

**OPPENHEIMER & CO. INC. AND SUBSIDIARIES**  
**(S.E.C. I.D. No. 8-04077)**

**CONSOLIDATED STATEMENT OF FINANCIAL CONDITION**  
**AS OF DECEMBER 31, 2020**  
**AND**  
**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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**Filed pursuant to Rule 17a-5(e)(3) under the**  
**Securities Exchange Act of 1934**  
**as a Public Document**

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Directors and Equity Owners of Oppenheimer & Co. Inc.

### Opinion on the Financial Statement

We have audited the accompanying consolidated statement of financial condition of Oppenheimer & Co. Inc. and subsidiaries (the “Company”) as of December 31, 2020, and the related notes (collectively referred to as the “financial statement”). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

The financial statement is the responsibility of the Company’s management. Our responsibility is to express an opinion on this 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 presentation of the financial statement. We believe that our audit of the financial statement provides a reasonable basis for our opinion.

*Deloitte & Touche LLP*

February 25, 2021

We have served as the Company’s auditor since 2013.

**Oppenheimer & Co. Inc. and Subsidiaries**  
**Consolidated Statement of Financial Condition**  
**As of December 31, 2020**

*(Expressed in thousands, except number of shares and per share amounts)*

**ASSETS**

|  |    |                  |
|--|----|------------------|
| Cash and cash equivalents  | \$ | 12,221           |
| Deposits with clearing organizations (includes securities with a fair value of \$23,991)                                 |    | 82,960           |
| Receivable from brokers, dealers and clearing organizations  |    | 203,494          |
| Receivable from customers, net of allowance for credit losses of \$410   |    | 1,110,503        |
| Securities owned, including amounts pledged of \$440,531 at fair value   |    | 601,355          |
| Notes receivable, net of accumulated amortization and allowance for uncollectibles of \$26,758 and \$4,234, respectively |    | 46,161           |
| Furniture, equipment and leasehold improvements, net of accumulated depreciation of \$67,008                             |    | 7,005            |
| Deferred income taxes, net   |    | 15,790           |
| Right-of-use lease assets, net of accumulated amortization of \$6,861  |    | 3,144            |
| Goodwill   |    | 10,788           |
| Other assets   |    | 227,659          |
| Total assets   | \$ | <u>2,321,080</u> |

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**Liabilities**

|  |    |                  |
|--|----|------------------|
| Bank call loans  | \$ | 82,000           |
| Payable to brokers, dealers and clearing organizations |    | 259,911          |
| Payable to customers                                   |    | 502,825          |
| Securities sold under agreements to repurchase         |    | 342,438          |
| Securities sold but not yet purchased, at fair value   |    | 126,171          |
| Income tax payable                                     |    | 72,610           |
| Lease liabilities                                      |    | 3,175            |
| Accrued compensation                                   |    | 283,701          |
| Accounts payable and other liabilities                 |    | 133,929          |
| Subordinated borrowings                                |    | 112,558          |
| Total liabilities                                      |    | <u>1,919,318</u> |

Commitments and contingencies (note 13)

**Stockholder's equity**

|  |                     |
|--|---------------------|
| Common stock, par value \$100 per share - 1,000 shares authorized; 760 shares issued and outstanding | 76                  |
| Additional paid-in capital   | 316,868             |
| Retained earnings  | 82,516              |
| Accumulated other comprehensive income   | 3,660               |
| Less 369 shares of treasury stock, at cost   | <u>(1,358)</u>      |
| Total stockholder's equity   | <u>401,762</u>      |
| Total liabilities and stockholder's equity   | <u>\$ 2,321,080</u> |

The accompanying notes are an integral part of this consolidated statement of financial condition.

**Oppenheimer & Co. Inc. and Subsidiaries**  
**Notes to Consolidated Statement of Financial Condition**  
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**1. Organization**

Oppenheimer & Co. Inc. (the "Company" and "Oppenheimer") is a wholly owned subsidiary whose ultimate parent is Oppenheimer Holdings Inc. (the "Parent"), a Delaware public corporation. The Company is a New York-based registered broker-dealer and investment adviser in securities under the Securities Exchange Act of 1934 ("the Act") and is a member firm of the Financial Industry Regulatory Authority. The Company is also a registered introducing broker with the Commodities Futures Trading Commission and is a member of the National Futures Association. The Company is also a member of Intercontinental Exchange, Inc., known as ICE Futures U.S., and various exchanges, including the New York Stock Exchange, Inc.

The Company engages in a broad range of activities in the securities industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), underwriting, research, market-making, and investment advisory and asset management services.

The Company provides its services from offices located throughout the United States. In addition, the Company conducts business in Israel and Latin America.

**2. Summary of significant accounting policies and estimates**

***Basis of Presentation***

The consolidated statement of financial condition of the Company includes the accounts of the Company's wholly owned subsidiaries: Freedom Investments, Inc. ("Freedom"), a registered broker dealer in securities, which provides discount brokerage services; Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel; Pace Securities, Inc. ("Pace"), Prime Charter Ltd., and Old Michigan Corp. and Subsidiaries (inactive).

The consolidated statement of financial condition has been prepared in conformity with accounting principles generally accepted in the United States of America ("US GAAP").

Intercompany transactions and balances have been eliminated in the preparation of the consolidated statement of financial condition.

**Use of Estimates**

The preparation of the consolidated statement of financial condition in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated statement of financial condition.

In presenting the consolidated statement of financial condition, management makes estimates regarding valuations of financial instruments, loans and allowances for credit losses, the outcome of legal and regulatory matters, goodwill and other intangible assets, share based compensation plans and income taxes. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could be materially different from these estimates. A discussion of certain critical accounting policies in which estimates are a significant component of the amounts reported on the consolidated statement of financial condition follows.

On January 30, 2020, the spread of the novel coronavirus ("COVID-19") was declared a Public Health Emergency of International Concern by the World Health Organization ("WHO"). Subsequently, on March 11, 2020, the WHO characterized the COVID-19 outbreak as a pandemic (the "COVID-19 Pandemic"). COVID-19 Pandemic coupled with the current market volatility has created an economic environment which may have significant accounting and financial reporting implications.

The disruption of businesses around the globe due to COVID-19 may be a "trigger event" for companies to reassess valuation and accounting estimates and assumptions such as, impairment of goodwill, valuation allowances of deferred tax assets, fair value of investments and collectability of receivables. We have reviewed the assumptions on which we value our goodwill, as

**Oppenheimer & Co. Inc. and Subsidiaries**  
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well as valuation allowances on certain assets and the collectability of our receivables as of December 31, 2020 which did not result in any significant impairment or write off.

*Financial Instruments and Fair Value*

*Financial Instruments*

Securities owned, 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.

*Fair Value Measurements*

Accounting guidance for the fair value measurement of financial assets, defines fair value, establishes a framework for measuring fair value, establishes a fair value measurement hierarchy, and expands fair value measurement disclosures. Fair value, as defined by the accounting guidance, is the price that would be received in the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy established by this accounting guidance prioritizes the inputs used in valuation techniques into the following three categories (highest to lowest priority):

- Level 1:** Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2:** Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly; and
- Level 3:** Unobservable inputs that are significant to the overall fair value measurement.

