Wealthfront Brokerage LLC

Statement of Financial Condition

For the year ended July 31, 2022

With Report of Independent Registered Public Accounting Firm

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

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PART III

FACING PAGE
Information Required Pursuant to Rules 17a-5, 17a-12, and 18a-7 under the Securities Exchange Act of 1934

FILING FOR THE PERIOD BEGINNING 08/01/2021 (MM/DD/YY) AND ENDING 07/31/2022 (MM/DD/YY)

A. REGISTRANT IDENTIFICATION

NAME OF FIRM: Wealthfront Brokerage LLC

TYPE OF REGISTRANT (check all applicable boxes):
☒ Broker-dealer ☐ Security-based swap dealer ☐ Major security-based swap participant
☐ Check here if respondent is also an OTC derivatives dealer

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use a P.O. box no.)

261 Hamilton Ave
(No. and Street)

Palo Alto	CA	94301
(City)	(State)	(Zip Code)

PERSON TO CONTACT WITH REGARD TO THIS FILING

Jamie Coffey	(402) 770-5830	jamie@wealthfront.com
(Name)	(Area Code – Telephone Number)	(Email Address)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose reports are contained in this filing*

Ernst & Young LLP
(Name – if individual, state last, first, and middle name)

560 Mission St. Suite 1600	San Francisco	California	94105
(Address)	(City)	(State)	(Zip Code)

10/20/2003	42
(Date of Registration with PCAOB)(if applicable)	(PCAOB Registration Number, if applicable)

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* Claims for exemption from the requirement that the annual reports be covered by the reports of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis of the exemption. See 17 CFR 240.17a-5(e)(1)(ii), if applicable.

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, Jamie Coffey, swear (or affirm) that, to the best of my knowledge and belief, the financial report pertaining to the firm of Wealthfront Brokerage LLC, as of 7/31, 2022, is true and correct. I further swear (or affirm) that neither the company nor any partner, officer, director, or equivalent person, as the case may be, has any proprietary interest in any account classified solely as that of a customer.

Signature:

Title: Chief Executive Officer

SEE ATTACHED NOTARY CERTIFICATE

Notary Public

This filing contains (check all applicable boxes):**

- ■ (a) Statement of financial condition.
- ■ (b) Notes to consolidated statement of financial condition.
- ☐ (c) Statement of income (loss) or, if there is other comprehensive income in the period(s) presented, a statement of comprehensive income (as defined in § 210.1-02 of Regulation S-X).
- ☐ (d) Statement of cash flows.
- ☐ (e) Statement of changes in stockholders' or partners' or sole proprietor's equity.
- ☐ (f) Statement of changes in liabilities subordinated to claims of creditors.
- ☐ (g) Notes to consolidated financial statements.
- ☐ (h) Computation of net capital under 17 CFR 240.15c3-1 or 17 CFR 240.18a-1, as applicable.
- ☐ (i) Computation of tangible net worth under 17 CFR 240.18a-2.
- ☐ (j) Computation for determination of customer reserve requirements pursuant to Exhibit A to 17 CFR 240.15c3-3.
- ☐ (k) Computation for determination of security-based swap reserve requirements pursuant to Exhibit B to 17 CFR 240.15c3-3 or Exhibit A to 17 CFR 240.18a-4, as applicable.
- ☐ (l) Computation for Determination of PAB Requirements under Exhibit A to § 240.15c3-3.
- ☐ (m) Information relating to possession or control requirements for customers under 17 CFR 240.15c3-3.
- ☐ (n) Information relating to possession or control requirements for security-based swap customers under 17 CFR 240.15c3-3(p)(2) or 17 CFR 240.18a-4, as applicable.
- ☐ (o) Reconciliations, including appropriate explanations, of the FOCUS Report with computation of net capital or tangible net worth under 17 CFR 240.15c3-1, 17 CFR 240.18a-1, or 17 CFR 240.18a-2, as applicable, and the reserve requirements under 17 CFR 240.15c3-3 or 17 CFR 240.18a-4, as applicable, if material differences exist, or a statement that no material differences exist.
- ☐ (p) Summary of financial data for subsidiaries not consolidated in the statement of financial condition.
- ■ (q) Oath or affirmation in accordance with 17 CFR 240.17a-5, 17 CFR 240.17a-12, or 17 CFR 240.18a-7, as applicable.
- ☐ (r) Compliance report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (s) Exemption report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (t) Independent public accountant's report based on an examination of the statement of financial condition.
- ☐ (u) Independent public accountant's report based on an examination of the financial report or financial statements under 17 CFR 240.17a-5, 17 CFR 240.18a-7, or 17 CFR 240.17a-12, as applicable.
- ☐ (v) Independent public accountant's report based on an examination of certain statements in the compliance report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (w) Independent public accountant's report based on a review of the exemption report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- ☐ (x) Supplemental reports on applying agreed-upon procedures, in accordance with 17 CFR 240.15c3-1e or 17 CFR 240.17a-12, as applicable.
- ☐ (y) Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit, or a statement that no material inadequacies exist, under 17 CFR 240.17a-12(k).
- ☐ (z) Other: ________

