OPPENHEIMER HOLDINGS INC
Form 10-Q
August 01, 2014
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014
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: 1-12043

OPPENHEIMER HOLDINGS INC.
(Exact name of registrant as specified in its charter)

Delaware	98-0080034
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

85 Broad Street
New York, New York 10004
(Address of principal executive offices) (Zip Code)
(212) 668-8000
(Registrant's telephone number, including area code)
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o
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). x Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer	o	Accelerated filer	x
Non-accelerated filer	o	Smaller reporting company	o

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

The number of shares of the Company's Class A non-voting common stock and Class B voting common stock (being the only classes of common stock of the Company) outstanding on July 31, 2014 was 13,530,688 and 99,680 shares, respectively.

Table of Contents

OPPENHEIMER HOLDINGS INC.
INDEX TO QUARTERLY REPORT ON FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(Expressed in thousands, except share amounts)	June 30, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$65,174	$98,294
Cash and securities segregated for regulatory and other purposes	19,117	36,323
Deposits with clearing organizations	32,185	23,679
Receivable from brokers, dealers and clearing organizations	351,317	364,873
Receivable from customers, net of allowance for credit losses of $2,436 ($2,423 in 2013)	951,015	868,869
Income tax receivable, net	13,240	6,562
Securities purchased under agreements to resell	250,000	184,825
Securities owned, including amounts pledged of $664,654 ($586,625 in 2013), at fair value	944,471	856,088
Notes receivable, net	37,816	40,751
Office facilities, net accumulated depreciation of $100,510 ($97,118 in 2013)	31,262	32,939
Intangible assets	31,700	31,700
Goodwill	137,889	137,889
Loans held for sale	15,806	75,989
Mortgage servicing rights	29,115	28,879
Other assets	134,851	165,060
Total assets	$3,044,958	$2,952,720
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Drafts payable	$32,913	$48,198
Bank call loans	147,200	118,200
Payable to brokers, dealers and clearing organizations	255,432	223,315
Payable to customers	684,884	626,564
Securities sold under agreements to repurchase	816,606	757,491
Securities sold, but not yet purchased, at fair value	126,092	76,314
Accrued compensation	122,210	180,119
Accounts payable and other liabilities	165,619	192,552
Senior secured notes	150,000	195,000
Deferred tax liabilities, net	14,395	7,096
Total liabilities	2,515,351	2,424,849
Contingencies (Note 11)		
Stockholders' equity		
Share capital		
Class A non-voting common stock (2014 – 13,519,126 shares issued and outstanding; 2013 – 13,377,967 shares issued and outstanding)	62,024	60,065
Class B voting common stock (99,680 shares issued and outstanding)	133	133
	62,157	60,198
Contributed capital	42,749	42,407
Retained earnings	416,890	418,204

Accumulated other comprehensive income	1,961	1,709
Total Oppenheimer Holdings Inc. stockholders' equity	523,757	522,518
Non-controlling interest	5,850	5,353
Total stockholders' equity	529,607	527,871
Total liabilities and stockholders' equity	$3,044,958	$2,952,720

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

	Three Months Ended		Six Months Ended	
(Expressed in thousands, except number of shares and per share amounts)	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
REVENUE				
Commissions	$116,062	$124,440	$238,200	$244,020
Advisory fees	70,430	60,580	138,635	117,300
Investment banking	26,799	22,567	60,323	41,015
Interest	12,548	13,106	24,938	25,477
Principal transactions, net	11,794	7,532	20,611	23,249
Other	12,056	15,605	22,150	31,915
Total revenue	249,689	243,830	504,857	482,976
EXPENSES				
Compensation and related expenses	159,851	160,006	331,801	319,215
Communications and technology	17,536	16,018	34,270	31,882
Occupancy and equipment costs	15,907	17,141	31,304	34,706
Clearing and exchange fees	6,024	6,293	11,916	12,335
Interest	4,412	7,143	9,576	14,005
Other	45,823	31,555	80,745	58,446
Total expenses	249,553	238,156	499,612	470,589
Income before income taxes	136	5,674	5,245	12,387
Income tax provision	1,389	2,608	3,078	5,428
Net income (loss) for the period	(1,253)	3,066	2,167	6,959
Less net income attributable to non-controlling interest, net of tax	301	218	497	448
Net income (loss) attributable to Oppenheimer Holdings Inc.	$(1,554)	$2,848	$1,670	$6,511
Earnings (loss) per share attributable to Oppenheimer Holdings Inc.				
Basic	$(0.11)	$0.21	$0.12	$0.48
Diluted	$(0.11)	$0.20	$0.12	$0.46
Dividends declared per share	$0.11	$0.11	$0.22	$0.22
Weighted average shares				
Basic	13,618,174	13,607,348	13,577,714	13,607,671
Diluted	13,618,174	14,068,368	14,184,330	14,068,779

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)

	Three Months Ended		Six Months Ended	
(Expressed in thousands)	2014	2013	2014	2013
Net income (loss) for the period	$(1,253)	$3,066	$2,167	$6,959
Other comprehensive income, net of tax [1]				
Currency translation adjustment	339	49	252	500
Comprehensive income (loss) for the period	(914)	3,115	2,419	7,459
Less net income attributable to non-controlling interests, net of tax	301	218	497	448
Comprehensive income (loss) attributable to Oppenheimer Holdings Inc.	$(1,215)	$2,897	$1,922	$7,011

(1) Other comprehensive income is attributable to Oppenheimer Holdings Inc. No other comprehensive income is attributable to non-controlling interests.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)
FOR THE SIX MONTHS ENDED JUNE 30,

(Expressed in thousands)	2014	2013
Share capital		
Balance at beginning of period	$60,198	$62,181
Issuance of Class A non-voting common stock	1,959	—
Repurchase of Class A non-voting common stock for cancellation	—	(208)
Balance at end of period	62,157	61,973
Contributed capital		
Balance at beginning of period	42,407	39,231
Tax benefit from share-based awards	1,254	—
Share-based expense	3,025	2,508
Vested employee share plan awards	(3,937)	—
Balance at end of period	42,749	41,739
Retained earnings		
Balance at beginning of period	418,204	399,121
Net income for the period attributable to Oppenheimer Holdings Inc.	1,670	6,511
Dividends paid ($0.22 per share)	(2,984)	(2,994)
Balance at end of period	416,890	402,638
Accumulated other comprehensive income		
Balance at beginning of period	1,709	207
Currency translation adjustment	252	500
Balance at end of period	1,961	707
Total Oppenheimer Holdings Inc. stockholders' equity	523,757	507,057
Non-controlling interest		
Balance at beginning of period	5,353	4,261
Net income attributable to non-controlling interest, net of tax	497	448
Balance at end of period	5,850	4,709
Total stockholders' equity	$529,607	$511,766

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
FOR THE SIX MONTHS ENDED JUNE 30,

(Expressed in thousands)	2014	2013
Cash flows from operating activities		
Net income for the period	$2,167	$6,959
Adjustments to reconcile net income to net cash used in operating activities		
Payment of taxes due for share-based awards	(2,074)	—
Non-cash items included in net income:		
Depreciation and amortization of office facilities and leasehold improvements	3,862	5,045
Deferred income taxes	7,299	14,399
Amortization of notes receivable	8,534	9,388
Amortization of debt issuance costs	287	319
Write-off of debt issuance costs	588	—
Amortization of mortgage servicing rights	1,514	538
Provision for (reversal of) credit losses	13	(147)
Share-based compensation	3,479	3,280
Decrease (increase) in operating assets:		
Cash and securities segregated for regulatory and other purposes	17,206	(7,055)
Deposits with clearing organizations	(8,506)	(417)
Receivable from brokers, dealers and clearing organizations	13,556	193,866
Receivable from customers	(82,159)	(146,509)
Income tax receivable	(6,678)	(11,165)
Securities purchased under agreements to resell	(65,175)	—
Securities owned	(88,383)	(109,148)
Notes receivable	(5,599)	(4,555)
Loans held for sale	60,183	(13,486)
Mortgage servicing rights less amortization	(1,750)	(1,220)
Other assets	29,586	(22,786)
Increase (decrease) in operating liabilities:		
Drafts payable	(15,285)	(8,908)
Payable to brokers, dealers and clearing organizations	32,117	50,501
Payable to customers	58,320	(59,725)
Securities sold under agreements to repurchase	59,115	103,631
Securities sold, but not yet purchased	49,778	(62,374)
Accrued compensation	(58,363)	(34,910)
Accounts payable and other liabilities	(27,022)	(11,400)
Cash used in operating activities	(13,390)	(105,879)
Cash flows from investing activities		
Purchase of office facilities	(2,185)	(11,687)
Cash used in investing activities	(2,185)	(11,687)
Cash flows from financing activities		
Cash dividends paid on Class A non-voting and Class B voting common stock	(2,984)	(2,994)
Issuance of Class A non-voting common stock	185	—
Repurchase of Class A non-voting common stock for cancellation	—	(208)
Tax benefit from share-based awards	1,254	—
Redemption of senior secured notes	(45,000)	—
Increase in bank call loans, net	29,000	91,500
Cash (used in) provided by financing activities	(17,545)	88,298