The Company's financial instruments that are recorded at fair value generally are classified within Level 1 or Level 2 within the fair value hierarchy using quoted market prices or quotes from market makers or broker-dealers. Financial instruments classified within Level 1 are valued based on quoted market prices in active markets and consist of U.S. Treasury and Agency securities, corporate equities, and certain money market instruments. Level 2 financial instruments primarily consist of investment grade and high-yield corporate debt, convertible bonds, mortgage and asset-backed securities, and municipal obligations. Financial instruments classified as Level 2 are valued based on quoted prices for similar assets and liabilities in active markets and quoted prices for identical or similar assets and liabilities in markets that are not active. Some financial instruments are classified within Level 3 within the fair value hierarchy as observable pricing inputs are not available due to limited market activity for the asset or liability. Such financial instruments include certain distressed municipal securities, auction rate securities ("ARS") and investments in hedge funds and private equity funds where the Company, through its subsidiaries, is a general partner.

*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.

*Consolidation*

The Company consolidates all subsidiaries in which it has a controlling financial interest, as well as any variable interest entities ("VIEs") where the Company is deemed to be the primary beneficiary, when it has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb significant losses or the right to receive benefits that could potentially be significant to the VIE. The Company reviews factors, including the rights of the equity holders at risk and obligations of equity holders to absorb losses or receive expected residual returns, to determine if the entity is a VIE. In evaluating whether the Company is the primary beneficiary, the Company evaluates its economic interests in the entity held either directly or indirectly by the Company. Under US GAAP, a general partner will not consolidate a partnership or similar entity under the voting interest model. See note 8 for further details.

**Oppenheimer & Co. Inc. and Subsidiaries**  
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***Financing Receivables***

The Company's financing receivables include customer margin loans, securities purchased under agreements to resell ("reverse repurchase agreements"), and securities borrowed transactions. The Company uses financing receivables to extend margin loans to customers, meet trade settlement requirements, and facilitate its matched-book arrangements and inventory requirements.

The Company's financing receivables are secured by collateral received from clients and counterparties. In many cases, the Company is permitted to sell or re-pledge securities held as collateral. These securities may be used to collateralize repurchase agreements, to enter into securities lending agreements, to cover short positions or fulfill the obligation of securities fails to deliver. The Company monitors the market value of the collateral received on a daily basis and may require clients and counterparties to deposit additional collateral or return collateral pledged, when appropriate.

Customer receivables, primarily consisting of customer margin loans collateralized by customer-owned securities, are stated net of allowance for credit losses. The Company reviews large customer accounts that do not comply with the Company's margin requirements on a case-by-case basis to determine the likelihood of collection and records an allowance for credit loss following that process. For small customer accounts that do not comply with the Company's margin requirements, the allowance for credit loss is generally recorded as the amount of unsecured or partially secured receivables.

The Company also makes loans to financial advisors as part of its hiring process. These loans are recorded as notes receivable on its consolidated statement of financial condition. Allowances are established on these loans if the financial advisor is no longer associated with the Company and the loan has not been promptly repaid.

***Legal and Regulatory Reserves***

The Company records reserves related to legal and regulatory proceedings in accounts payable and other liabilities. The determination of the amounts of these reserves requires significant judgment on the part of management. In accordance with applicable accounting guidance, the Company establishes reserves for litigation and regulatory matters where available information indicates that it is probable a liability had been incurred and the Company can reasonably estimate the amount of that loss. When loss contingencies are not probable or cannot be reasonably estimated, the Company does not establish reserves.

When determining whether to record a reserve, management considers many factors including, but not limited to, the amount of the claim; the stage and forum of the proceeding, the sophistication of the claimant, the amount of the loss, if any, in the client's account and the possibility of wrongdoing, if any, on the part of an employee of the Company; the basis and validity of the claim; previous results in similar cases; and applicable legal precedents and case law. Each legal and regulatory proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. The assumptions of management in determining the estimates of reserves may be incorrect and the actual disposition of a legal or regulatory proceeding could be greater or less than the reserve amount.

***Leases***

In 2019, the Company adopted ASU 2016-02, "Leases". The ASU requires the recognition of right-of use ("ROU") assets and lease liabilities on the consolidated statement of financial condition by lessees for those leases classified as operating leases under previous guidance.

ROU assets and lease liabilities are initially recognized based on the present value of the future minimum lease payments over the lease term, excluding non-base rent components such as fixed common area maintenance costs and other fixed costs such as real estate taxes and insurance. The discount rates used in determining the present value of leases are the Company's incremental borrowing rates, developed based upon each lease's term. The lease term includes options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. For operating leases, the ROU assets also include any prepaid lease payments and initial direct costs incurred and are reduced by lease incentives. For these leases, lease expense is recognized on a straight-line basis over the lease term if the ROU asset has not been impaired or abandoned.

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***Goodwill***

The Company defines a reporting unit as an operating segment. The Company's goodwill resides in its Private Client Division ("PCD") reporting unit. Goodwill of a reporting unit is subject to at least an annual test for impairment to determine if the estimated fair value of a reporting unit is less than its carrying amount. Goodwill of a reporting unit is required to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Due to the volatility in the financial services sector and equity markets in general, determining whether an impairment of goodwill has occurred is increasingly difficult and requires management to exercise significant judgment. The Company's annual goodwill impairment analysis performed as of December 31, 2020 applied the same valuation methodologies with consistent inputs as that performed as of December 31, 2019, as follows:

In estimating the fair value of the reporting unit, the Company uses the market comparable approach. The market comparable approach is based on comparisons of the subject company to public companies whose stocks are actively traded ("Price Multiples") or to similar companies engaged in an actual merger or acquisition ("Precedent Transactions"). As part of this process, multiples of value relative to financial variables, such as earnings or stockholders' equity, are developed and applied to the appropriate financial variables of the subject company to indicate its value. Each of these standard valuation methodologies requires the use of management estimates and assumptions. In its Price Multiples valuation analysis, the Company uses various operating metrics of comparable companies, including revenues, after-tax earnings, and EBITDA as well as price-to-book value ratios at a point in time. The Company analyzes prices paid in Precedent Transactions that are comparable to the business conducted in the reporting unit. The Company weighs each of the valuation methods equally in its overall valuation. Given the subjectivity involved in selecting which valuation method to use, the corresponding weightings, and the input variables for use in the analyses, it is possible that a different valuation model and the selection of different input variables could produce a materially different estimate of the fair value of the reporting unit.

***Share-Based Compensation Plans***

As part of the compensation to employees and directors, the Company uses stock-based compensation, consisting of restricted stock, stock options and stock appreciation rights. In accordance with ASC Topic 718, "Compensation - Stock Compensation," the Company classifies the stock options and restricted stock awards as equity awards. The fair value of restricted stock awards is determined based on the grant date closing price of the Parent's Class A non-voting common stock ("Class A Stock") adjusted for the present value of the dividend to be received upon vesting. The fair value of stock options is determined using the Black-Scholes model. Key assumptions used to estimate the fair value include the expected term and the expected volatility of the Parent's Class A Stock over the term of the award, the risk-free interest rate over the expected term, and the Parent's expected annual dividend yield. The Parent classifies stock appreciation rights ("OARs") as liability awards, which requires the fair value to be remeasured at each reporting period until the award vests. The fair value of OARs is also determined using the Black-Scholes model at the end of each reporting period. The compensation cost is adjusted each reporting period for changes in fair value prorated for the portion of the requisite service period rendered.

***Statement of Financial Condition***

***Cash and Cash Equivalents***

The Company defines cash equivalents as highly liquid investments with original maturities of less than 90 days that are not held for sale in the ordinary course of business.