***To request confidential treatment of certain portions of this filing, see 17 CFR 240.17a-5(e)(3) or 17 CFR 240.18a-7(d)(2), as applicable.*

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California
County of Santa Clara -------

Subscribed and sworn to (or affirmed) before me on this 29th day of September, 2022, by Jamie Coffey

proved to me on the basis of satisfactory evidence to be the person(~~s~~) who appeared before me.

VIKAL PATEL
COMM. #2340947
NOTARY PUBLIC - CALIFORNIA
SANTA CLARA COUNTY
My Comm. Exp. Feb. 2, 2025

(Seal) Signature ______________

Wealthfront Brokerage LLC
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Report of Independent Registered Public Accounting Firm

To the Member and Management of Wealthfront Brokerage LLC

Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Wealthfront Brokerage LLC (the Company) as of July 31, 2022 and the related notes (the "financial statement"). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company at July 31, 2022 in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Ernst & Young LLP

We have served as the Company's auditor since 2016.

September 29, 2022

Wealthfront Brokerage LLC

Statement of Financial Condition

As of July 31, 2022

Assets		
Cash and cash equivalents	$	10,981,599
Cash segregated under Federal and other regulations		6,360,304
Restricted cash and cash equivalents		610,000
Due from customers		168,022,734
Receivable from clearing broker		844,840
Other receivables		1,756,636
Other assets		195,645
Total Assets	$	188,771,758
Liabilities and Member's Equity		
Accounts payable and accrued expenses	$	1,253,743
Payable to clearing broker		167,998,965
Payable to affiliate		1,948,668
Deferred revenue		1,477,463
Due to customers		482,289
Total Liabilities	$	173,161,128
Member's Equity		15,610,630
Total Liabilities and Member's Equity	$	188,771,758

See accompanying notes to statement of financial condition

Wealthfront Brokerage LLC
Notes to Statement of Financial Condition
July 31, 2022

1. Organization

Wealthfront Brokerage LLC (the "Company"), formerly known as Wealthfront Brokerage Corporation, is a Delaware registered limited liability company and is a wholly owned subsidiary of Wealthfront Corporation (the "Parent"). The Company currently operates in one reportable business segment which represents principally all of the Company's operations and is a registered broker-dealer licensed by the U.S. Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA").

The Company is an omnibus clearing and carrying broker providing services solely for the customers of its Parent. The Company is licensed in 50 states, District of Columbia, Puerto Rico and the U.S. Virgin Islands.

The Company conducts business on an omnibus basis and clears through RBC Correspondent Services ("RBC"), a division of RBC Capital Markets, LLC. In addition, the Company acts as a distributor of funds for Wealthfront 529 College Savings Plan, a private purpose trust fund of the State of Nevada, for which Ascensus Broker Dealer Services, Inc. serves as the Program Manager and the Bank of New York Mellon Corporation serves as the custody agent. The Company also offers a cash sweep program to its customers by providing access to cash accounts at third party institutions.

2. Significant Accounting Policies

Use of Estimates

The preparation of financial statements in accordance with Generally Accepted Accounting Principles in the United States of America ("U.S. GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates are based on historical experience and other factors, including expectations of future events that management believes to be reasonable under the circumstances, however, due to the inherent uncertainties in making estimates, actual results could differ from those estimates and may have an impact on future periods.