Net decrease in cash and cash equivalents	(33,120)	(29,268)
Cash and cash equivalents, beginning of period	98,294	135,366
Cash and cash equivalents, end of period	$65,174	$106,098
Schedule of non-cash financing activities		
Employee share plan issuance	$1,774	$—
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$10,507	$13,349
Cash paid during the period for income taxes, net of refunds	$2,161	$1,939

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements

1. Organization and basis of presentation

Organization

Oppenheimer Holdings Inc. ("OPY") is incorporated under the laws of the State of Delaware. The consolidated financial statements include the accounts of OPY and its subsidiaries (together, the "Company"). The principal subsidiaries of OPY are Oppenheimer & Co. Inc. ("Oppenheimer"), a registered broker dealer in securities, Oppenheimer Asset Management Inc. ("OAM") and its wholly owned subsidiary, Oppenheimer Investment Management Inc. ("OIM"), both registered investment advisors under the Investment Advisors Act of 1940, Oppenheimer Trust Company of Delaware ("Oppenheimer Trust"), a limited purpose trust company that provides fiduciary services such as trust and estate administration and investment management, Oppenheimer Multifamily Housing & Healthcare Finance, Inc. ("OMHHF"), which is engaged in commercial mortgage origination and servicing, OPY Credit Corp., which offers syndication as well as trading of issued corporate loans, Oppenheimer Europe Ltd., based in the United Kingdom, with an office in the Isle of Jersey and Switzerland, which provides institutional equities and fixed income brokerage and corporate financial services and is regulated by the Financial Conduct Authority, and Oppenheimer Investments Asia Limited, based in Hong Kong, China, which provides assistance in accessing the U.S. equities markets and limited mergers and acquisitions advisory services to Asia-based companies, as well as offering fixed income brokerage services to institutional investors.

Oppenheimer provides its services from 96 offices in 25 states located throughout the United States and in 6 foreign jurisdictions. Oppenheimer owns Freedom Investments, Inc. ("Freedom"), a registered broker dealer in securities, which also operates the BUY and HOLD division, offering on-line discount brokerage and dollar-based investing services, and Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel. Freedom has been approved to operate as a representative office in Beijing, China. Oppenheimer holds a trading permit on the New York Stock Exchange and is a member of several other regional exchanges in the United States.

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 (the "Form 10-K"). The accompanying December 31, 2013 condensed consolidated balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Preparing financial statements requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and the accompanying disclosures. Although these estimates are based on management's knowledge of current events and actions that the Company may undertake in the future, actual results may differ materially from the estimates. The condensed consolidated results of operations for the three month and six month periods ended June 30, 2014 were not necessarily indicative of the results to be expected for any future interim or annual period.

Certain prior period amounts have been reclassified to conform to the current period presentation.

Accounting standards require the Company to present non-controlling interests as a separate component of stockholders' equity on the Company's condensed consolidated balance sheet. As of June 30, 2014, the Company owned 83.68% of OMHHF and the non-controlling interest recorded in the condensed consolidated balance sheet was $5.9 million.

Table of Contents

2. New accounting pronouncements

Recently Adopted

In June 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update ("ASU") No. 2013-08 “Financial Services – Investment Companies, Amendments to the Scope, Measurement and Disclosure Requirement.” The ASU clarifies the characteristics of an investment company by amending the measurement criteria for certain interests in other investment companies. Additionally, the ASU introduces new disclosure requirements. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2013. The Company adopted this guidance in the period ended March 31, 2014. The adoption of this accounting guidance did not have a material impact on the Company’s condensed consolidated financial statements.

In July 2013, the FASB issued ASU No. 2013-11 “Presentation of Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” The ASU provides guidance that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2013. The Company adopted this guidance in the period ended March 31, 2014. The adoption of this accounting guidance did not have a material impact on the Company’s condensed consolidated financial statements.

Recently Issued

In April 2014, the FASB issued ASU No. 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.” Under this ASU, a discontinued operation is defined as a disposal of a component or group of components that is disposed of and represents a strategic shift that has or will have a major effect on an entity’s operation. The ASU also modified related disclosure requirements. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2014 and early adoption is permitted. The Company is currently evaluating the impact, if any, that the ASU will have on its financial condition, results of operations and cash flows.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Additionally, the ASU expands the disclosure requirements for revenue recognition. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2017 and early adoption is not permitted. The Company is currently evaluating the impact, if any, that the ASU will have on its financial condition, results of operations and cash flows.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing - Repurchase-to-Maturity Transactions, Repurchase Financing, and Disclosures, " which makes amendments to the guidance in Accounting Standards Codification 860 on accounting for certain repurchase agreements. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2015 and early adoption is not permitted. The Company is currently evaluating the impact, if any, that the ASU will have on its financial condition, results of operations and cash flows.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation." The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based award as performance conditions that affect vesting. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2015 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, that the ASU will have on its financial condition, results of operations and cash flows.

8

Table of Contents

3. Earnings per share

Basic earnings per share was computed by dividing net income attributable to Oppenheimer Holdings Inc. by the weighted average number of shares of Class A non-voting common stock ("Class A Stock") and Class B voting common stock ("Class B Stock") outstanding. Diluted earnings per share includes the weighted average number of shares of Class A Stock and Class B Stock outstanding and restricted stock awards of Class A Stock using the treasury stock method.

Earnings per share have been calculated as follows:
(Expressed in thousands, except number of shares and per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Basic weighted average number of shares outstanding	13,618,174	13,607,348	13,577,714	13,607,671
Net dilutive effect of share-based awards, treasury method (1)	—	461,020	606,616	461,108
Diluted weighted average number of shares outstanding	13,618,174	14,068,368	14,184,330	14,068,779
Net income (loss) for the period	$(1,253)	$3,066	$2,167	$6,959
Net income attributable to non-controlling interest, net of tax	301	218	497	448
Net income (loss) attributable to Oppenheimer Holdings Inc.	$(1,554)	$2,848	$1,670	$6,511
Basic earnings (loss) per share	$(0.11)	$0.21	$0.12	$0.48
Diluted earnings (loss) per share	$(0.11)	$0.20	$0.12	$0.46

(1) For the three and six months ended June 30, 2014, the diluted earnings per share computation does not include the anti-dilutive effect of 1,381,907 and 58,008 shares of Class A Stock granted under share-based compensation arrangements, respectively (57,573 shares of Class A Stock granted under share-based compensation arrangements for the three and six months ended June 30, 2013).

4. Receivable from and payable to brokers, dealers and clearing organizations

(Expressed in thousands)

	As of	
	June 30, 2014	December 31, 2013
Receivable from brokers, dealers and clearing organizations consist of:		
Securities borrowed	$245,206	$274,127
Receivable from brokers	23,086	23,384
Securities failed to deliver	51,432	9,628
Clearing organizations	22,820	26,446
Omnibus accounts	—	18,086
Other	8,773	13,202
	$351,317	$364,873
Payable to brokers, dealers and clearing organizations consist of:		
Securities loaned	$203,585	$211,621
Securities failed to receive	37,910	5,346
Clearing organizations and other	13,937	6,348

	$255,432	$223,315

9

Table of Contents

5. Financial instruments

Securities owned and securities sold but not yet purchased, investments and derivative contracts are carried at fair value with changes in fair value recognized in earnings each period. The Company's other financial instruments are generally short-term in nature or have variable interest rates and as such their carrying values approximate fair value.