***Receivables from / Payables to Brokers, Dealers and Clearing Organizations***

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. The Company receives cash or collateral in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis and may require counterparties to deposit additional collateral or return collateral pledged, when appropriate.

Securities failed to deliver and receive represent the contract value of securities which have not been delivered or received, respectively, by settlement date.

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*Receivables from / Payables to Customers*

Receivables from and payables to customers include balances arising from customer securities and margin transactions. Receivables from customers are recorded when margin loans are extended to customers and are recorded on a settlement date basis. Payables to customers are recorded when customers deposit cash into their accounts and are recorded on a settlement date basis.

*Securities Purchased under Agreements to Resell and Securities Sold under Agreements to Repurchase*

Reverse repurchase agreements and securities sold under agreements to repurchase ("repurchase agreements") are treated as collateralized financing transactions and are recorded at their contractual amounts plus accrued interest. Additionally, 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 can present the reverse repurchase and repurchase agreements on a net-by-counterparty basis when the specific offsetting requirements are satisfied.

*Notes Receivable*

Notes receivable represent recruiting and retention payments generally in the form of upfront loans to financial advisers and key revenue producers as part of the Company's overall growth strategy. These notes generally amortize over a service period of 3 to 10 years from the initial date of the note or based on productivity levels of employees. All such notes are contingent on the employees' continued employment with the Company. The unforgiven portion of the notes becomes due on demand in the event the employee departs during the service period.

*Bank Call Loans*

Bank call loans are generally payable on demand and bear interest at various rates, and such loans are collateralized by firm and/or customer's margin securities.

*Foreign Currency Translations*

Foreign currency balances have been translated into U.S. dollars as follows: monetary assets and liabilities at exchange rates prevailing at period end; and non-monetary assets and stockholders' equity at historical rates. The functional currency of the overseas operations in Tel Aviv, Israel is the local currency.

*Income Taxes*

The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the consolidated statement of financial condition. Under this method, deferred tax assets and liabilities are determined on the basis of the differences between the consolidated statement of financial condition and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies, and the results of recent operations.

The Company records uncertain tax positions in accordance with the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 740, "Income Taxes" on the basis of a two-step process whereby it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

The Company permanently reinvests eligible earnings of its foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if such earnings were repatriated.

**Oppenheimer & Co. Inc. and Subsidiaries**  
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**3. Financial Instruments - Credit Losses**

On January 1, 2020, the Company adopted ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", which replaces the incurred loss methodology with a current expected credit loss ("CECL") methodology. The Company elected the modified retrospective method which did not result in a cumulative effect adjustment at the date of adoption.

The Company can elect to use an approach to measure the allowance for credit losses using the fair value of collateral where the borrower is required to, and reasonably expected to, continually adjust and replenish the amount of collateral securing the instrument to reflect changes in the fair value of such collateral. The Company has elected to use this approach for securities borrowed, margin loans and reverse repurchase agreements. No material historical losses have been reported on these assets. See note 7 for details.

As of December 31, 2020, the Company has \$46.2 million of notes receivable. Notes receivable represents recruiting and retention payments generally in the form of upfront loans to financial advisors and key revenue producers as part of the Company's overall growth strategy. These notes generally amortize over a service period of 3 to 10 years from the initial date of the note or based on productivity levels of employees. All such notes are contingent on the employees' continued employment with the Company. The unforgiven portion of the notes becomes due on demand in the event the employee departs during the service period. At this point any uncollected portion of the notes gets reclassified into a defaulted notes category.

The allowance for uncollectibles is a valuation account that is deducted from the amortized cost basis of the defaulted notes balance to present the net amount expected to be collected. Balances are charged-off against the allowance when management deems the amount to be uncollectible.

The Company reserves 100% of the uncollected balance of defaulted notes which are five years and older and applies an expected loss rate to the remaining balance. The expected loss rate is based on historical collection rates of defaulted notes. The expected loss rate is adjusted for changes in environmental and market conditions such as changes in unemployment rates, changes in interest rates and other relevant factors. For the year ended December 31, 2020 no adjustments were made to the expected loss rates. The Company will continuously monitor the effect of these factors on the expected loss rate and adjust it as necessary.

The allowance is measured on a pool basis as the Company has determined that the entire defaulted portion of notes receivable has similar risk characteristics.

As of December 31, 2020, the uncollected balance of defaulted notes was \$5.7 million and the allowance for uncollectibles was \$4.2 million. The allowance for uncollectibles consisted of \$3.1 million related to defaulted notes balances (five years and older) and \$1.1 million (under five years) using an expected loss rate of 42.0%.

**Oppenheimer & Co. Inc. and Subsidiaries**  
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The following table presents the disaggregation of defaulted notes by year of origination as of December 31, 2020:

| <i>(Expressed in thousands)</i> |    | As of December 31, 2020 |
|---------------------------------|----|-------------------------|
| 2020                            | \$ | 741                     |
| 2019                            |    | 445                     |
| 2018                            |    | 177                     |
| 2017                            |    | 737                     |
| 2016                            |    | 484                     |
| 2015 and prior                  |    | 3,149                   |
| <b>Total</b>                    |    | <b>5,733</b>            |

The following table presents activity in the allowance for uncollectibles of defaulted notes for the year ended December 31, 2020:

| <i>(Expressed in thousands)</i> |           | For the Year Ended<br>December 31, 2020 |
|---------------------------------|-----------|---|
| Beginning balance (1)           | \$        | 3,673                                   |
| Additions and other adjustments |           | 561                                     |
| <b>Ending balance</b>           | <b>\$</b> | <b>4,234</b>                            |

(1) Beginning balance on January 1, 2020 upon adoption of ASU 2016-13

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

| <i>(Expressed in thousands)</i>  |           | As of<br>December 31, 2020 |
|--|-----------|----------------------------|
| Receivable from brokers, dealers and clearing organizations consists of: |           |                            |
| Securities borrowed  | \$        | 110,932                    |
| Receivable from brokers  |           | 30,133                     |
| Securities failed to deliver   |           | 17,840                     |
| Clearing organizations   |           | 28,955                     |
| Other  |           | 15,634                     |
| <b>Total</b>   | <b>\$</b> | <b>203,494</b>             |
| Payable to brokers, dealers and clearing organizations consists of:      |           |                            |
| Securities loaned  | \$        | 249,499                    |
| Payable to brokers   |           | 4,102                      |
| Securities failed to receive   |           | 6,218                      |
| Clearing organizations and other   |           | 92                         |
| <b>Total</b>   | <b>\$</b> | <b>259,911</b>             |

**Oppenheimer & Co. Inc. and Subsidiaries**  
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**5. Leases**

In 2019, the Company adopted ASU 2016-02, "Leases". The ASU requires the recognition of a right-of use asset and lease liability on the consolidated statement of financial condition by lessees for those leases classified as operating leases under previous guidance. The Company elected the modified retrospective method which did not result in a cumulative-effect adjustment at the date of adoption.

The Parent and its subsidiaries have operating leases for office space and equipment expiring at various dates through 2024. The Parent leases its corporate headquarters at 85 Broad Street, New York, New York which houses its executive management team and many administrative functions for the firm as well as its research, trading, investment banking, and asset management divisions and an office in Troy, Michigan, which among other things, houses its payroll and human resources departments.

The majority of the leases are held by the Parent's subsidiary, Viner Finance Inc., which is a 100% owner of the Company.

Leases with an initial term of 12 months or less are not recorded on the statement of financial condition; the Company recognizes lease expense for these leases on a straight-line basis over the lease term. Most leases include an option to renew and the exercise of lease renewal options is at our sole discretion. The Company did not include the renewal options as part of the right of use assets and liabilities.

