RAYMOND JAMES FINANCIAL INC
Form 10-Q
February 08, 2019

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

FORM 10-Q
(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2018
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-9109
RAYMOND JAMES FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Florida	No. 59-1517485
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

880 Carillon Parkway, St. Petersburg, Florida 33716
(Address of principal executive offices) (Zip Code)
(727) 567-1000
(Registrant’s telephone number, including area code)
None
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or such shorter period that the registrant was required to submit such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x
Indicate the number of shares outstanding of each of the registrant’s classes of common stock, as of the latest practicable date.

141,037,985 shares of common stock as of February 7, 2019

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

in millions, except share amounts	December 31, 2018	September 30, 2018
Assets:		
Cash and cash equivalents	$ 4,322	$ 3,500
Cash segregated pursuant to regulations	2,782	2,441
Securities purchased under agreements to resell	399	373
Securities borrowed	140	255
Financial instruments, at fair value:		
Trading instruments (includes $444 and $465 pledged as collateral)	691	702
Available-for-sale securities (includes $18 and $20 pledged as collateral)	2,797	2,696
Derivative assets	213	180
Private equity investments	154	147
Other investments (includes $25 and $25 pledged as collateral)	259	202
Brokerage client receivables, net	2,863	3,343
Receivables from brokers, dealers and clearing organizations	249	257
Other receivables	611	583
Bank loans, net	19,887	19,518
Loans to financial advisors, net	925	934
Investments in real estate partnerships held by consolidated variable interest entities	103	107
Property and equipment, net	490	486
Deferred income taxes, net	186	203
Goodwill and identifiable intangible assets, net	633	639
Other assets	840	847
Total assets	$ 38,544	$ 37,413
Liabilities and equity:		
Bank deposits	$ 21,673	$ 19,942
Securities sold under agreements to repurchase	156	186
Securities loaned	330	423
Financial instruments sold but not yet purchased, at fair value:		
Trading instruments	279	235
Derivative liabilities	232	247
Brokerage client payables	5,245	5,625
Payables to brokers, dealers and clearing organizations	131	206
Accrued compensation, commissions and benefits	799	1,189
Other payables	726	459
Other borrowings	1,198	899
Senior notes payable	1,550	1,550
Total liabilities	32,319	30,961
Commitments and contingencies (see Note 12)		
Equity		
Preferred stock; $.10 par value; 10,000,000 shares authorized; -0- shares issued and outstanding	—	—
	2	2

Common stock; $.01 par value; 350,000,000 shares authorized; 157,645,318 and 156,363,615 shares issued as of December 31, 2018 and September 30, 2018, respectively, and 140,616,735 and 145,642,437 shares outstanding as of December 31, 2018 and September 30, 2018, respectively		
Additional paid-in capital	1,871	1,808
Retained earnings	5,236	5,032
Treasury stock, at cost; 17,028,583 and 10,693,026 common shares as of December 31, 2018 and September 30, 2018, respectively	(927)	(447)
Accumulated other comprehensive loss	(39)	(27)
Total equity attributable to Raymond James Financial, Inc.	6,143	6,368
Noncontrolling interests	82	84
Total equity	6,225	6,452
Total liabilities and equity	$ 38,544	$ 37,413

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Three months ended December 31,	
in millions, except per share amounts	2018	2017
Revenues:		
Asset management and related administrative fees	$865	$729
Brokerage revenues:		
Securities commissions	388	416
Principal transactions	76	97
Total brokerage revenues	464	513
Account and service fees	185	171
Investment banking	137	88
Interest income	316	232
Other	37	33
Total revenues	2,004	1,766
Interest expense	(73)	(40)
Net revenues	1,931	1,726
Non-interest expenses:		
Compensation, commissions and benefits	1,265	1,153
Communications and information processing	92	80
Occupancy and equipment costs	51	50
Business development	43	34
Investment sub-advisory fees	24	22
Professional fees	22	12
Bank loan loss provision	16	1
Acquisition and disposition-related expenses	15	4
Other	73	59
Total non-interest expenses	1,601	1,415
Income including noncontrolling interests and before provision for income taxes	330	311
Provision for income taxes	83	192
Net income including noncontrolling interests	247	119
Net loss attributable to noncontrolling interests	(2)	—
Net income attributable to Raymond James Financial, Inc.	$249	$119
Earnings per common share – basic	$1.73	$0.82
Earnings per common share – diluted	$1.69	$0.80
Weighted-average common shares outstanding – basic	144.2	144.5
Weighted-average common and common equivalent shares outstanding – diluted	147.3	148.3
Net income attributable to Raymond James Financial, Inc.	$249	$119
Other comprehensive income/(loss), net of tax:		
Net change in unrealized loss on available-for-sale securities	22	(12)
Net change in unrealized loss on currency translations, net of the impact of net investment hedges	(13)	—
Net change in unrealized gain on cash flow hedges	(17)	7
Total comprehensive income	$241	$114