Securities Owned and Securities Sold, But Not Yet Purchased at Fair Value
(Expressed in thousands)

	As of June 30, 2014		As of December 31, 2013	
	Owned	Sold	Owned	Sold
U.S. Government, agency and sovereign obligations	$642,125	$72,327	$596,114	$11,889
Corporate debt and other obligations	23,791	477	14,673	4,847
Mortgage and other asset-backed securities	4,914	—	3,395	7
Municipal obligations	63,947	73	40,166	72
Convertible bonds	59,870	7,073	53,719	13,922
Corporate equities	54,629	46,116	61,634	45,336
Money markets	2,647	26	1,263	241
Auction rate securities	92,548	—	85,124	—
Total	$944,471	$126,092	$856,088	$76,314

Securities owned and securities sold, but not yet purchased, consist of trading and investment securities at fair values. Included in securities owned at June 30, 2014 are corporate equities with estimated fair values of approximately $15.6 million ($15.3 million at December 31, 2013), which are related to deferred compensation liabilities to certain employees included in accrued compensation on the condensed consolidated balance sheet.

Valuation Techniques

A description of the valuation techniques applied and inputs used in measuring the fair value of the Company's financial instruments is as follows:

U.S. Government Obligations

U.S. Treasury securities are valued using quoted market prices obtained from active market makers and inter-dealer brokers and, accordingly, are categorized in Level 1 of the fair value hierarchy.

U.S. Agency Obligations

U.S. agency securities consist of agency issued debt securities and mortgage pass-through securities. Non-callable agency issued debt securities are generally valued using quoted market prices. Callable agency issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of mortgage pass-through securities are model driven with respect to spreads of the comparable To-be-announced ("TBA") security. Actively traded non-callable agency issued debt securities are categorized in Level 1 of the fair value hierarchy. Callable agency issued debt securities and mortgage pass-through securities are generally categorized in Level 2 of the fair value hierarchy.

Sovereign Obligations

The fair value of sovereign obligations is determined based on quoted market prices when available or a valuation model that generally utilizes interest rate yield curves and credit spreads as inputs. Sovereign obligations are categorized in Level 1 or 2 of the fair value hierarchy.

Corporate Debt and Other Obligations

The fair value of corporate bonds is estimated using recent transactions, broker quotations and bond spread information. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy.

Table of Contents

Mortgage and Other Asset-Backed Securities

The Company holds non-agency securities collateralized by home equity and various other types of collateral which are valued based on external pricing and spread data provided by independent pricing services and are generally categorized in Level 2 of the fair value hierarchy. When specific external pricing is not observable, the valuation is based on yields and spreads for comparable bonds and, consequently, the positions are categorized in Level 3 of the fair value hierarchy.

Municipal Obligations

The fair value of municipal obligations is estimated using recently executed transactions, broker quotations, and bond spread information. These obligations are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

Convertible Bonds

The fair value of convertible bonds is estimated using recently executed transactions and dollar-neutral price quotations, where observable. When observable price quotations are not available, fair value is determined based on cash flow models using yield curves and bond spreads as key inputs. Convertible bonds are generally categorized in Level 2 of the fair value hierarchy; in instances where significant inputs are unobservable, they are categorized in Level 3 of the fair value hierarchy.

Corporate Equities

Equity securities and options are generally valued based on quoted prices from the exchange or market where traded and categorized as Level 1 of the fair value hierarchy. To the extent quoted prices are not available, fair values are generally derived using bid/ask spreads, and these securities are generally categorized in Level 2 of the fair value hierarchy.

Loans Held for Sale

The loans held for sale are reported at fair value. The Company determines the fair value of the loans held for sale using both a discounted cash flow model and quoted observable prices from market participants. Therefore, the Company categorizes these loans held for sale in Level 2 of the fair value hierarchy.

Interest Rate Lock Commitments

OMHHF records an interest rate lock commitment upon the commitment to originate a loan with a borrower. This commitment asset and liability is recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan. The interest rate lock commitments are valued using a discounted cash flow model developed based on U.S. Treasury rate changes and other observable market data. The value is determined after considering the potential impact of collateralization, and the Company categorizes these commitments within Level 3 of the fair value hierarchy.

To-Be-Announced (“TBA”) sale contracts

TBA sale contracts of permanent loans originated or purchased at OMHHF are based on observable market prices of recently executed purchases of similar loans which are then used to derive a market implied spread, which in turn is used as the primary input in estimating the fair value of loans at the measurement date. TBA sale contracts of construction loans originated or purchased at OMHHF are based on observable market prices of recently executed purchases. TBA sale contracts are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions.

Mortgage Servicing Rights ("MSRs")

The Company's MSRs are measured at fair value on a nonrecurring basis. The MSRs are initially measured at fair value on the loan securitization date and subsequently measured on the amortized cost basis subject to quarterly impairment testing. MSRs do not trade in active open markets with readily observable pricing. Therefore the Company uses a discounted cash flow model to estimate the fair value of MSRs. The discounted cash flow model calculates the present value of estimated future net servicing income using inputs such as contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. The Company reassesses and periodically adjusts the underlying inputs and assumptions used in the model to reflect observable and unobservable market conditions and

Table of Contents

assumptions that a market participant would consider in valuing an MSR asset. MSRs are carried at the lower of amortized cost or estimated fair value.

The following key assumptions were used in determining the initial fair value of MSRs:

Discount Rate – The discount rate used for originated permanent and construction loans averaged approximately 12%.

Estimated Life – The estimated life of the MSRs is derived using a continuous prepayment (“CPR”) assumption which estimates projected prepayments of the loan portfolio by considering factors such as note rates, lockouts, and prepayment penalties at the loan level. The CPR rates used are 0% until such time that a loan's prepayment penalty rate hits 4% of the unpaid principal balance of the loan with the vast majority of CPR speeds ranging from 10% to 15% thereafter, with an average of 12%.

Servicing Costs – The estimated future cost to service the loans on an annual basis per loan averages approximately $1,250 for a permanent loan, with a considerably higher cost to service during the construction phase.

The Company does not anticipate any credit losses on the commercial mortgages it services since all of the mortgages are insured for and guaranteed against credit losses by the Federal Housing Administration (“FHA”) and the Government National Mortgage Association (“GNMA”) and are thus guaranteed by the U.S. government.

Auction Rate Securities ("ARS")

In February 2010, Oppenheimer finalized settlements with each of the New York Attorney General’s office (“NYAG”) and the Massachusetts Securities Division (“MSD” and, together with the NYAG, the “Regulators”) concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer’s marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions more fully described below. In addition to the settlements with the Regulators, Oppenheimer has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. Pursuant to completed Purchase Offers (as defined) under the settlements with the Regulators and client related legal settlements and awards to purchase ARS, as of June 30, 2014, the Company purchased and holds (net of redemptions) approximately $99.4 million in ARS from its clients. In addition, the Company is committed to purchase another $20.2 million in ARS from clients through 2016 under legal settlements and awards.

The Company also held $150,000 in ARS in its proprietary trading account as of June 30, 2014 as a result of the failed auctions in February 2008. The ARS positions that the Company owns and are committed to purchase primarily represent auction rate preferred securities issued by closed-end funds and, to a lesser extent, municipal auction rate securities which are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities which are asset-backed securities backed by student loans.

Interest rates on ARS typically reset through periodic auctions. Due to the auction mechanism and generally liquid markets, ARS have historically been categorized as Level 1 of the fair value hierarchy. Beginning in February 2008, uncertainties in the credit markets resulted in substantially all of the ARS market experiencing failed auctions. Once the auctions failed, the ARS could no longer be valued using observable prices set in the auctions. The Company has used less observable determinants of the fair value of ARS, including the strength in the underlying credits, announced issuer redemptions, completed issuer redemptions, and announcements from issuers regarding their intentions with respect to their outstanding ARS. The Company has also developed an internal methodology to discount for the lack of liquidity and non-performance risk of the failed auctions. Due to liquidity problems associated with the ARS market, ARS that lack liquidity are setting their interest rates according to a maximum rate formula. For example, an auction rate preferred security maximum rate may be set at 200% of a short-term index such as LIBOR or U.S. Treasury yield. For fair value purposes, the Company has determined that the maximum spread would be an adequate risk premium to account for illiquidity in the market. Accordingly, the Company applies a spread to the short-term index for each asset class to derive the discount rate. The Company uses short-term U.S. Treasury yields as its benchmark short-term index. The risk of non-performance is typically reflected in the prices of ARS positions where the fair value is derived from recent trades in the secondary market. Accordingly, the Company adds a spread to the short-term index for each asset class to derive the discount rate. The Company uses short-term U.S. Treasury yields as its benchmark short-term index.