The depreciable life of assets and leasehold improvements is limited by the expected lease term. Our lease agreements do not contain any material residual value guarantees or material restrictive covenants.

As of December 31, 2020, the Company had right of use operating lease assets of \$3.1 million (net of accumulated amortization of \$6.9 million) which are comprised of real estate leases of \$0.6 million (net of accumulated amortization of \$3.1 million) and equipment leases of \$2.5 million (net of accumulated amortization of \$3.8 million). As of December 31, 2020, the Company had operating lease liabilities of \$3.2 million which are comprised of real estate lease liabilities of \$0.6 million and equipment lease liabilities of \$2.6 million. As of December 31, 2020, the Company had not made any cash payments for amounts included in the measurement of operating lease liabilities or right of use assets obtained in exchange for operating lease obligations. The Company had no finance leases or embedded leases as of December 31, 2020.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. The Company used the incremental borrowing rate on January 1, 2019 for operating leases that commenced prior to that date. The Company used the incremental borrowing rate as of the lease commencement date for the operating leases commenced subsequent to January 1, 2019.

The following table presents the weighted average lease term and weighted average discount rate for our operating leases as of December 31, 2020:

|  | As of<br>December 31, 2020 |
|--|----------------------------|
| Weighted average remaining lease term (in years) | 2.16                       |
| Weighted average discount rate                   | 5.95%                      |

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The maturities of lease liabilities as of December 31, 2020 are as follows:

| <i>(Expressed in thousands)</i>    | As of<br>December 31, 2020 |
|------------------------------------|----------------------------|
| 2021                               | \$ 1,873                   |
| 2022                               | 996                        |
| 2023                               | 387                        |
| 2024                               | 132                        |
| 2025                               | —                          |
| 2026 and thereafter                | —                          |
| Total lease payments               | \$ 3,388                   |
| Less interest                      | (213)                      |
| Present value of lease liabilities | \$ 3,175                   |

As of December 31, 2020, the Company had no additional operating leases that have not yet commenced.

**6. Fair value measurements**

Securities owned, 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.

**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.

*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.

*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.

*Corporate Debt and Other Obligations*

The fair value of corporate bonds is estimated using recent transactions, broker quotations and bond spread information.

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*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. When specific external pricing is not observable, the valuation is based on yields and spreads for comparable bonds.

*Municipal Obligations*

The fair value of municipal obligations is estimated using recently executed transactions, broker quotations, and bond spread information.

*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.

*Corporate Equities*

Equity securities and options are generally valued based on quoted prices from the exchange or market where traded. To the extent quoted prices are not available, fair values are generally derived using bid/ask spreads.

*Auction Rate Securities ("ARS")*

Background

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 (the "Regulators") concluding 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. Over the last ten years, the Company has bought back \$142.5 million of ARS pursuant to these settlements. These buybacks coupled with ARS issuer redemptions and tender offers have significantly reduced the level of ARS held by Eligible Investors (as defined). As of December 31, 2020, the Company had \$1.3 million of ARS to purchase from Eligible Investors related to the settlements with the Regulators. 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. Over the last ten years, the Company has purchased \$106.1 million of ARS pursuant to these legal settlements and awards. The Company has completed its ARS purchase obligations under such legal settlements and awards.

As of December 31, 2020, the Company owned \$30.7 million of ARS. This amount represents the unredeemed or unsold amount that the Company holds as a result of ARS buybacks pursuant to the settlements with the Regulators and legal settlements and awards referred to above.

Valuation

The Company's ARS owned and ARS purchase commitments referred to above have, for the most part, been subject to issuer tender offers. The Company has valued the ARS securities owned and the ARS purchase commitments at the tender offer price and categorized them in Level 3 of the fair value hierarchy due to the illiquid nature of the securities and the period of time since the last tender offer. The ARS purchase commitments related to the settlements with the Regulators and legal settlements and awards are considered derivative assets or liabilities. The ARS purchase commitments represent the difference between the principal value and the fair value of the ARS the Company is committed to purchase. The fair value of ARS and ARS purchase commitments is particularly sensitive to movements in interest rates. However, an increase or decrease in short-term interest rates may or may not result in a higher or lower tender offer in the future or the tender offer price may not provide a reasonable estimate of the fair value of the securities. In such cases, other valuation techniques might be necessary.

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As of December 31, 2020, the Company had a valuation adjustment totaling \$5.2 million which consists of \$5.0 million for ARS owned (which is included as a reduction to securities owned on the consolidated statement of financial condition) and \$0.2 million for ARS purchase commitments from settlements with regulators (which is included in accounts payable and other liabilities on the consolidated statement of financial condition).

**Assets and Liabilities Measured at Fair Value**

The Company's assets and liabilities, recorded at fair value on a recurring basis as of December 31, 2020, have been categorized based upon the above fair value hierarchy as follows:

*Assets and liabilities measured at fair value on a recurring basis as of December 31, 2020*

| <i>(Expressed in thousands)</i>                      |                   |                  |                  |                   |
|--|-------------------|------------------|------------------|-------------------|
|  | Level 1           | Level 2          | Level 3          | Total             |
| <b>Assets</b>  |                   |                  |                  |                   |
| Deposits with clearing organizations                 | \$ 23,991         | \$ —             | \$ —             | \$ 23,991         |
| Securities owned:                                    |                   |                  |                  |                   |
| U.S. Treasury securities                             | 440,273           | —                | —                | 440,273           |
| U.S. Agency securities                               | —                 | 24,598           | —                | 24,598            |
| Sovereign obligations                                | —                 | 367              | —                | 367               |
| Corporate debt and other obligations                 | —                 | 22,973           | —                | 22,973            |
| Mortgage and other asset-backed securities           | —                 | 3,103            | —                | 3,103             |
| Municipal obligations                                | —                 | 25,089           | —                | 25,089            |
| Convertible bonds                                    | —                 | 17,497           | —                | 17,497            |
| Corporate equities                                   | 36,554            | —                | —                | 36,554            |
| Money markets  | 200               | —                | —                | 200               |
| Auction rate securities                              | —                 | —                | 30,701           | 30,701            |
| Securities owned, at fair value                      | 477,027           | 93,627           | 30,701           | 601,355           |
| Derivative contracts:                                |                   |                  |                  |                   |
| TBAs   | —                 | 15               | —                | 15                |
| <b>Total</b>   | <b>\$ 501,018</b> | <b>\$ 93,642</b> | <b>\$ 30,701</b> | <b>\$ 625,361</b> |
| <b>Liabilities</b>                                   |                   |                  |                  |                   |
| Securities sold but not yet purchased:               |                   |                  |                  |                   |
| U.S. Treasury securities                             | \$ 93,261         | \$ —             | \$ —             | \$ 93,261         |
| U.S. Agency securities                               | —                 | 9                | —                | 9                 |
| Sovereign obligations                                | —                 | 623              | —                | 623               |
| Corporate debt and other obligations                 | —                 | 5,283            | —                | 5,283             |
| Convertible bonds                                    | —                 | 9,103            | —                | 9,103             |
| Corporate equities                                   | 17,892            | —                | —                | 17,892            |
| Securities sold but not yet purchased, at fair value | 111,153           | 15,018           | —                | 126,171           |
| Derivative contracts:                                |                   |                  |                  |                   |
| Futures  | 22                | —                | —                | 22                |
| TBAs   | —                 | 3                | —                | 3                 |
| ARS purchase commitments                             | —                 | —                | 195              | 195               |
| Derivative contracts, total                          | 22                | 3                | 195              | 220               |
| <b>Total</b>   | <b>\$ 111,175</b> | <b>\$ 15,021</b> | <b>\$ 195</b>    | <b>\$ 126,391</b> |

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**Financial Instruments Not Measured at Fair Value**

The table below presents the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value on the consolidated statement of financial condition. The table below excludes non-financial assets and liabilities (e.g., furniture, equipment and leasehold improvements 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 term nature of the underlying assets.