Cash and Cash Equivalents

The Company considers all demand deposits held in banks and certain highly liquid investments with original maturities of three months or less to be cash equivalents. The Company maintains its cash balances at various financial institutions. These deposits may exceed maximum insurance coverage level provided by the Federal Deposit Insurance Corporation. No cash equivalents were held as of July 31, 2022.

Cash Segregated Under Federal and Other Regulations

Cash segregated under Federal and other regulations represents restricted cash segregated in accordance with the Customer Protection Rule ("Rule 15c3-3") of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Under Rule 15c3-3, a broker dealer carrying customer accounts is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefits of customers.

Restricted Cash

Restricted cash consists of $600,000 invested in a bank certificate of deposit with a 30-day maturity earning interest on a monthly basis and $10,000 held on deposit at Bank of New York Mellon as of July 31, 2022. No restricted cash equivalents were held as of July 31, 2022.

Due to/from Customers

The Company offers margin lending to eligible customers collateralized by their respective security and cash holdings. Margin lending is subject to the margin rules of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the margin requirements of FINRA, and the Company's internal policies. Under the margin rules of the Federal Reserve, customers are obligated to maintain net equity of 25% of the value of securities in their accounts. The Company monitors margin levels and requires customers to provide additional collateral, or reduce margin positions, to meet minimum collateral requirements if the fair value of the collateral changes. The Company applies the practical expedient based on collateral maintenance provisions in estimating an allowance for credit losses for margin loans. In accordance with the practical expedient, when the Company reasonably expects that customers replenish the collateral as required, there is no expectation of credit losses when the collateral's fair value is greater than the amortized cost of the financial asset. If the

2. Significant Accounting Policies (continued)

amortized cost exceeds the fair value of collateral, then credit losses are estimated only on the unsecured portion. Margin loans of $167,916,611 as of July 31, 2022 are included in Due from customers in the statement of financial condition. As of July 31, 2022, no customer accounted for more than 5% of the outstanding margin loans. As of July 31, 2022, $74,736 of dividends, $104,117 of ACH reversals, and $135,504 of margin interest receivable from customers are also accounted for in Due from customers in the statement of financial condition. The allowance for credit losses for receivables from customers and related activity is immaterial as of July 31, 2022. Due to customers is primarily comprised of cash balances owed to customers.

Receivables from and Payables to Clearing Broker

The Company maintains clearing accounts with RBC. As of July 31, 2022, the Company has a balance of $744,840 in the clearing accounts. The Company also maintains a $100,000 clearing deposit with its clearing broker, RBC. The clearing deposit is required of the Company by the clearing broker to cover any obligations that may arise from the Company. Such clearing deposits are typically retained by the clearing firm for the duration of the clearing agreement and are generally returned to the corresponding firm, as long as the correspondent firm does not have obligations to the clearing firm that cannot otherwise satisfy, within a short period after termination of a clearing arrangement. The duration of these receivables is typically short term in nature with daily settlement. The Company continually reviews the credit quality of RBC.

The Company has a loan payable to its clearing broker, RBC, in the amount of $167,916,611 as of July 31, 2022, related to the financing of customers' margin loans. The securities of customers with margin loan balances are segregated and made available to the clearing broker as collateral for the outstanding loan balance. As of July 31, 2022, interest and service charges payable to the clearing broker are $82,354 and $273,654 respectively and are presented as payable to clearing broker and accounts payable and accrued expenses, respectively, on the statement of financial condition.

Payable to Affiliate

The payable to affiliate in the amount $1,948,668 as of July 31, 2022 relates to the expense sharing agreement described in Note 6.

Contract Balances

Deferred revenue consists of proxy service revenue received in advance of the performance obligation being satisfied. At July 31, 2022, the Company recorded Deferred Revenue of $1,477,463 on the Statement of Financial Condition.

Other Receivables

Other receivables primarily consist of receivables for cash sweep service revenue in the amount of $1,364,826, customers' funds held in a money market fund pending withdrawal in the amount of $259,274, customers' checks in transit in the amount of $49,822 and non-customer accounts with margin loans in the amount of $82,714.

Income Taxes

The Company is a single member limited liability company, which is a disregarded entity for federal and state income tax purposes. As such, income or loss of the Company is recorded on the Parent's return. However, the Company is subject to certain state taxes.