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Three months ended December 31,	
$ in millions, except per share amounts	2018	2017
Common stock, par value $.01 per share:		
Balance beginning of period	$2	$2
Share issuances	—	—
Balance end of period	2	2
Additional paid-in capital:		
Balance beginning of period	1,808	1,645
Employee stock purchases	8	6
Exercise of stock options and vesting of restricted stock units, net of forfeitures	16	21
Restricted stock, stock option and restricted stock unit expense	39	33
Balance end of period	1,871	1,705
Retained earnings:		
Balance beginning of period	5,032	4,340
Net income attributable to Raymond James Financial, Inc.	249	119
Cash dividends declared (see Note 18)	(50)	(39)
Other	5	—
Balance end of period	5,236	4,420
Treasury stock:		
Balance beginning of period	(447)	(390)
Purchases/surrenders	(464)	(7)
Exercise of stock options and vesting of restricted stock units, net of forfeitures	(16)	(13)
Balance end of period	(927)	(410)
Accumulated other comprehensive loss:		
Balance beginning of period	(27)	(15)
Net change in unrealized loss on available-for-sale securities, net of tax	22	(12)
Net change in unrealized loss on currency translations, net of the impact of net investment hedges, net of tax	(13)	—
Net change in unrealized gain on cash flow hedges, net of tax	(17)	7
Other	(4)	—
Balance end of period	(39)	(20)
Total equity attributable to Raymond James Financial, Inc.	$6,143	$5,697
Noncontrolling interests:		
Balance beginning of period	$84	$112
Net loss attributable to noncontrolling interests	(2)	—
Capital contributions	2	—
Distributions	(2)	(6)
Balance end of period	82	106
Total equity	$6,225	$5,803

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three months ended December 31,	
$ in millions	2018	2017
Cash flows from operating activities:		
Net income attributable to Raymond James Financial, Inc.	$249	$119
Net loss attributable to noncontrolling interests	(2)	—
Net income including noncontrolling interests	247	119
Adjustments to reconcile net income including noncontrolling interests to net cash provided by operating activities:		
Depreciation and amortization	26	23
Deferred income taxes	6	121
Premium and discount amortization on available-for-sale securities and loss on other investments	3	—
Provisions for loan losses, legal and regulatory proceedings and bad debts	32	9
Share-based compensation expense	37	38
Unrealized (gain)/loss on company-owned life insurance policies, net of expenses	58	(17)
Other	11	6
Net change in:		
Securities purchased under agreements to resell, net of securities sold under agreements to repurchase	(60)	104
Securities borrowed, net of securities loaned	22	(140)
Loans provided to financial advisors, net of repayments	—	(22)
Brokerage client receivables and other accounts receivable, net	446	124
Trading instruments, net	62	(47)
Derivative instruments, net	(60)	30
Other assets	(22)	(19)
Brokerage client payables and other accounts payable	(242)	467
Accrued compensation, commissions and benefits	(389)	(266)
Proceeds from sales of securitizations and loans held for sale, net of purchases and originations of loans held for sale	48	(108)
Net cash provided by operating activities	225	422
Cash flows from investing activities:		
Additions to property and equipment	(27)	(36)
Increase in bank loans, net	(461)	(645)
Proceeds from sales of loans held for investment	129	22
Purchases of available-for-sale securities	(291)	(340)
Available-for-sale securities maturations, repayments and redemptions	151	114
Business acquisition, net of cash acquired	—	(159)
Other investing activities, net	(34)	(30)
Net cash used in investing activities	(533)	(1,074)

(continued on next page)

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(continued from previous page)