*Assets and liabilities not measured at fair value as of December 31, 2020*

| <i>(Expressed in thousands)</i>                              | Fair Value Measurement: Assets |           |           |         |           |
|--|--------------------------------|-----------|-----------|---------|-----------|
|  | Carrying Value                 | Level 1   | Level 2   | Level 3 | Total     |
| Cash   | \$ 12,221                      | \$ 12,221 | \$ —      | \$ —    | \$ 12,221 |
| Deposits with clearing organization                          | 58,969                         | 58,969    | —         | —       | 58,969    |
| Receivable from brokers, dealers and clearing organizations: |                                |           |           |         |           |
| Securities borrowed  | 110,932                        | —         | 110,932   | —       | 110,932   |
| Receivables from brokers                                     | 30,133                         | —         | 30,133    | —       | 30,133    |
| Securities failed to deliver                                 | 17,840                         | —         | 17,840    | —       | 17,840    |
| Clearing organizations                                       | 28,955                         | —         | 28,955    | —       | 28,955    |
| Other  | 15,622                         | —         | 15,622    | —       | 15,622    |
|  | 203,482                        | —         | 203,482   | —       | 203,482   |
| Receivable from customers                                    | 1,110,503                      | —         | 1,110,503 | —       | 1,110,503 |
| Notes receivable, net  | 46,161                         | —         | 46,161    | —       | 46,161    |
| Investments <sup>(1)</sup>                                   | 85,552                         | —         | 85,552    | —       | 85,552    |

(1) Included in other assets on the consolidated statement of financial condition.

| <i>(Expressed in thousands)</i>                          | Fair Value Measurement: Liabilities |         |            |         |            |
|--|-------------------------------------|---------|------------|---------|------------|
|  | Carrying Value                      | Level 1 | Level 2    | Level 3 | Total      |
| Bank call loans  | 82,000                              | —       | 82,000     | —       | 82,000     |
| Payables to brokers, dealers and clearing organizations: |                                     |         |            |         |            |
| Securities loaned  | \$ 249,499                          | \$ —    | \$ 249,499 | \$ —    | \$ 249,499 |
| Payable to brokers                                       | 4,102                               | —       | 4,102      | —       | 4,102      |
| Securities failed to receive                             | 6,218                               | —       | 6,218      | —       | 6,218      |
| Other  | 70                                  | —       | 70         | —       | 70         |
|  | 259,889                             | —       | 259,889    | —       | 259,889    |
| Payables to customers                                    | 502,825                             | —       | 502,825    | —       | 502,825    |
| Securities sold under agreements to repurchase           | 342,438                             | —       | 342,438    | —       | 342,438    |
| Subordinated borrowings                                  | 112,558                             | —       | 112,558    | —       | 112,558    |

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**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 consolidated statement of financial condition.

*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 Shekel ("NIS"). Such hedges have not been designated as accounting hedges. Unrealized gains and losses on foreign exchange forward contracts are recorded in other assets on the consolidated statement of financial condition.

*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 Company uses futures contracts, including U.S. Treasury notes, Federal Funds, General Collateral futures and Eurodollar contracts primarily as an economic hedge of interest rate risk associated with government trading activities. Unrealized gains and losses on futures contracts are recorded on the consolidated statement of financial condition in payable to brokers, dealers and clearing organizations.

*To-be-announced 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. Net unrealized gains and losses on TBAs are recorded on the consolidated statement of financial condition in receivable from brokers, dealers and clearing organizations or payable to brokers, dealers and clearing organizations.

The notional amounts and fair values of the Company's derivatives as of December 31, 2020 by product were as follows:

|  |                          | Fair Value of Derivative Instruments as of December 31, 2020 |               |
|--|--------------------------|--|---------------|
|  |                          | Description  | Notional      |
| <b>Assets:</b>   |                          |  |               |
| Derivatives not designated as hedging instruments <sup>(1)</sup> |                          |  |               |
| Other contracts  | TBAs                     | \$ 7,970   | \$ 15         |
|  |                          | <u>\$ 7,970</u>  | <u>\$ 15</u>  |
| <b>Liabilities:</b>  |                          |  |               |
| Derivatives not designated as hedging instruments <sup>(1)</sup> |                          |  |               |
| Commodity contracts  | Futures                  | \$ 3,440,000   | \$ 22         |
| Other contracts  | TBAs                     | 7,936  | 3             |
|  | ARS purchase commitments | 1,313  | 195           |
|  |                          | <u>\$ 3,449,249</u>  | <u>\$ 220</u> |

(1) See "Derivative Instruments and Hedging Activities" above for a description of derivative financial instruments. Such derivative instruments are not subject to master netting agreements, thus the related amounts are not offset.

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**7. Collateralized transactions**

The Company enters into collateralized borrowing and lending transactions in order to meet customers' needs and earn 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. As of December 31, 2020, the outstanding balance of bank call loans was \$82.0 million. Such loans were collateralized by the Firm's securities and customer securities with market values of approximately \$63.7 million and \$28.4 million, respectively, with commercial banks.

As of December 31, 2020, the Company had approximately \$1.5 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has re-pledged approximately \$208.0 million under securities loan agreements.

As of December 31, 2020, the Company had pledged \$377.9 million of customer securities directly with the Options Clearing Corporation to secure obligations and margin requirements under option contracts written by customers.

As of December 31, 2020, 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 U.S. 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 agreements and reverse repurchase agreements are presented on a net-by-counterparty basis, when the repurchase agreements 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 agreements and reverse repurchase agreements exist in "book entry" form and certain other requirements are met.

The following table presents a disaggregation of the gross obligation by the class of collateral pledged and the remaining contractual maturity of the repurchase agreements and securities loaned transactions as of December 31, 2020:

| <i>(Expressed in thousands)</i>  |                    |
|--|--------------------|
|  | Overnight and Open |
| Repurchase agreements:   |                    |
| U.S. Government and Agency securities  | \$ 430,786         |
| Securities loaned:   |                    |
| Equity securities  | 249,499            |
| Gross amount of recognized liabilities for repurchase agreements and securities loaned | \$ 680,285         |

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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 December 31, 2020:

*(Expressed in thousands)*

|                                    | Gross Amounts of Recognized Assets | Gross Amounts Offset on the Consolidated Statement of Financial Condition | Net Amounts of Assets Presented on the Consolidated Statement of Financial Condition | Gross Amounts Not Offset on the Consolidated Statement of Financial Condition |                          | Net Amount      |
|------------------------------------|------------------------------------|---|--|---|--------------------------|-----------------|
|                                    |                                    |   |  | Financial Instruments   | Cash Collateral Received |                 |
| Reverse repurchase agreements      | \$ 88,349                          | \$ (88,349)   | \$ —   | \$ —  | \$ —                     | \$ —            |
| Securities borrowed <sup>(1)</sup> | 110,932                            | —   | 110,932  | (109,922)   | —                        | 1,010           |
| <b>Total</b>                       | <b>\$ 199,281</b>                  | <b>\$ (88,349)</b>  | <b>\$ 110,932</b>  | <b>\$ (109,922)</b>   | <b>\$ —</b>              | <b>\$ 1,010</b> |

(1) Included in receivable from brokers, dealers and clearing organizations on the consolidated statement of financial condition.