Deferred income taxes are recognized for differences between the basis of assets and liabilities for financial statement and income tax purposes. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

2. Significant Accounting Policies (continued)

The Company is required to assess the likelihood that deferred tax assets will be realized using more-likely-than-not criteria. To the extent these criteria are not met, the Company is required to establish a valuation allowance against the deferred tax assets. Valuation allowances are established to reduce the deferred tax assets to the amount that more likely than not will be realized.

3. Recent Accounting Developments

Recent Accounting Pronouncements Adopted

Income Taxes

In December 2019, the FASB issued Accounting Standards Update No. 2019-12 ("Topic 740"), *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes* which is part of the Board's initiative to reduce cost and complexity related to accounting for income taxes. Topic 740 eliminates certain exceptions to the general principles of Topic 740, Income Taxes, and simplifies income tax accounting in several areas. The new standard was effective for the Company beginning August 1, 2021. Adoption of ASU 2019-12 did not have a material impact on the statement of financial condition.

4. Net Capital Requirements

The Company is subject to the SEC's uniform net capital rule ("Rule 15c3-1") which requires broker-dealers to maintain minimum net capital equal to or greater than a specified threshold, as well as a ratio of aggregate indebtedness to net capital not exceeding 15 to 1, both as defined. The Company utilizes the alternative method in determining its excess net capital. Under the alternative method, the Company is required to maintain minimum net capital equal to the greater of $250,000 or 2% of aggregate customer debits (i.e., customer-related receivables) as computed per Rule 15c3-3's reserve formula. At July 31, 2022, the Company's net capital was $14,373,152 which exceeded the requirement by $11,013,519.

5. Income Taxes

Wealthfront Brokerage LLC is a single member LLC treated as a disregarded entity for federal and state income tax purposes. Total income tax expense attributable to income before income taxes for the year ended July 31, 2022 consists of the following:

Deferred Income Tax Asset:	
Federal and state net operating loss carryforwards	$ 216,395
Valuation allowance	(216,395)
Net Deferred Income Tax Asset	$ –

Wealthfront Brokerage LLC recognizes interest and penalties related to unrecognized tax benefits as a component of operating expenses. There were no interest and penalties related to unrecognized tax benefits at July 31, 2022. Wealthfront Brokerage LLC does not have any uncertain tax positions at July 31, 2022.

Management believes that it is more likely than not that the deferred tax asset (DTA) will not be utilized, and therefore, has recorded a full valuation allowance.

As of July 31, 2022, the Company has federal net operating loss carryforwards of $812,610 and state net operating loss carryforwards of $809,117, which will expire beginning in 2030.

6. Related-Party Transactions

The Company has a tri-party expense sharing agreement with the Parent and Wealthfront Advisers LLC (the "Adviser"). The Company assists the Adviser by providing account holders with brokerage services by introducing such accounts and account holders to RBC on an omnibus or other mutually-agreed basis for custody, transaction clearance and other mutually-agreed services.

6. Related-Party Transactions (continued)

The expense sharing agreement also requires that certain direct and indirect expenses be allocated to the Company and recorded on a monthly basis. Direct expenses mainly consist of clearing fees, regulatory fees, margin interest expense, and cash sweep service expense. Indirect expenses include compensation and benefits, rent, insurance, communications, and office supplies based on an amount in line with the expense sharing agreement.

The expense sharing agreement includes the Company's brokerage services agreement with its Parent which requires the Parent to pay the Company for brokerage services equal to 102% of the allocated and actual costs incurred by the Company in the normal course of operations reduced by any revenues related to margin interest income from customer margin loans, proxy reimbursement, cash sweep service revenue and other income. As a result of the expense sharing and brokerage services agreement, the Company has a net payable to the Parent, payable to affiliate, of $1,948,668 as of July 31, 2022. During the year ended July 31, 2022, the Parent contributed $2,600,000 million in capital to the Company. The Company's results of operations and financial position could differ from those that would have been obtained if these entities were unrelated.