	Three months ended December 31,	
$ in millions	2018	2017
Cash flows from financing activities:		
Proceeds from borrowings on the RJF Credit Facility	300	300
Repayments of short-term borrowings, net	—	(280)
Repayments of Federal Home Loan Bank advances and other borrowed funds	(1)	(1)
Exercise of stock options and employee stock purchases	23	26
Increase in bank deposits	1,731	993
Purchases of treasury stock	(480)	(20)
Dividends on common stock	(47)	(32)
Distributions to noncontrolling interests, net	—	(6)
Net cash provided by financing activities	1,526	980
Currency adjustment:		
Effect of exchange rate changes on cash	(55)	(7)
Net increase in cash, cash equivalents, and cash segregated pursuant to regulations	1,163	321
Cash, cash equivalents, and cash segregated pursuant to regulations at beginning of year	5,941	7,146
Cash, cash equivalents, and cash segregated pursuant to regulations at end of period	$7,104	$7,467
Cash and cash equivalents	$4,322	$3,898
Cash segregated pursuant to regulations	2,782	3,569
Total cash, cash equivalents, and cash segregated pursuant to regulations at end of period	$7,104	$7,467
Supplemental disclosures of cash flow information:		
Cash paid for interest	$62	$28
Cash paid for income taxes, net	$10	$9

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
December 31, 2018

NOTE 1 – ORGANIZATION AND BASIS OF PRESENTATION

Organization

Raymond James Financial, Inc. (“RJF,” the “firm” or the “Company”) is a financial holding company which, together with its subsidiaries, is engaged in various financial services activities, including providing investment management services for retail and institutional clients, the underwriting, distribution, trading and brokerage of equity and debt securities and the sale of mutual funds and other investment products. The firm also provides corporate and retail banking services, and trust services. For further information about our business segments, see Note 19 of this Form 10-Q. As used herein, the terms “our,” “we,” or “us” refer to RJF and/or one or more of its subsidiaries.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of RJF and its consolidated subsidiaries that are generally controlled through a majority voting interest. We consolidate all of our 100% owned subsidiaries. In addition, we consolidate any variable interest entity (“VIE”) in which we are the primary beneficiary. Additional information on these VIEs is provided in Note 2 of our Annual Report on Form 10-K (the “2018 Form 10-K”) for the year ended September 30, 2018, as filed with the United States (“U.S.”) Securities and Exchange Commission (“SEC”) and in Note 8 of this Form 10-Q. When we do not have a controlling interest in an entity, but we exert significant influence over the entity, we apply the equity method of accounting. All material intercompany balances and transactions have been eliminated in consolidation.

Accounting estimates and assumptions

Certain financial information that is normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) but not required for interim reporting purposes has been condensed or omitted. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial position and results of operations for the periods presented.

The nature of our business is such that the results of any interim period are not necessarily indicative of results for a full year. These unaudited condensed consolidated financial statements should be read in conjunction with Management’s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included in our 2018 Form 10-K. To prepare condensed consolidated financial statements in conformity with GAAP, we must make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates and could have a material impact on the condensed consolidated financial statements.

Reclassifications

Effective with the firm’s first fiscal quarter ended December 31, 2018, we have reclassified certain revenues among income statement line items and renamed certain line items. These reclassifications do not affect the Company’s reported total revenues or the total revenues in any of our segments for any of the previously reported periods. Prior period results have been conformed to the current presentation.

In addition to the reclassification discussed above, certain other prior period amounts have been reclassified to conform to the current period's presentation.

NOTE 2 – UPDATE OF SIGNIFICANT ACCOUNTING POLICIES

A summary of our significant accounting policies is included in Note 2 of our 2018 Form 10-K. During the three months ended December 31, 2018, there were no significant changes to our significant accounting policies other than the accounting policies adopted or modified as part of our implementation of new or amended accounting guidance, as noted below.

Loans to financial advisors, net

We offer loans to financial advisors and certain other key revenue producers, primarily for recruiting, transitional cost assistance, and retention purposes. We present the outstanding balance of loans to financial advisors on our Condensed Consolidated Statements of Financial Condition, net of the allowance for doubtful accounts. Of the gross balance outstanding, the portion associated with financial advisors who are no longer affiliated with us was $22 million and $20 million at December 31, 2018 and September 30, 2018, respectively. Our allowance for doubtful accounts was $10 million and $8 million at December 31, 2018 and September 30, 2018, respectively.