The ARS purchase commitment, or derivative liability, arises from both the settlements with the Regulators and legal settlements and awards. The ARS purchase commitment represents the difference between the principal value and the fair value of the ARS the Company is committed to purchase. The Company utilizes the same valuation methodology for the ARS

Table of Contents

purchase commitment as it does for the ARS it owns. Additionally, the present value of the future principal value of ARS purchase commitments under legal settlements and awards is used in the discounted valuation model to reflect the time value of money over the period of time that the commitments are outstanding. The amount of the ARS purchase commitment only becomes determinable once the Company has met with its primary regulator and the NYAG and agreed upon a buyback amount, commenced the ARS buyback offer to clients, and received notice from its clients which ARS they are tendering. As a result, it is not possible to observe the current yields actually paid on the ARS until all of these events have happened which is typically very close to the time that the Company actually purchases the ARS. For ARS purchase commitments pursuant to legal settlements and awards, the criteria for purchasing ARS from clients is based on the nature of the settlement or award which will stipulate a time period and amount for each repurchase. The Company will not know which ARS will be tendered by the client until the stipulated time for repurchase is reached. Therefore, the Company uses the current yields of ARS owned in its discounted valuation model to determine a fair value of ARS purchase commitments. The Company also uses these current yields by asset class (i.e., auction rate preferred securities, municipal auction rate securities, and student loan auction rate securities) in its discounted valuation model to determine the fair value of ARS purchase commitments. In addition, the Company uses the discount rate and duration of ARS owned, by asset class, as a proxy for the duration of ARS purchase commitments.

Table of Contents

Additional information regarding the valuation technique and inputs for level 3 financial instruments used is as follows:
(Expressed in thousands)
Quantitative Information about Level 3 Fair Value Measurements at June 30, 2014

Product	Principal	Valuation Adjustment	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Auction Rate Securities Owned [1]							
Auction Rate Preferred Securities	$78,850	$4,059	$74,791	Discounted Cash Flow	Discount Rate [2]	1.37% to 1.86%	1.62%
					Duration	4.0 years	4.0 years
					Current Yield [3]	0.13% to 0.43%	0.28%
Municipal Auction Rate Securities	10,030	958	9,072	Discounted Cash Flow	Discount Rate [4]	2.51%	2.51%
					Duration	4.5 years	4.5 years
					Current Yield [3]	0.24%	0.24%
	5,975	441	5,534	Secondary Market Trading Activity	Observable trades in inactive market for in portfolio securities	92.60% of par	92.60% of par
Student Loan Auction Rate Securities	900	92	808	Discounted Cash Flow	Discount Rate [5]	3.33%	3.33%
					Duration	7.0 years	7.0 years
					Current Yield [3]	1.67%	1.67%
Other [7]	3,625	1,282	2,343	Secondary Market Trading Activity	Observable trades in inactive market for in portfolio securities	64.60% of par	64.60% of par
	$99,380	$6,832	$92,548				
Auction Rate Securities Commitments to Purchase [6]							
Auction Rate Preferred Securities	$9,033	$443	$8,590	Discounted Cash Flow	Discount Rate [2]	1.37% to 1.86%	1.62%
					Duration	4.0 years	4.0 years
					Current Yield [3]	0.17% to 0.43%	0.28%
Municipal Auction Rate Securities	10,653	1,017	9,636	Discounted Cash Flow	Discount Rate [4]	2.51%	2.51%
					Duration	4.5 years	4.5 years
					Current Yield [3]	0.24%	0.24%
Student Loan Auction Rate	527	54	473	Discounted Cash Flow	Discount Rate [5]	3.33%	3.33%

Securities						
				Duration	7.0 years	7.0 years
				Current Yield (3)	1.67%	1.67%
	$20,213	$1,514	$18,699			
Total	$119,593	$8,346	$111,247			

14

Table of Contents

(1) Principal amount represents the par value of the ARS and is included in securities owned in the condensed consolidated balance sheet at June 30, 2014. The valuation adjustment amount is included as a reduction to securities owned in the condensed consolidated balance sheet as well as principal transactions revenue in the statements of operations at June 30, 2014.
(2) Derived by applying a multiple to the spread between 110% to 150% to the U.S. Treasury rate of 1.24%.
(3) Based on current auctions in comparable securities that have not failed.
(4) Derived by applying a multiple to the spread of 175% to the U.S. Treasury rate of 1.43%.
(5) Derived by applying the sum of the spread of 1.20% to the U.S. Treasury rate of 2.13%.
(6) Principal amount represents the present value of the ARS par value that the Company is committed to purchase at a future date. This principal amount is presented as an off-balance sheet item. The valuation adjustment amount is included in accounts payable and other liabilities on the condensed consolidated balance sheet at June 30, 2014.
(7) Represents ARS issued by a credit default obligation structure that the Company has purchased and is committed to purchase as a result of a legal settlement.

The fair value of ARS and ARS purchase commitments is particularly sensitive to movements in interest rates. Increases in short-term interest rates would increase the discount rate input used in the ARS valuation and thus reduce the fair value of the ARS (increase the valuation adjustment). Conversely, decreases in short-term interest rates would decrease the discount rate and thus increase the fair value of ARS (decrease the valuation adjustment). However, an increase (decrease) in the discount rate input would be partially mitigated by an increase (decrease) in the current yield earned on the underlying ARS asset increasing the cash flows and thus the fair value. Furthermore, movements in short term interest rates would likely impact the ARS duration (i.e., sensitivity of the price to a change in interest rates), which would also have a mitigating effect on interest rate movements. For example, as interest rates increase, issuers of ARS have an incentive to redeem outstanding securities as servicing the interest payments gets prohibitively expensive which would lower the duration assumption thereby increasing the ARS fair value. Alternatively, ARS issuers are less likely to redeem ARS in a lower interest rate environment as it is a relatively inexpensive source of financing which would increase the duration assumption thereby decreasing the ARS fair value. For example, see the following sensitivities:

- The impact of a 25 basis point increase in the discount rate at June 30, 2014 would result in a decrease in the fair value of $1.0 million does not consider a corresponding reduction in duration as discussed above.

- The impact of a 50 basis point increase in the discount rate at June 30, 2014 would result in a decrease in the fair value of $2.1 million does not consider a corresponding reduction in duration as discussed above.

These sensitivities are hypothetical and are based on scenarios where they are “stressed” and should be used with caution. These estimates do not include all of the interplay among assumptions and are estimated as a portfolio rather than as individual assets.

Due to the less observable nature of these inputs, the Company categorizes ARS in Level 3 of the fair value hierarchy. As of June 30, 2014, the Company had a valuation adjustment (unrealized loss) of $6.8 million for ARS owned which is included in principal transactions on the condensed consolidated statements of operations. As of June 30, 2014, the Company also had a valuation adjustment of $1.5 million on ARS purchase commitments from settlements with the Regulators and legal settlements and awards which is included in other revenue on the condensed consolidated statements of operations. The total valuation adjustment was $8.3 million as of June 30, 2014. The valuation adjustment represents the difference between the principal value and the fair value of the ARS owned and ARS purchase commitments.

Investments

In its role as general partner in certain hedge funds and private equity funds, the Company, through its subsidiaries, holds direct investments in such funds. The Company uses the net asset value of the underlying fund as a basis for estimating the fair value of its investment. Due to the illiquid nature of these investments and difficulties in obtaining observable inputs, these investments are included in Level 3 of the fair value hierarchy.

Table of Contents

The following table provides information about the Company's investments in Company-sponsored funds at June 30, 2014:
(Expressed in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds(1)	$1,324	$—	Quarterly - Annually	30 - 120 Days
Private equity funds(2)	6,725	1,836	N/A	N/A
	$8,049	$1,836		

(1) Includes investments in hedge funds and hedge fund of funds that pursue long/short, event-driven, and activist strategies. Each hedge fund has various restrictions regarding redemption, no investment is locked-up for a period greater than one year.

(2) Includes private equity funds and private equity fund of funds with a focus on diversified portfolios, real estate and global natural resources. Due to the illiquid nature of these funds, investors are not permitted to make withdrawals without consent of the general partner. The lock-up period of the private equity fund is expected to be 10 years.

Derivative Contracts

From time to time, the Company transacts in exchange-traded and over-the-counter derivative transactions to manage its interest rate risk. Exchange-traded derivatives, namely U.S. Treasury futures, Federal funds futures and Eurodollar futures, are valued based on quoted prices from the exchange and are categorized in Level 1 of the fair value hierarchy. Over-the-counter derivatives, are valued using a discounted cash flow model and the Black-Scholes model, respectively, using observable interest rate inputs and are categorized in Level 2 of the fair value hierarchy.