*(Expressed in thousands)*

|                                  | Gross Amounts of Recognized Liabilities | Gross Amounts Offset on the Consolidated Statement of Financial Condition | Net Amounts of Liabilities Presented on the Consolidated Statement of Financial Condition | Gross Amounts Not Offset on the Consolidated Statement of Financial Condition |                         | Net Amount      |
|----------------------------------|---|---|---|---|-------------------------|-----------------|
|                                  |   |   |   | Financial Instruments   | Cash Collateral Pledged |                 |
| Repurchase agreements            | \$ 430,786                              | \$ (88,349)   | \$ 342,437  | \$ (340,632)  | \$ —                    | \$ 1,805        |
| Securities loaned <sup>(2)</sup> | 249,499                                 | —   | 249,499   | (242,318)   | —                       | 7,181           |
| <b>Total</b>                     | <b>\$ 680,285</b>                       | <b>\$ (88,349)</b>  | <b>\$ 591,936</b>   | <b>\$ (582,950)</b>   | <b>\$ —</b>             | <b>\$ 8,986</b> |

(2) Included in payable to brokers, dealers and clearing organizations on the consolidated statement of financial condition.

The Company elected the fair value option for those repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. As of December 31, 2020, the Company did not have any repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date.

The Company receives collateral in connection with securities borrowed and reverse repurchase agreement transactions and customer margin loans. Under many agreements, the Company is permitted to sell or re-pledge the securities received (e.g., use the securities to enter into securities lending transactions, or deliver to counterparties to cover short positions). As of December 31, 2020, the fair value of securities received as collateral under securities borrowed transactions and reverse repurchase agreements was \$108.0 million and \$88.3 million, respectively, of which the Company has sold and re-pledged approximately \$36.2 million under securities loaned transactions and \$88.3 million under repurchase agreements.

The Company pledges certain of its securities owned for securities lending and repurchase agreements and to collateralize bank call loan transactions. The carrying value of pledged securities owned that can be sold or re-pledged by the counterparty was \$440.5 million, as presented on the face of the consolidated statement of financial condition as of December 31, 2020.

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The Company manages credit exposure arising from repurchase and reverse repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Company, in the event of a customer default, the right to liquidate securities and the right to offset a counterparty's rights and obligations. The Company manages market risk of repurchase agreements and securities loaned by monitoring the market value of collateral held and the market value of securities receivable from others. It is the Company's policy to request and obtain additional collateral when exposure to loss exists. In the event the counterparty is unable to meet its contractual obligation to return the securities, the Company may be exposed to off-balance sheet risk of acquiring securities at prevailing market prices.

**Credit Concentrations**

Credit concentrations may arise from trading, investing, underwriting and financing activities and may be impacted by changes in economic, industry or political factors. In the normal course of business, the Company may be exposed to credit risk in the event customers, counterparties including other brokers and dealers, issuers, banks, depositories or clearing organizations are unable to fulfill their contractual obligations. The Company seeks to mitigate these risks by actively monitoring exposures and obtaining collateral as deemed appropriate. Included in receivable from brokers, dealers and clearing organizations as of December 31, 2020 are receivables from three major U.S. broker-dealers totaling approximately \$69.7 million.

The Company is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligations to the Company. Clients are required to complete their transactions on the settlement date, generally one to two business days after the trade date. If clients do not fulfill their contractual obligations, the Company may incur losses. The Company has clearing/participating arrangements with the National Securities Clearing Corporation, the Fixed Income Clearing Corporation ("FICC"), R.J. O'Brien & Associates (commodities transactions), Mortgage-Backed Securities Division (a division of FICC) and others. With respect to its business in reverse repurchase and repurchase agreements, substantially all open contracts as of December 31, 2020 are with the FICC. The clearing organizations have the right to charge the Company for losses that result from a client's failure to fulfill its contractual obligations. Accordingly, the Company has credit exposures with these clearing brokers. The clearing brokers can re-hypothecate the securities held on behalf of the Company. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing brokers, the Company believes there is no maximum amount assignable to this right. As of December 31, 2020, the Company had recorded no liabilities with regard to this right. The Company's policy is to monitor the credit standing of the clearing brokers and banks with which it conducts business.

**8. Variable interest entities ("VIE")**

The Company's policy is to consolidate all subsidiaries in which it has a controlling financial interest, as well as any VIEs where the Company is deemed to be the primary beneficiary, when it has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb significant losses or the right to receive benefits that could potentially be significant to the VIE.

The Company serves as general partner of a hedge fund that was established for the purpose of providing investment alternatives to both its institutional and qualified retail clients. The Company holds variable interests in these funds as a result of its right to receive management and incentive fees.

The Company assesses whether it is the primary beneficiary of the hedge fund in which it holds a variable interest in the form of general partner interests. The Company has determined that it is not the primary beneficiary and therefore need not consolidate the hedge fund. The subsidiaries' general partnership interests and management fees receivable represent its maximum exposure to loss. The subsidiaries' general partnership interests and management fees receivable are included in other assets on the consolidated statement of financial condition. As of December 31, 2020, the Company does not have variable interest in the form of general partnership interests or management fees receivables.

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**9. Furniture, equipment and leasehold improvements**

The components of furniture, equipment and leasehold improvements as of December 31, 2020 are as follows:

| <i>(Expressed in thousands)</i>   |           |
|-----------------------------------|-----------|
| Furniture, fixtures and equipment | \$ 59,205 |
| Leasehold improvements            | 14,808    |
| Total                             | 74,013    |
| Less accumulated depreciation     | (67,008)  |
| Total                             | \$ 7,005  |

**10. Subordinated borrowings**

The subordinated loans are payable to the Company's indirect parent, E.A. Viner International Co. ("Viner"). Certain loans bear interest at 11-1/2% per annum. These loans are due: \$3.8 million, November 29, 2021, \$7.1 million, December 31, 2021 and \$1.6 million June 25, 2022 and are automatically renewed for an additional year unless terminated by either party within seven months of their expiration. The Company also has issued a subordinated note to Viner in the amount of \$100.0 million at a fixed rate of 6.75% due and payable on July 1, 2022. Interest paid on such loans totaled \$8.2 million for the year ended December 31, 2020.

The subordinated loans are available in computing net capital under the Securities and Exchange Commission's uniform net capital rule. These borrowings may be repaid only if, after giving effect to such repayment, the Company meets the Securities and Exchange Commission's net capital requirements.

**11. Income taxes**

The Company is included in an affiliated group that files a consolidated Federal income tax return. The Company files state and local income tax returns on a separate company basis or as part of the affiliated group's unitary combined state filing, depending on the specific requirements of each state and local jurisdiction. With respect to federal, combined state and local, and separate company state and local income tax expense (benefit) of the Company, the Company computes income tax expense (benefit) based on the separate-return approach as modified for the realizability of its deferred tax assets.