Recent accounting developments

Accounting guidance recently adopted

Revenue recognition - In May 2014, the FASB issued new guidance regarding revenue recognition (ASU 2014-09). The new guidance is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. It also provides guidance on accounting for certain contract costs and requires additional disclosures. We adopted this guidance as of October 1, 2018, under a modified retrospective approach for all open contracts as of the date of initial adoption. As such, there was no impact on our prior period results.

The primary impact of this guidance was the change in the presentation of certain costs from a net presentation within revenues to a gross presentation, particularly related to merger & acquisitions advisory and underwriting transactions and certain administrative costs related to our multi-bank sweep program. These presentation changes had no impact on our net earnings. There were no material changes in timing of revenues recognized associated with the adoption. As a result, adoption of this guidance had no material impact on our net results of operations or financial position. See Note 14 for further information.

Financial instruments - In January 2016, the FASB issued new guidance related to the accounting for financial instruments (ASU 2016-01). Among its provisions, this new guidance generally requires equity investments to be measured at fair value with changes in fair value recognized in net income, subject to certain exceptions, and amends certain disclosure requirements associated with the fair value of financial instruments. We adopted this guidance as of October 1, 2018, under a modified retrospective approach. As a result, on a prospective basis beginning as of the date of adoption, we record changes in the fair value of our investments in equity securities that were previously classified as available-for-sale in net income. Previously, such unrealized gains/(losses) were reflected in other comprehensive income/(loss) (“OCI”). The impact of adopting the new guidance resulted in a reclassification from accumulated other comprehensive income/(loss) (“AOCI”) to retained earnings of an accumulated gain of approximately $4 million at

October 1, 2018. See Note 4 for further information.

Statement of Cash Flows (classification of certain cash receipts and cash payments) - In August 2016, the FASB issued amended guidance related to the Statement of Cash Flows (ASU 2016-15). The amended guidance provides guidance on disclosure and classification of certain items within the statements of cash flows. We adopted this guidance on October 1, 2018, under a retrospective approach. The adoption did not have a material impact on our consolidated statements of cash flows and did not have an impact on our financial position or results of operations.

Statement of Cash Flows (restricted cash) - In November 2016, the FASB issued new guidance related to the classification and presentation of changes in restricted cash on the statement of cash flows (ASU 2016-18). The guidance requires an entity to include restricted cash and cash equivalents in its total of cash and cash equivalents on its statement of cash flows and to present a reconciliation of the beginning-of-period and end-of-period total of such amounts on the statement of cash flows. We adopted this guidance on October 1, 2018, under a retrospective approach. Upon adoption, we recorded a decrease of $96 million in net cash provided by operating activities for the three months ended December 31, 2017 related to reclassifying changes in cash segregated pursuant to regulations from operating activities to the cash and cash equivalents balance in the Condensed Consolidated Statements of Cash Flows. The total of cash segregated pursuant to regulations and cash and cash equivalents is included in a separate table in the Condensed Consolidated Statements of Cash Flows. The adoption did not have an impact on our financial position or results of operations.

Definition of a business - In January 2017, the FASB issued amended guidance related to the definition of a business (ASU 2017-01). This amended guidance clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. We adopted this guidance on October 1, 2018, on a prospective basis. The impact of the adoption of this amended guidance is dependent upon acquisition and disposal activities subsequent to the date of adoption. The adoption did not have any impact on our financial position or results of operations.

Share-based payment awards (modifications) - In May 2017, the FASB issued amended guidance that clarifies when changes to the terms or conditions of share-based payment awards require an entity to apply modification accounting (ASU 2017-09). The amended guidance states an entity should account for the effects of a modification unless certain criteria are met which include that the modified award has the same fair value, vesting conditions and classification as the original award. We adopted the guidance on October 1, 2018, on a prospective basis. We generally do not modify our share-based payments awards. The adoption did not have an impact on our financial position or results of operations.

Share-based payment awards (nonemployee) - In June 2018, the FASB issued amended guidance that aligns the measurement and classification guidance for share-based payments to nonemployees with the guidance for share-based payments to employees, with certain exceptions (ASU 2018-07). The amended guidance states an entity should measure the fair value of the award by estimating the fair value of the equity instruments to be issued and, for equity-classified awards, the fair value should be measured on the grant date. The amended guidance also clarifies that nonemployee awards that contain a performance condition are to be measured based on the outcome that is probable and that entities may elect, on an award-by-award basis, to use the expected term or contractual term to measure the award. We early-adopted this standard on October 1, 2018, using a modified retrospective approach. The adoption did not have a significant impact on our financial position or results of operations.

