in exchange-traded and OTC derivative instruments. These instruments are primarily the result of the execution of orders for commodity futures, options on futures, OTC swaps and options and spot and forward foreign currency contracts on behalf of its customers, substantially all of which are transacted on a margin basis. Such transactions may expose the Company to significant credit risk in the event margin requirements are not sufficient to fully cover losses which customers may incur.

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