As described below in "Credit Concentrations", the Company participates in loan syndications and operates as an underwriting agent in leveraged financing transactions where it utilizes a warehouse facility provided by a commercial bank to extend financing commitments to third-party borrowers identified by the Company. The Company uses broker quotations on loans trading in the secondary market as a proxy to determine the fair value of the underlying loan commitment which is categorized in Level 3 of the fair value hierarchy. The Company also purchases and sells loans in its proprietary trading book. The Company uses broker quotations to determine the fair value of loan positions held which are categorized in Level 2 of the fair value hierarchy.

Valuation Process

The Finance & Accounting ("F&A") group is responsible for the Company's fair value policies, processes and procedures. F&A is independent from the business units and trading desks and is headed by the Company's Chief Financial Officer, who has final authority over the valuation of the Company's financial instruments. The Finance Control Group ("FCG") within F&A is responsible for daily profit and loss reporting, front-end trading system position reconciliations, monthly profit and loss reporting, and independent price verification procedures.

For financial instruments categorized in Levels 1 and 2 of the fair value hierarchy, the FCG performs a monthly independent price verification to determine the reasonableness of the prices provided by the Company's independent pricing vendor. The FCG uses its third-party pricing vendor, executed transactions, and broker-dealer quotes for validating the fair values of financial instruments.

For financial instruments categorized in Level 3 of the fair value hierarchy measured on a recurring basis, primarily for ARS, a group comprised of the CFO, the Controller, and a financial analyst are responsible for the ARS valuation model and resulting fair valuations. Procedures performed include aggregating all ARS owned by type from firm inventory accounts and ARS purchase commitments from regulatory and legal settlements and awards provided by the

Legal Department. Observable and unobservable inputs are aggregated from various sources and entered into the ARS valuation model. For unobservable inputs, the group reviews the appropriateness of the inputs to ensure consistency with how a market participant would arrive at the unobservable input. For example, for the duration assumption, the group would consider recent policy statements regarding short-term interest rates by the Federal Reserve and recent ARS issuer redemptions and announcements for future redemptions. The model output is reviewed for reasonableness and consistency. Where available, comparisons are performed between ARS owned or committed to purchase to ARS that are trading in the secondary market.

Table of Contents

For financial instruments categorized in Level 3 of the fair value hierarchy measured on a non-recurring basis, primarily for MSRs, the OMHHF Valuation Committee, which is comprised of the OMHHF President & CEO, OMHHF CFO, OMHHF COO, and OMHHF Asset Manager, is responsible for the MSR model and resulting fair valuations. The OMHHF Valuation Committee performs its review of the model and assumptions and its impairment analysis on a quarterly basis. On an annual basis, the Company utilizes an external valuation consultant to validate that the internal MSR model is functioning appropriately. The OMHHF Valuation Committee compares assumptions used for unobservable inputs, such as for discount rates, estimated life, and costs of servicing, to that used by the external valuation consultant for reasonableness. The model output and resulting valuation multiples are reviewed for reasonableness and consistency. Where available, comparisons are performed to recent MSR sales in the secondary market. The Company's CFO reviews the results of both the quarterly reviews and annual impairment analysis.

Assets and Liabilities Measured at Fair Value

The Company's assets and liabilities, recorded at fair value on a recurring basis as of June 30, 2014 and December 31, 2013, have been categorized based upon the above fair value hierarchy as follows:

Table of Contents

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2014
(Expressed in thousands)

	Fair Value Measurements at June 30, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$28,364	$—	$—	$28,364
Deposits with clearing organizations	16,091	—	—	16,091
Securities owned:				—
U.S Treasury securities	614,757	—	—	614,757
U.S. Agency securities	—	26,167	—	26,167
Sovereign obligations	—	1,201	—	1,201
Corporate debt and other obligations	—	23,791	—	23,791
Mortgage and other asset-backed securities	—	4,914	—	4,914
Municipal obligations	—	63,895	52	63,947
Convertible bonds	—	59,870	—	59,870
Corporate equities	54,629	—	—	54,629
Money markets	2,647	—	—	2,647
Auction rate securities	—	—	92,548	92,548
Securities owned, at fair value	672,033	179,838	92,600	944,471
Investments (1)	408	50,026	8,779	59,213
Loans held for sale	—	15,806	—	15,806
Securities purchased under agreements to resell (2)	—	250,000	—	250,000
Derivative contracts:				
TBAs	—	1,895	—	1,895
Interest rate lock commitments	—	—	10,528	10,528
Derivative contracts, total	—	1,895	10,528	12,423
Total	$716,896	$497,565	$111,907	$1,326,368
Liabilities				
Securities sold, but not yet purchased:				
U.S Treasury securities	$71,693	$—	$—	$71,693
U.S. Agency securities	—	35	—	35
Sovereign obligations	—	599	—	599
Corporate debt and other obligations	—	477	—	477
Municipal obligations	—	73	—	73
Convertible bonds	—	7,073	—	7,073
Corporate equities	46,116	—	—	46,116
Money markets	26	—	—	26
Securities sold, but not yet purchased at fair value	117,835	8,257	—	126,092
Investments	136	—	—	136
Derivative contracts:				
U.S. treasury futures	188	—	—	188
Federal funds futures	—	43		43
Euro dollars futures	—	88	—	88
TBAs	—	181	—	181
Interest rate lock commitments	—	—	3,833	3,833
ARS purchase commitments	—	—	1,514	1,514
Derivative contracts, total	188	312	5,347	5,847
Total	$118,159	$8,569	$5,347	$132,075

(1) Included in other assets on the condensed consolidated balance sheet.
(2) Included in securities purchased under agreements to resell where the Company has elected fair value option treatment.

Table of Contents

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2013
(Expressed in thousands)

	Fair Value Measurements at December 31, 2013			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$60,268	$—	$—	$60,268
Securities segregated for regulatory and other purposes	11,495	—	—	11,495
Deposits with clearing organizations	10,492	—	—	10,492
Securities owned:				
U.S Treasury securities	566,346	—	—	566,346
U.S. Agency securities	—	29,448	—	29,448
Sovereign obligations	—	320	—	320
Corporate debt and other obligations	—	14,673	—	14,673
Mortgage and other asset-backed securities	—	3,395	—	3,395
Municipal obligations	—	39,930	236	40,166
Convertible bonds	—	53,719	—	53,719
Corporate equities	61,634	—	—	61,634
Money markets	1,263	—	—	1,263
Auction rate securities	—	—	85,124	85,124
Securities owned, at fair value	629,243	141,485	85,360	856,088
Investments (1)	10,775	47,726	5,946	64,447
Loans held for sale	—	75,989	—	75,989
Securities purchased under agreements to resell (2)	—	184,000	—	184,000
Derivative contracts:				
TBAs	—	2,155	—	2,155
Interest rate lock commitments	—	—	2,375	2,375
Derivative contracts, total	—	2,155	2,375	4,530
Total	$722,273	$451,355	$93,681	$1,267,309
Liabilities				
Securities sold, but not yet purchased:				
U.S Treasury securities	$11,837	$—	$—	$11,837
U.S. Agency securities	—	52	—	52
Corporate debt and other obligations	—	4,847	—	4,847
Mortgage and other asset-backed securities	—	7	—	7
Municipal obligations	—	72	—	72
Convertible bonds	—	13,922	—	13,922
Corporate equities	45,336	—	—	45,336
Money markets	241	—	—	241
Securities sold, but not yet purchased at fair value	57,414	18,900	—	76,314
Investments	648	—	—	648
Derivative contracts:				
U.S. treasury futures	186	—	—	186
Federal funds futures	—	18	—	18
Euro dollars futures	—	44	—	44
TBAs	—	73	—	73
Interest rate lock commitments	—	—	3,653	3,653
ARS purchase commitments	—	—	2,600	2,600
Derivative contracts, total	186	135	6,253	6,574

Total	$58,248	$19,035	$6,253	$83,536

(1) Included in other assets on the condensed consolidated balance sheet.
(2) Included in securities purchased under agreements to resell where the Company has elected fair value option treatment.

Table of Contents

There were no transfers between Level 1 and Level 2 assets and liabilities in the three months ended June 30, 2014.