Accounting guidance not yet adopted as of December 31, 2018

Lease accounting - In February 2016, the FASB issued new guidance related to the accounting for leases (ASU 2016-02). The new guidance requires the recognition of assets and liabilities on the balance sheet related to the rights and obligations created by lease agreements with terms greater than twelve months, regardless of whether they are classified as finance or operating leases. Consistent with current guidance, the recognition, measurement and presentation of expenses and cash flows arising from a lease will primarily depend upon its classification as a finance or operating lease. The new guidance requires new disclosures to help financial statement users better understand the amount, timing and cash flows arising from leases. This new guidance, including subsequent amendments, is first effective for our fiscal year beginning on October 1, 2019. Although permitted, we do not plan to early adopt. Upon adoption, we will use a modified retrospective approach, with a cumulative effect adjustment to opening retained earnings. Our implementation efforts include reviewing existing leases and service contracts, which may include embedded leases. We are in the process of identifying changes to our business processes, systems and controls to support adoption of the new guidance. This new guidance will impact our financial position and results of operations. We are evaluating the magnitude of such impact.

Credit losses - In June 2016, the FASB issued new guidance related to the measurement of credit losses on financial instruments (ASU 2016-13). The amended guidance involves several aspects of the accounting for credit losses related to certain financial instruments including assets measured at amortized cost, available-for-sale debt securities and certain off-balance sheet commitments. The new guidance broadens the information that an entity must consider in developing its estimated credit losses expected to occur over the remaining life of assets measured either collectively or individually to include historical experience, current conditions and reasonable and supportable forecasts, replacing the existing incurred credit loss model and other models with the Current Expected Credit Losses ("CECL") model. The new guidance expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating credit losses and requires new disclosures of the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. This new guidance is first effective for our fiscal year beginning October 1, 2020 and will be adopted under a modified retrospective approach. Early adoption is permitted although not prior to our fiscal year beginning October 1, 2019. We have continued with our implementation and evaluation efforts, which include a cross-functional team to assess the required changes to our credit loss estimation methodologies and systems, as well as the determination of additional data and resources required to comply with the new guidance. We are evaluating the impact the adoption of this new guidance will have on our financial position and results of operations, which will depend on, among other things, the current and expected macroeconomic conditions and the nature and characteristics of financial assets held by us on the date of adoption.

Goodwill - In January 2017, the FASB issued amended guidance to simplify the subsequent measurement of goodwill, eliminating "Step 2" from the goodwill impairment test (ASU 2017-04). In computing the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the procedure that would be required in determining the fair value of assets acquired and liabilities assumed in a business combination. Under this amended guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and subsequently recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is first effective for our fiscal year beginning October 1, 2019 and will be adopted on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We early-adopted this guidance on January 1, 2019, our goodwill impairment test date.

Callable debt securities - In March 2017, the FASB issued new guidance that requires certain premiums on callable debt securities to be amortized to the earliest call date instead of the contractual life of the security (ASU 2017-08). Discounts on callable debt securities will continue to be amortized to the contractual maturity date. This guidance is first effective for our fiscal year beginning on October 1, 2019 and will be adopted using a modified retrospective approach. Although permitted, we do not plan to early adopt. We are evaluating the impact the adoption of this new guidance will have on our financial position and results of operations.

Internal use software (cloud computing) - In August 2018, the FASB issued guidance on the accounting for implementation costs incurred by customers in cloud computing arrangements (ASU 2018-15). This guidance requires implementation costs incurred by customers in cloud computing arrangements to be deferred over the non-cancellable term of the cloud computing arrangements plus any optional renewal periods (1) that are reasonably certain to be exercised by the customer or (2) for which exercise of the renewal option is controlled by the cloud service provider. This amended guidance is first effective for our fiscal year beginning on October 1, 2020 with early adoption permitted. The guidance may be adopted either using the prospective or retrospective approach. We are currently evaluating the impact of this new guidance on our financial position and results of operations.

Derivatives and hedging (interest rate) - In October 2018, the FASB issued guidance amending Derivatives and Hedging (Topic 815) to add the overnight index swap (OIS rate) rate based on the Secured Overnight Financing Rate (SOFR) to the list of US benchmark interest rates that are eligible to be hedged (ASU 2018-16). This guidance is first effective for our fiscal year beginning on October 1, 2019. Early adoption is permitted. We are evaluating the impact the adoption of this new guidance will have on our financial position and results of operations.