The Company permanently reinvests eligible earnings of its foreign subsidiaries and, accordingly, does not accrue any U.S. income taxes that would arise if these earnings were repatriated. The unrecognized deferred tax liability associated with the outside basis difference of its foreign subsidiaries is estimated at \$3.5 million for those subsidiaries. The Company has continued to reinvest permanently the excess earnings of Oppenheimer Israel (OPCO) Ltd. in its own business. The Company will continue to review its historical treatment of these earnings to determine whether its historical practice will continue or whether a change is warranted.

As of December 31, 2020, the Company has net deferred tax assets of \$15.8 million. Included in deferred tax assets on a tax-effected basis are timing differences arising with respect to compensation and other expenses not currently deductible for tax purposes and a net operating loss carryforward related to Oppenheimer Israel (OPCO) Ltd. (valued at \$3.2 million on a tax-effected basis).

The Company believes that realization of deferred tax assets arising from temporary differences in the U.S. taxing jurisdictions is more likely than not based on past income trends and expectations of future taxable income. The Company believes that realization of the deferred tax asset related to net operating loss carryforwards of its subsidiary, Oppenheimer Israel (OPCO) Ltd., is more likely than not based on past income trends and expectations of future taxable income. The net operating loss

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carries forward indefinitely and is not subject to expiration, provided that this subsidiary and its underlying businesses continue operating normally (as is anticipated).

The Company is included in the filing of income tax returns in the U.S. federal jurisdiction, and in various states, either as part of an affiliated filing group or on a stand-alone basis. The Company's open income tax years vary by jurisdiction, but all income tax years are closed through 2016 except for New York State and City.

The Company regularly assesses the likelihood of assessments in each taxing jurisdiction within which it operates and has established tax reserves it believes are adequate in relation to any potential exposures.

As of December 31, 2020, the Company had an income tax-related interest payable of \$205,000 on its consolidated statement of financial condition.

**12. Employee compensation plans**

The Parent and the Company maintain various employee compensation plans for the benefits of the Company's employees and affiliates. Two types of employee compensation are granted under share-based compensation and cash-based compensation plans.

**Share-based Compensation Plans**

***Oppenheimer Holdings Inc. 2014 Incentive Plan***

On February 26, 2014, the Company adopted the Oppenheimer Holdings Inc. 2014 Incentive Plan (the "OIP"). Pursuant to the OIP, the Compensation Committee of the Board of Directors of the Parent (the "Committee") is permitted to grant options to purchase Class A Stock ("stock options"), Class A Stock awards and restricted Class A Stock (collectively "restricted stock awards") to or for the benefit of employees and non-employee directors of the Company and its affiliates as part of their compensation. Stock options are generally granted for a five-year term and generally vest at the rate of 25% of the amount granted on the second anniversary of the grant, 25% on the third anniversary of the grant, 25% on the fourth anniversary of the grant and 25% six months before expiration. Restricted stock awards are generally awarded for a three or five year term and fully vest at the end of the term.

***Oppenheimer Holdings Inc. Stock Appreciation Right Plan***

Under the Oppenheimer Holdings Inc. Stock Appreciation Right Plan, the Committee awards stock appreciation rights ("OARs") to certain employees as part of their compensation package based on a formula reflecting gross production and length of service. These awards are granted once per year in January with respect to the prior year's production. The OARs vest five years from grant date and settle in cash at vesting.

***Restricted stock*** - The Committee has granted restricted stock awards pursuant to the OIP. The following table summarizes the status of the Company's non-vested restricted Class A Stock awards under the OIP for the year ended December 31, 2020:

|                                       | Number of Class<br>A Shares<br>Subject to<br>Restricted Stock<br>Awards | Weighted<br>Average Fair<br>Value | Remaining<br>Contractual<br>Life |
|---------------------------------------|---|-----------------------------------|----------------------------------|
| <b>Nonvested at beginning of year</b> | 1,188,873   | \$ 20.52                          | 1.5                              |
| Granted                               | 389,200   | 23.87                             | 3.0                              |
| Vested                                | (462,575)   | 17.38                             | —                                |
| Forfeited                             | (29,620)  | 23.87                             | —                                |
| <b>Nonvested at end of year</b>       | <b>1,085,878</b>  | <b>\$ 22.96</b>                   | <b>1.9</b>                       |

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As of December 31, 2020, all outstanding restricted Class A Stock awards were non-vested. The aggregate intrinsic value of restricted Class A Stock awards outstanding as of December 31, 2020 was \$34.1 million.

As of December 31, 2020, there was \$12.0 million of total unrecognized compensation cost related to unvested restricted Class A Stock awards. The cost is expected to be recognized over a weighted average period of 1.9 years.

As of December 31, 2020, the number of shares of Class A Stock available under the share-based compensation plans, but not yet awarded, was 1,279,118.

On January 28, 2021, the Committee awarded a total of 505,877 restricted shares of Class A Stock to current employees pursuant to the OIP. Of these restricted shares, 275,127 shares will cliff vest in three years and 230,750 shares will cliff vest in five years. These awards will be expensed over the applicable three or five year vesting period.

**Stock options** - The Committee has granted stock options pursuant to the OIP. There were 14,209 options outstanding as of December 31, 2020.

**OARs** - The Committee has awarded OARs pursuant to the Oppenheimer Holdings Inc. Stock Appreciation Right Plan. The following table summarizes the status of the Company's outstanding OARs awards as of December 31, 2020:

| Grant Date                    | Number of OARs Outstanding | Strike Price | Remaining Contractual Life | Fair Value as of December 31, 2020 |
|-------------------------------|----------------------------|--------------|----------------------------|------------------------------------|
| January 6, 2016               | 394,310                    | \$ 15.89     | 5 days                     | \$ 15.54                           |
| January 6, 2017               | 378,020                    | 18.90        | 1 year                     | 13.37                              |
| January 5, 2018               | 447,310                    | 27.05        | 2 years                    | 8.79                               |
| January 11, 2019              | 524,566                    | 26.45        | 3 years                    | 9.31                               |
| January 10, 2020              | 538,640                    | 27.54        | 4 years                    | 9.14                               |
| Total OARs Outstanding        | <u>2,282,846</u>           |              |                            |                                    |
| Total weighted average values |                            | \$ 23.75     | 3.1 years                  | \$ 10.91                           |

The fair value as of December 31, 2020 for each of the OARs was estimated using the Black-Scholes model with the following assumptions:

|   | Grant Date      |                 |                 |                  |                  |
|---|-----------------|-----------------|-----------------|------------------|------------------|
|   | January 6, 2016 | January 6, 2017 | January 5, 2018 | January 11, 2019 | January 10, 2020 |
| Expected term <sup>(1)</sup>              | 5 days          | 1 year          | 2 years         | 3 years          | 4 years          |
| Expected volatility factor <sup>(2)</sup> | 8.018 %         | 54.499 %        | 43.200 %        | 38.231 %         | 35.748 %         |
| Risk-free interest rate <sup>(3)</sup>    | 0.015 %         | 0.104 %         | 0.121 %         | 0.167 %          | 0.265 %          |
| Quarterly dividends <sup>(4)</sup>        | \$ 0.48         | \$ 0.48         | \$ 0.48         | \$ 0.48          | \$ 0.48          |

- (1) The expected term was determined based on the remaining life of the actual awards.
- (2) The volatility factor was measured using the weighted average of historical daily price changes of the Parent's Class A Stock over a historical period commensurate to the expected term of the awards.
- (3) The risk-free interest rate was based on periods equal to the expected term of the awards based on the U.S. Treasury yield curve in effect at December 31, 2020.
- (4) Quarterly dividends of the Parent were used to compute the expected annual dividend yield.