The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended June 30, 2014 and 2013:
(Expressed in thousands)

Level 3 Assets and Liabilities
For the Three Months Ended June 30, 2014

	Beginning Balance	Total Realized and Unrealized Gains (Losses) (5)(6)	Purchases and Issuances (7)	Sales and Settlements (8)	Transfers In (Out)	Ending Balance
Assets						
Municipals	$70	$ (18)	$ —	$ —	$—	$52
Auction rate securities (1)	85,025	(327)	10,975	(3,125)	—	92,548
Interest rate lock commitments (2)	3,038	7,490	—	—	—	10,528
Investments (3)	8,706	82	115	(124)	—	8,779
Liabilities						
Interest rate lock commitments (2)	4,402	569	—	—	—	3,833
ARS purchase commitments (4)	2,205	691	—	—	—	1,514

(1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.

(2) Interest rate lock commitment is recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. This commitment asset and liability is recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan.

(3) Primarily represents general partner ownership and limited partner interests in hedge funds and private equity funds sponsored by the Company.

(4) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.

(5) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.

(6) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.

(7) Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.

(8) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

Table of Contents

(Expressed in thousands)

Level 3 Assets and Liabilities
For the Three Months Ended June 30, 2013

	Beginning Balance	Total Realized and Unrealized Gains (Losses) [5][6]	Purchases and Issuances [7]	Sales and Settlements [8]	Transfers In (Out)	Ending Balance
Assets						
Mortgage and other asset-backed securities [1]	$52	$ 7	$ 50	$ (36)	$(6)	$67
Municipals	239	(3)	—	—	—	236
Auction rate securities [2]	72,553	498	6,175	(1,150)	—	78,076
Investments [3]	12,779	—	292	2	(99)	12,974
Liabilities						
Auction rate securities [2]	100	—	100	—	—	—
ARS purchase commitments [4]	2,094	(235)	—	—	—	2,329

(1) Represents private placements of non-agency collateralized mortgage obligations.

(2) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.

(3) Primarily represents general partner ownership interests in hedge funds and private equity funds sponsored by the Company.

(4) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.

(5) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.

(6) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.

(7) Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.

(8) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

Table of Contents

The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the six months ended June 30, 2014 and 2013:
(Expressed in thousands)

Level 3 Assets and Liabilities
For the Six Months Ended June 30, 2014

	Beginning Balance	Total Realized and Unrealized Gains (Losses) (5)(6)	Purchases and Issuances (7)	Sales and Settlements (8)	Transfers In (Out)	Ending Balance
Assets						
Municipals	$236	$(184)	$—	$—	$—	$52
Auction rate securities (1)	85,124	(326)	14,175	(6,425)	—	92,548
Interest rate lock commitments (2)	2,375	8,153	—	—	—	10,528
Investments (3)	5,946	(87)	4,167	(627)	(620)	8,779
Liabilities						
Interest rate lock commitments (2)	3,653	(180)	—	—	—	3,833
ARS purchase commitments (4)	2,600	1,086	—	—	—	1,514

(1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.

(2) Interest rate lock commitment is recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. This commitment asset and liability is recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan.

(3) Primarily represents general partner ownership and limited partner interests in hedge funds and private equity funds sponsored by the Company.

(4) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.

(5) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.

(6) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.

(7) Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.

(8) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

Table of Contents

(Expressed in thousands)

Level 3 Assets and Liabilities
For the Six Months Ended June 30, 2013

	Beginning Balance	Total Realized and Unrealized Gains (Losses) (5)(6)	Purchases and Issuances (7)	Sales and Settlements (8)	Transfers In (Out)	Ending Balance
Assets						
Mortgage and other asset-backed securities (1)	$40	$ 14	$ 73	$ (54)	$(6)	$67
Municipals	239	(3)	—	—	—	236
Auction rate securities (2)	72,118	(192)	10,425	(4,275)	—	78,076
Investments (3)	12,954	623	125	(728)	—	12,974
Liabilities						
Auction rate securities (2)	100	—	100	—	—	—
ARS purchase commitments (4)	2,647	318	—	—	—	2,329

(1) Represents private placements of non-agency collateralized mortgage obligations.

(2) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.

(3) Primarily represents general partner ownership interests in hedge funds and private equity funds sponsored by the Company.

(4) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.

(5) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.

(6) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.

(7) Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.

(8) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

Table of Contents

Financial Instruments Not Measured at Fair Value

The tables below present the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value in the condensed consolidated balance sheets. The tables below exclude non-financial assets and liabilities (e.g., office facilities and accrued compensation).

The carrying value of financial instruments not measured at fair value categorized in the fair value hierarchy as Level 1 or Level 2 (e.g., cash and receivables from customers) approximates fair value because of the relatively short period of time between their origination and expected maturity. The fair value of the Company's 8.75% Senior Secured Notes, categorized in Level 2 of the fair value hierarchy, is based on quoted prices from the market in which the Notes trade.

The fair value of MSRs is based on observable and unobservable inputs and thus categorized as Level 3 in the fair value hierarchy. The fair value of MSRs is based on a discounted cash flow valuation methodology on a loan level basis that determines the present value of future cash flows expected to be realized. The fair value considers estimated future servicing fees and ancillary revenue, offset by the estimated costs to service the loans. The discounted cash flow model considers portfolio characteristics, contractually specified servicing fees, prepayment speed assumptions, delinquency rates, costs to service, late charges, and other ancillary revenue, and other economic factors such as interest rates. The fair value of MSRs is sensitive to changes in interest rates, including the effect on prepayment speeds. MSRs typically decrease in value when interest rates decline as declining interest rates tend to increase prepayments and therefore reduce the expected life of the net servicing cash flows that make up the MSR asset.

Table of Contents

Assets and liabilities not measured at fair value on a recurring basis as of June 30, 2014
(Expressed in thousands)

	As of June 30, 2014		Fair Value Measurement: Assets As of June 30, 2014			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Cash	$36,810	$36,810	$36,810	$—	$—	$36,810
Cash segregated for regulatory and other purposes	19,117	19,117	19,117	—	—	19,117
Deposits with clearing organization	16,094	16,094	16,094	—	—	16,094
Receivable from brokers, dealers and clearing organizations						
Securities borrowed	245,206	245,206	—	245,206	—	245,206
Receivables from brokers	23,086	23,086	—	23,086	—	23,086
Securities failed to deliver	51,432	51,432	—	51,432	—	51,432
Clearing organizations	22,820	22,820	—	22,820	—	22,820
Other	8,773	8,773	—	8,773	—	8,773
	351,317	351,317	—	351,317	—	351,317
Receivable from customers	951,015	951,015	—	951,015	—	951,015
Mortgage servicing rights (“MSRs”)	29,115	40,662	—	—	40,662	40,662
Escrow deposit [1]	25,007	25,007	25,007	—	—	25,007

(1) Included in other assets on the condensed consolidated balance sheet. Represents escrow monies deposited with a commercial bank. Corresponds with payable to third party in accounts payable and other liabilities on the condensed consolidated balance sheet (see note 3 below).

(Expressed in thousands)

	As of June 30, 2014		Fair Value Measurement: Liabilities As of June 30, 2014			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Drafts payable	$32,913	$32,913	$32,913	$—	$—	$32,913
Bank call loans	147,200	147,200	147,200	—	—	147,200
Payables to brokers, dealers and clearing organizations						
Securities loaned	203,585	203,585	—	203,585	—	203,585
Securities failed to receive	37,910	37,910	—	37,910	—	37,910
Clearing organizations and other	13,937	13,937	—	13,937	—	13,937
	255,432	255,432	—	255,432	—	255,432
Payables to customers	684,884	684,884	—	684,884	—	684,884
Securities sold under agreements to repurchase	816,606	816,606	—	816,606	—	816,606
Accounts payable and other liabilities						
Warehouse payable [2]	14,297	14,297	—	14,297	—	14,297
Payable to third party [3]	25,007	25,007	25,007	—	—	25,007
Senior secured notes	150,000	160,125	—	160,125	—	160,125

(2) Warehouse payable represents loans outstanding under a warehouse facility provided by a commercial bank but prior to GNMA securitization. The borrowing rate on the warehouse facility is based upon a variable interest rate of 1 month LIBOR plus a spread. The carrying amounts approximate fair value because of the short maturity of

these instruments. Used to fund loans held for sale in other assets on the condensed consolidated balance sheet.
(3) Corresponds with escrow deposit in other assets on the condensed consolidated balance sheet (see note 1 above).