Consolidation (decision making fees) - In October 2018, the FASB issued guidance on how all entities evaluate decision-making fees under the variable interest entity guidance (ASU 2018-17). Under the new guidance, to determine whether decision-making fees represent a variable interest, an entity considers indirect interests held through related parties under common control on a proportionate basis, rather than in their entirety. This guidance is first effective for our fiscal year beginning on October 1, 2020. Early adoption is permitted. We are evaluating the impact the adoption of this new guidance will have on our financial position and results of operations.

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 3 – FAIR VALUE

Our "Financial instruments owned" and "Financial instruments sold but not yet purchased" on our Condensed Consolidated Statements of Financial Condition are recorded at fair value under GAAP. For further information about such instruments and our significant accounting policies related to fair value, see Note 2 and Note 4 of our 2018 Form 10-K. The following tables present assets and liabilities measured at fair value on a recurring and nonrecurring basis. Netting adjustments represent the impact of counterparty and collateral netting on our derivative balances included on our Condensed Consolidated Statements of Financial Condition. See Note 5 for additional information. Bank loans held for sale measured at fair value on a nonrecurring basis are recorded at a fair value lower than cost.

$ in millions	Level 1	Level 2	Level 3	Netting adjustments	Balance as of December 31, 2018
Assets at fair value on a recurring basis:					
Trading instruments					
Municipal and provincial obligations	$—	$163	$—	$ —	$ 163
Corporate obligations	10	76	—	—	86
Government and agency obligations	11	78	—	—	89
Agency mortgage-backed securities ("MBS") and collateralized mortgage obligations ("CMOs")	2	226	—	—	228
Non-agency CMOs and asset-backed securities ("ABS")	—	101	—	—	101
Total debt securities	23	644	—	—	667
Equity securities	14	—	—	—	14
Brokered certificates of deposit	—	5	—	—	5
Other	—	2	3	—	5
Total trading instruments	37	651	3	—	691
Available-for-sale securities	—	2,797	—	—	2,797
Derivative assets					
Interest rate contracts - Matched book	—	188	—	—	188
Interest rate contracts - Other	—	64	—	(39)	25
Total derivative assets	—	252	—	(39)	213
Private equity investments - not measured at net asset value ("NAV")	—	—	59	—	59
Other investments	190	2	67	—	259
Subtotal	227	3,702	129	(39)	4,019
Private equity investments - measured at NAV					95
Total assets at fair value on a recurring basis	$227	$3,702	$129	$ (39)	$ 4,114
Assets at fair value on a nonrecurring basis:					
Bank loans, net - Impaired loans	$—	$8	$37	$ —	$ 45
Bank loans, net - Loans held for sale	—	49	—	—	49
Total assets at fair value on a nonrecurring basis	$—	$57	$37	$ —	$ 94
Liabilities at fair value on a recurring basis:					
Trading instruments sold but not yet purchased					

Corporate obligations	$2	$31	$—	$ —	$ 33
Government obligations	235	—	—	—	235
Agency MBS and CMOs	3	—	—	—	3
Total debt securities	240	31	—	—	271
Equity securities	4	—	—	—	4
Other	—	—	4	—	4
Total trading instruments sold but not yet purchased	244	31	4	—	279
Derivative liabilities					
Interest rate contracts - Matched book	—	188	—	—	188
Interest rate contracts - Other	—	85	—	(54)	31
Foreign exchange contracts	—	2	—	—	2
Deutsche Bank restricted stock unit (“DBRSU”) obligation (equity)	—	11	—	—	11
Total derivative liabilities	—	286	—	(54)	232
Total liabilities at fair value on a recurring basis	$244	$317	$4	$ (54)	$ 511

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

$ in millions	Level 1	Level 2	Level 3	Netting adjustments	Balance as of September 30, 2018
Assets at fair value on a recurring basis:					
Trading instruments					
Municipal and provincial obligations	$ 1	$ 247	$ —	$ —	$ 248
Corporate obligations	10	100	—	—	110
Government and agency obligations	19	72	—	—	91
Agency MBS and CMOs	3	124	—	—	127
Non-agency CMOs and ABS	—	69	—	—	69
Total debt securities	33	612	—	—	645