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As of December 31, 2020, 2,282,846 of outstanding OARs were unvested and none were vested. As of December 31, 2020, the aggregate intrinsic value of OARs outstanding was \$17.5 million. The liability related to the OARs was \$15.4 million as of December 31, 2020. As of December 31, 2020, there was \$9.5 million of total unrecognized compensation cost related to unvested OARs. The cost is expected to be recognized over a weighted average period of 3.1 years.

On January 11, 2021, 639,050 OARs were awarded to Oppenheimer employees related to fiscal 2020 performance. These OARs will be expensed over 5 years (the vesting period).

**Cash-based Compensation Plan**

***Defined Contribution Plan***

The Company maintains a defined contribution plan covering substantially all full-time U.S. employees. The Oppenheimer & Co. Inc. 401(k) Plan provides that Oppenheimer may make discretionary contributions. Eligible Oppenheimer employees could make voluntary contributions which could not exceed \$19,500 per annum in 2020.

***Deferred Compensation Plans***

The Company maintains an Executive Deferred Compensation Plan ("EDCP") and a Deferred Incentive Plan ("DIP") in order to offer certain qualified high-performing financial advisors a bonus based upon a formula reflecting years of service, production, net commissions and a valuation of their clients' assets. The bonus amounts resulted in deferrals for fiscal 2020 of \$10.0 million. These deferrals normally vest after five years. The liability is being recognized on a straight-line basis over the vesting period. The EDCP also includes voluntary deferrals by senior executives that are not subject to vesting. The Company maintains a Company-owned life insurance policy, which is designed to hedge a portion of the EDCP obligation. The EDCP liability is being tracked against the value of a benchmark investment portfolio held for this purpose. As of December 31, 2020, the Company's liability with respect to the EDCP and DIP totaled \$52.6 million and is included in accrued compensation on the consolidated statement of financial condition as of December 31, 2020.

In addition, the Company is maintaining a deferred compensation plan on behalf of certain employees who were formerly employed by CIBC World Markets. The Company hedges this deferred compensation obligation with a portfolio of mutual fund investments. As of December 31, 2020, the Company's liability with respect to this plan totaled \$21.4 million.

**13. Commitments and contingencies**

**Commitments**

As of December 31, 2020, the Company had no collateralized or uncollateralized letters of credit outstanding.

**Contingencies**

Many aspects of the Company's business involve substantial risks of liability. In the normal course of business, the Company has been named as defendant or co-defendant in various legal actions, including arbitrations, class actions and other litigation, creating substantial exposure and periodic expenses. Certain of the actual or threatened legal matters include claims for substantial compensatory and/or punitive damages or claims for indeterminate amounts of damages. These proceedings arise primarily from securities brokerage, asset management and investment banking activities. The Company is also involved, from time to time, in other reviews, investigations and proceedings (both formal and informal) by governmental and self-regulatory agencies regarding the Company's business, which may result in expenses, adverse judgments, settlements, fines, penalties, injunctions or other relief. The investigations include inquiries from the Securities and Exchange Commission (the "SEC"), the Financial Industry Regulatory Authority ("FINRA") and various state regulators.

The Company accrues for estimated loss contingencies related to legal and regulatory matters when available information indicates that it is probable a liability had been incurred and the Company can reasonably estimate the amount of that loss. In many proceedings, however, it is inherently difficult to determine whether any loss is probable or even possible or to estimate the amount of any loss. In addition, even where a loss is possible or an exposure to loss exists in excess of the liability already

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accrued with respect to a previously recognized loss contingency, it is often not possible to reasonably estimate the size of the possible loss or range of loss or possible additional losses or range of additional losses.

For certain legal and regulatory proceedings, the Company cannot reasonably estimate such losses, particularly for proceedings that are in their early stages of development or where plaintiffs seek substantial, indeterminate or special damages. Counsel may be required to review, analyze and resolve numerous issues, including through potentially lengthy discovery and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before the Company can reasonably estimate a loss or range of loss or additional loss for the proceeding. Even after lengthy review and analysis, the Company, in many legal and regulatory proceedings, may not be able to reasonably estimate possible losses or range of loss.

For certain other legal and regulatory proceedings, the Company can estimate possible losses, or range of loss in excess of amounts accrued, but does not believe, based on current knowledge and after consultation with counsel, that such losses individually, or in the aggregate, will have a material adverse effect on the Company's consolidated statement of financial condition as a whole.

For legal and regulatory proceedings where there is at least a reasonable possibility that a loss or an additional loss may be incurred, the Company estimates a range of aggregate loss in excess of amounts accrued of \$0 to \$5.0 million. This estimated aggregate range is based upon currently available information for those legal proceedings in which the Company is involved, where the Company can make an estimate for such losses. For certain cases, the Company does not believe that it can make an estimate. The foregoing aggregate estimate is based on various factors, including the varying stages of the proceedings (including the fact that some are currently in preliminary stages), the numerous yet-unresolved issues in many of the proceedings and the attendant uncertainty of the various potential outcomes of such proceedings. Accordingly, the Company's estimate will change from time to time, and actual losses may be materially more than the current estimate.

**14. Regulatory requirements**

The Company's U.S. broker dealer subsidiaries, Oppenheimer and Freedom, are subject to the uniform net capital requirements of the SEC under Rule 15c3-1 (the "Rule") promulgated under the Securities Exchange Act of 1934. Oppenheimer computes its net capital requirements under the alternative method provided for in the Rule which requires that Oppenheimer maintain net capital equal to two percent of aggregate customer-related debit items, as defined in SEC Rule 15c3-3. As of December 31, 2020, the net capital of Oppenheimer as calculated under the Rule was \$274.5 million or 22.47% of Oppenheimer's aggregate debit items. This was \$250.1 million in excess of the minimum required net capital at that date. Freedom computes its net capital requirement under the basic method provided for in the Rule, which requires that Freedom maintain net capital equal to the greater of \$100,000 or 6-2/3% of aggregate indebtedness, as defined. As of December 31, 2020, Freedom had net capital of \$4.9 million, which was \$4.8 million in excess of the \$100,000 required to be maintained at that date.

**15. Related party transactions**

The Company has a fee sharing arrangement with its affiliate, OAM. Presently, the Company and OAM recognize 90% and 10%, respectively, of the revenue generated from the asset-based fees earned from accounts of clients of the Company who have invested in OAM programs.

The Company provides certain administrative and support services to other consolidated operating subsidiaries of the Parent.

As of December 31, 2020, the Company had amounts payable to affiliates who are consolidated operating subsidiaries of the Parent on the consolidated statement of financial condition. Included in other assets are amounts receivable from affiliates of \$7.3 million and included in accounts payable and other liabilities are amounts due to affiliates of \$95.2 million.

As of December 31, 2020, the Company had income taxes payable of \$72.6 million which are comprised of payables to affiliates related to consolidated income tax liabilities. The Company remits payments for income taxes on behalf of its affiliates. Payments for income taxes are reimbursable by the affiliates.

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The amounts payable to affiliates presented above are gross amounts that have not been netted for direct expenses that reside at the affiliate and are unsecured, non-interest bearing and have no fixed terms of payment.

The Company does not make loans to its officers and directors except under normal commercial terms pursuant to client margin account agreements. These loans are fully collateralized by such employee-owned securities.

**16. Subsequent events**

The Company has performed an evaluation of events that occurred since December 31, 2020 and through the date on which the consolidated statement of financial condition was issued, and determined that there are no events that have occurred that would require recognition or additional disclosure.