25

Table of Contents

Assets and liabilities not measured at fair value on a recurring basis as of December 31, 2013
(Expressed in thousands)

	As of December 31, 2013		Fair Value Measurement: Assets As of December 31, 2013			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Cash	$38,026	$38,026	$38,026	$—	$—	$38,026
Cash segregated for regulatory and other purposes	24,828	24,828	24,828	—	—	24,828
Deposits with clearing organization	13,187	13,187	13,187	—	—	13,187
Receivable from brokers, dealers and clearing organizations						
Deposits paid for securities borrowed	274,127	274,127	—	274,127	—	274,127
Receivables from brokers	49,803	49,803	—	49,803	—	49,803
Securities failed to deliver	9,628	9,628	—	9,628	—	9,628
Clearing organizations	27	27	—	27	—	27
Omnibus accounts	18,086	18,086	—	18,086	—	18,086
Other	13,202	13,202	—	13,202	—	13,202
	364,873	364,873	—	364,873	—	364,873
Receivable from customers	868,869	868,869	—	868,869	—	868,869
Securities purchased under agreements to resell	825	825	825	—	—	825
Mortgage servicing rights (“MSRs”)	28,879	40,084	—	—	40,084	40,084
Escrow deposit (1)	25,006	25,006	25,006	—	—	25,006

(1) Included in other assets on the condensed consolidated balance sheet. Represents escrow monies deposited with a commercial bank. Corresponds with payable to third party in accounts payable and other liabilities on the condensed consolidated balance sheet (see note 3 below).

(Expressed in thousands)

	As of December 31, 2013		Fair Value Measurement: Liabilities As of December 31, 2013			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Drafts payable	$48,198	$48,198	$48,198	$—	$—	$48,198
Bank call loans	118,200	118,200	118,200	—	—	118,200
Payables to brokers, dealers and clearing organizations						
Deposits received for securities loaned	211,621	211,621	—	211,621	—	211,621
Securities failed to receive	5,346	5,346	—	5,346	—	5,346
Clearing organizations and other	6,348	6,348	—	6,348	—	6,348
	223,315	223,315	—	223,315	—	223,315
Payables to customers	626,564	626,564	—	626,564	—	626,564
Securities sold under agreements to repurchase	757,491	757,491	—	757,491	—	757,491
Accounts payable and other liabilities						
Warehouse payable (2)	54,614	54,614	—	54,614	—	54,614
Payable to third party (3)	25,006	25,006	25,006	—	—	25,006
Senior secured notes	195,000	208,529	—	208,529	—	208,529

(2) Warehouse payable represents loans outstanding under a warehouse facility provided by a commercial bank but prior to GNMA securitization. The borrowing rate on the warehouse facility is based upon a variable interest rate of 1 month LIBOR plus a spread. The carrying amounts approximate fair value because of the short maturity of these instruments. Used to fund loans held for sale in other assets on the condensed consolidated balance sheet.

(3) Corresponds with escrow deposit in other assets on the consolidated balance sheet (see note 1 above).

Fair Value Option

The Company has the option to measure certain financial assets and financial liabilities at fair value with changes in fair value recognized in earnings each period. The Company may make a fair value option election on an instrument-by-instrument basis at initial recognition of an asset or liability or upon an event that gives rise to a new basis of accounting for that instrument. The Company has elected to apply the fair value option to its loan trading portfolio which resides in OPY Credit Corp. and is included in other assets on the condensed consolidated balance sheet. Management has elected this treatment as it is consistent with the manner in which the business is managed as well as the way that financial instruments in other parts of the business are recorded. There were no loan positions held in the secondary loan trading portfolio at June 30, 2014 or December 31, 2013.

The Company elected the fair value option for repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At June 30, 2014, the fair value of the reverse repurchase agreements and repurchase agreements were $250.0 million and $nil, respectively.

On October 1, 2013, the Company also elected the fair value option for loans held for sale which reside in OMHHF and are reported on the condensed consolidated balance sheet. Loans held for sale represent originated loans that are generally transferred or sold within 60 days from the date that a mortgage loan is funded. Electing to use fair value allows a better offset of the change in fair value of the loan and the change in fair value of the derivative instruments used as economic hedges. During the period prior to its sale, interest income on a loan held for sale is calculated in accordance with the terms of the individual loan. At June 30, 2014, the Company did not carry any loans held for sale for a period longer than 90 days. At June 30, 2014, the book value and fair value of loans held for sale was $16.0 million and $15.8 million, respectively.

Derivative Instruments and Hedging Activities

The Company transacts, on a limited basis, in exchange traded and over-the-counter derivatives for both asset and liability management as well as for trading and investment purposes. Risks managed using derivative instruments include interest rate risk and, to a lesser extent, foreign exchange risk. All derivative instruments are measured at fair value and are recognized as either assets or liabilities on the condensed consolidated balance sheet.

Cash flow hedges used for asset and liability management

For derivative instruments that were designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative was reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. At June 30, 2014, there were no derivative instruments that were designated and qualified as a cash flow hedge.

Foreign exchange hedges

From time to time, the Company also utilizes forward and options contracts to hedge the foreign currency risk associated with compensation obligations to Oppenheimer Israel (OPCO) Ltd. employees denominated in New Israeli

Shekels. Such hedges have not been designated as accounting hedges. At June 30, 2014, there were no forward or option contracts outstanding.

Derivatives used for trading and investment purposes

Futures contracts represent commitments to purchase or sell securities or other commodities at a future date and at a specified price. Market risk exists with respect to these instruments. Notional or contractual amounts are used to express the volume of these transactions and do not represent the amounts potentially subject to market risk. The futures contracts the Company used include U.S. Treasury notes, Federal Funds and Eurodollar contracts. At June 30, 2014, the Company had 500 open short contracts for 10-year U.S. Treasury notes with a fair value of $188,000 used primarily as an economic hedge of interest rate risk associated with a portfolio of fixed income investments. At June 30, 2014, the Company had 839 open contracts for Federal Funds futures with a fair value of approximately $43,000 used primarily as an economic hedge of interest rate risk associated with government trading activities.

Table of Contents

Derivatives used for commercial mortgage banking

In the normal course of business, OMHHF enters into contractual commitments to originate (purchase) and sell multifamily mortgage loans at fixed prices with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within time frames established by OMHHF. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the "lock-in" of rates by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, OMHHF's policy is to enter into a TBA sale contract with the investor simultaneously with the rate lock commitment with the borrower. The TBA sale contract with the investor locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. TBA sale contracts with the investors have an expiration date that is longer than our related commitments to the borrower to allow, among other things, for the closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

Both the rate lock commitments to borrowers and the TBA sale contracts to buyers are undesignated derivatives and, accordingly, are marked to fair value through earnings. The fair value of the Company's rate lock commitments to borrowers and loans held for sale and the related input includes, as applicable:

- the assumed gain/loss of the expected resultant loan sale to the buyer;

- the expected net future cash flows associated with servicing the loan;

- the effects of interest rate movements between the date of the rate lock and the balance sheet date; and

- the nonperformance risk of both the counterparty and the Company.

The fair value of the Company's TBA sale contracts to investors considers effects of interest rate movements between the trade date and the balance sheet date. The market price changes are multiplied by the notional amount of the TBA sale contracts to measure the fair value.

The assumed gain/loss considers the amount that the Company has discounted the price to the borrower from par for competitive reasons, if at all, and the expected net cash flows from servicing to be received upon securitization of the loan. The fair value of the expected net future cash flows associated with servicing the loan is calculated pursuant to the valuation techniques described previously for MSRs.
To calculate the effects of interest rate movements, the Company uses applicable published U.S. Treasury prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount.

The fair value of the Company's TBA sale contracts to investors considers the market price movement of the same type of security between the trade date and the balance sheet date. The market price changes are multiplied by the notional amount of the TBA sale contracts to measure the fair value.

The fair value of the Company's interest rate lock commitments and TBA sale contracts is adjusted to reflect the risk that the agreement will not be fulfilled. The Company's exposure to nonperformance in rate lock and TBA sale contracts is represented by the contractual amount of those instruments. Given the credit quality of our counterparties, the short duration of interest rate lock commitments and TBA sale contracts, and the Company's historical experience with the agreements, the risk of nonperformance by the Company's counterparties is not significant.

TBA Securities

The Company also transacts in pass-through mortgage-backed securities eligible to be sold in the TBA market as economic hedges against mortgage-backed securities that it owns or has sold but not yet purchased. TBAs provide for the forward or delayed delivery of the underlying instrument with settlement up to 180 days. The contractual or notional amounts related to these financial instruments reflect the volume of activity and do not reflect the amounts at risk. Unrealized gains and losses on TBAs are recorded in the condensed consolidated balance sheets in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations, respectively, and in the condensed consolidated statements of operations as principal transactions revenue, net.