The Company has a revolving line of credit with its Parent. The agreement enables the Company to borrow from its Parent in the amount up to $20,000,000 in the form of a promissory note to satisfy its reserve requirement under Rule 15c3-3. The Company and the Parent amended the loan agreement, effective June 3, 2019. As a result of the amendment, such loans begin to accrue simple, non-compounding interest on the sixth (6) business day following each such disbursement. Outstanding loans accrue interest at a rate equal to the effective federal funds rate plus two percent (2.00%) per annum. The effective federal funds rate for each note is based upon the effective federal funds rate on the date of execution for each such note. Interest is computed and accrued on a 365-day basis for the actual number of days elapsed. Accrued and unpaid interest is due upon repayment of each loan or the termination date, whichever occurs first. As of July 31, 2022, the Company had no outstanding loans owed to the Parent.

Certain investors have signed a letter of credit ("LOC") with the Parent. The LOC is triggered when the Company needs additional funds to continue its operations in compliance with regulatory requirements and the Parent is unable or unwilling to provide the required liquidity. During the fiscal year this line was not drawn on.

Several directors and officers of the Company hold accounts for which custody services are provided and have margin loans in the amount of $82,714.

While the Company is currently a profitable entity with excess net capital of $11,013,519, the profits of the Company are generated primarily through its brokerage services agreement with the Parent, margin interest income from customer margin loans, proxy reimbursement and cash sweep service revenue. The Parent has operated at a net loss since inception.

7. Financial Instruments with Off-Balance-Sheet Credit Risk

As a securities broker, the Company executes transactions with and on the behalf of customers. The Company clears these transactions with its clearing firm on an omnibus basis.

In the normal course of business, the Company's customer activities involve the execution of securities transactions and settlement by its clearing broker. The agreement between the Company and its clearing broker provides that the Company is obligated to assume any exposure related to nonperformance by its customers. These activities may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contracted obligations. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at the prevailing market price in order to fulfill the customer's obligation. The Company seeks to control off-the-balance-sheet credit risk by monitoring its customer transactions and reviewing information it receives from its clearing broker on a daily basis and reserving for doubtful accounts when necessary.

7. Financial Instruments with Off-Balance-Sheet Credit Risk (continued)

Margin Risk

By permitting customers to receive loans on margin, the Company is subject to risks inherent in extending credit, especially during periods of rapidly declining markets in which the value of the collateral held by the Company could fall below the amount of the customer's indebtedness. Sharp changes in market values of substantial amounts of securities and the failure by its clearing partner to honor its commitments for the borrowing transactions could have an adverse effect on the Company's revenue and profitability.

In the event a customer fails to satisfy its obligations, the Company may be required to sell financial instruments at prevailing market prices in order to fulfill the customer's obligations. The Company monitors required margin levels daily, and pursuant to such guidelines, requires customers to deposit additional collateral or reduce margin loans, when necessary. Management is responsible for supervising the risks associated with extending credit and monitors the customers' margin positions to identify customer accounts that may need additional collateral or liquidation.

Management believes it is unlikely the Company will have to make any material payments under these arrangements.

8. Contingencies

The Company is subject to claims and lawsuits in the ordinary course of business. The Company is also the subject of inquiries, investigations, and proceedings by regulatory and other governmental agencies. The Company reviews its lawsuits, regulatory inquiries and other legal proceedings on an ongoing basis and provides disclosure and records loss contingencies in accordance with the loss contingencies accounting guidance. The Company establishes an accrual for losses at management's best estimate when it assesses that it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. If an estimated loss is only reasonably possible rather than probable, no liability is recognized. However, where a material loss is reasonably possible, the Company will disclose details of the legal proceeding or claim. An event is defined as reasonably possible if the chance of the loss to the Company is more than remote but less than probable. The Company monitors these matters for developments that would affect the likelihood of a loss and the accrued amount, if any, and adjusts the amount as appropriate. As of July 31, 2022, the Company has not recorded any material loss contingencies in the financial statements.

9. Subsequent Events

The Company has evaluated subsequent events from the statement of financial condition date through September 29, 2022, the date which the financial statements were available to be issued.

On September 2, 2022, UBS and Wealthfront Corporation mutually agreed to terminate their merger agreement, initially announced January 26, 2022, under which Wealthfront Corporation was to be acquired by UBS Americas Inc. Additionally, UBS purchased a $69.7 million note convertible into Wealthfront Corporation shares.

There have been no other material subsequent events that occurred during such period that would require disclosure or would be required to be recognized in the financial statements as of July 31, 2022.