Table of Contents

The notional amounts and fair values of the Company's derivatives at June 30, 2014 and December 31, 2013 by product were as follows:
(Expressed in thousands)

	Fair Value of Derivative Instruments at June 30, 2014		
	Description	Notional	Fair Value
Assets:			
Derivatives not designated as hedging instruments (1)			
Other contracts	TBAs	$44,515	$144
	TBA sale contracts	239,078	1,750
	Interest rate lock commitments	170,715	10,528
		$454,308	$12,422
Liabilities:			
Derivatives not designated as hedging instruments (1)			
Commodity contracts (2)	U.S. Treasury futures	$80,000	$188
	Federal funds futures	4,195,000	43
	Euro dollars futures	285,000	88
Other contracts	TBAs	34,412	181
	Interest rate lock commitments	49,182	3,833
	ARS purchase commitments (3)	20,212	1,514
		$4,663,806	$5,847

(1) See "Derivative Instruments and Hedging Activities" above for description of derivative financial instruments. Such derivative instruments are not subject to master netting agreements, thus the related amounts are not offset.
(2) Included in payable to brokers, dealers and clearing organizations on the condensed consolidated balance sheet.
(3) Included in accounts payable and other liabilities on the condensed consolidated balance sheet.

(Expressed in thousands)

	Fair Value of Derivative Instruments at December 31, 2013		
	Description	Notional	Fair Value
Assets:			
Derivatives not designated as hedging instruments (1)			
Other contracts	TBAs	$25,262	$134
	TBA sale contracts	266,415	2,021
	Interest rate lock commitments	115,569	2,375
		$407,246	$4,530
Liabilities:			
Derivatives not designated as hedging instruments (1)			
Commodity contracts (2)	U.S. Treasury futures	$60,000	$186
	Federal funds futures	6,155,000	18
	Euro dollars futures	347,000	44
Other contracts	TBAs	14,547	73
	Interest rate lock commitments	76,604	3,653
		506,000	—

Forward start repurchase agreements		
ARS purchase commitments (3)	29,056	2,600
	$7,188,207	$6,574

29

Table of Contents

(1) See "Derivative Instruments and Hedging Activities" above for description of derivative financial instruments. Such derivative instruments are not subject to master netting agreements, thus the related amounts are not offset.
(2) Included in payable to brokers, dealers and clearing organizations on the condensed consolidated balance sheet.
(3) Included in accounts payable and other liabilities on the condensed consolidated balance sheet.

The following table presents the location and fair value amounts of the Company's derivative instruments and their effect on the condensed consolidated statements of income for the three months ended June 30, 2014 and 2013:
(Expressed in thousands)

	The Effect of Derivative Instruments on the Statement of Operations For the Three Months Ended June 30, 2014		
		Recognized in Income on Derivatives (pre-tax)	
Types	Description	Location	Gain (Loss)
Commodity contracts	U.S. Treasury futures	Principal transaction revenue	$(637)
	Federal funds futures	Principal transaction revenue	7
	Euro dollars futures	Principal transaction revenue	(27)
Other contracts	TBAs	Principal transaction revenue	(60)
	TBAs sale contracts	Other	4,596
	Interest rate lock commitments	Other	8,059
	ARS purchase commitments	Principal transaction revenue	691
			$12,629

(Expressed in thousands)

	The Effect of Derivative Instruments on the Statement of Operations For the Three Months Ended June 30, 2013		
		Recognized in Income on Derivatives (pre-tax)	
Types	Description	Location	Gain (Loss)
Commodity contracts	U.S. Treasury futures	Principal transaction revenue	$921
	Federal funds futures	Principal transaction revenue	(107)
Other contracts	TBAs	Principal transaction revenue	173
	TBA sale contracts	Other	692
	ARS purchase commitments	Principal transaction revenue	535
			$2,214

The following table presents the location and fair value amounts of the Company's derivative instruments and their effect on the condensed consolidated statements of income for the six months ended June 30, 2014 and 2013:
(Expressed in thousands)

	The Effect of Derivative Instruments on the Statement of Operations For the Six Months Ended June 30, 2014		
		Recognized in Income on Derivatives (pre-tax)	
Types	Description	Location	Gain (Loss)
Commodity contracts	U.S. Treasury futures	Principal transaction revenue	$(1,060)
	Federal funds futures	Principal transaction revenue	(153)
	Euro dollars futures	Principal transaction revenue	(116)
Other contracts	TBAs	Principal transaction revenue	(24)
	TBAs sale contracts	Other	(3,771)
	Interest rate lock commitments	Other	7,973
	ARS purchase commitments	Principal transaction revenue	1,086

$3,935

30

Table of Contents

(Expressed in thousands)

The Effect of Derivative Instruments on the Statement of Operations
For the Six Months Ended June 30, 2013

		Recognized in Income on Derivatives (pre-tax)	
Types	Description	Location	Gain (Loss)
Commodity contracts	U.S. Treasury futures	Principal transaction revenue	$801
	Federal funds futures	Principal transaction revenue	(52)
	Euro dollars futures	Principal transaction revenue	72
Other contracts	TBAs	Principal transaction revenue	256
	TBA sale contracts	Other	592
	ARS purchase commitments	Principal transaction revenue	2,329
			$3,998

6. Collateralized transactions

The Company enters into collateralized borrowing and lending transactions in order to meet customers' needs and earn residual interest rate spreads, obtain securities for settlement and finance trading inventory positions. Under these transactions, the Company either receives or provides collateral, including U.S. government and agency, asset-backed, corporate debt, equity, and non-U.S. government and agency securities.

The Company obtains short-term borrowings primarily through bank call loans. Bank call loans are generally payable on demand and bear interest at various rates but not exceeding the broker call rate. At June 30, 2014, bank call loans were $147.2 million ($118.2 million at December 31, 2013).

At June 30, 2014, the Company had collateralized loans, collateralized by firm and customer securities with market values of approximately $105.0 million and $258.5 million, respectively, with commercial banks. At June 30, 2014, the Company had approximately $1.4 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has re-pledged approximately $169.5 million under securities loan agreements.

At June 30, 2014, the Company had deposited $349.2 million of customer securities directly with the Options Clearing Corporation to secure obligations and margin requirements under option contracts written by customers.

At June 30, 2014, the Company had no outstanding letters of credit.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance the Company's inventory positions. Except as described below, repurchase and reverse repurchase agreements, principally involving government and agency securities, are carried at amounts at which the securities subsequently will be resold or reacquired as specified in the respective agreements and include accrued interest. Repurchase and reverse repurchase agreements are presented on a net-by-counterparty basis, when the repurchase and reverse repurchase agreements are executed with the same counterparty, have the same explicit settlement date, are executed in accordance with a master netting arrangement, the securities underlying the repurchase and reverse repurchase agreements exist in "book entry" form and certain other requirements are met.

Table of Contents

The following tables present the gross amounts and the offsetting amounts of reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions as of June 30, 2014 and December 31, 2013:
As of June 30, 2014
(Expressed in thousands)

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amount
Reverse repurchase agreements	$314,796	$ (64,796)	$250,000	$ (250,000)	$—	$—
Securities borrowed [1]	245,206	—	245,206	(239,762)	—	5,444
Total	$560,002	$ (64,796)	$495,206	$ (489,762)	$—	$5,444

(1) Included in receivable from brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Repurchase agreements	$881,402	$ (64,796)	$816,606	$ (811,335)	$—	$5,271
Securities loaned [2]	203,585	—	203,585	(196,335)	—	7,250
Total	$1,084,987	$ (64,796)	$1,020,191	$ (1,007,670)	$—	$12,521

(2) Included in payable to brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

As of December 31, 2013
(Expressed in thousands)

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		
				Financial Instruments	Cash Collateral Received	Net Amount
Reverse repurchase agreements	$389,439	$ (204,614)	$184,825	$ (183,305)	$—	$1,520
Securities borrowed [1]	274,127	—	274,127	(265,936)	—	8,191
Total	$663,566	$ (204,614)	$458,952	$ (449,241)	$—	$9,711

(1) Included in receivable from brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet		
				Financial Instruments	Cash Collateral Pledged	Net Amount
Repurchase agreements	$962,105	$(204,614)	$757,491	$(753,003)	$—	$4,488
Securities loaned [2]	211,621	—	211,621	(204,971)	—	6,650
Total	$1,173,726	$(204,614				