OPPENHEIMER HOLDINGS INC
Form 10-Q
October 30, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015
OR

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

For the transition period from to
Commission File Number: 1-12043

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

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting

company” in Rule 12b-2 of the Exchange Act. (Check One):

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

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

The number of shares of the Company’s Class A non-voting common stock and Class B voting common stock (being the only classes of common stock of the Company) outstanding on October 30, 2015 was 13,333,368 and 99,680 shares, respectively.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(Expressed in thousands, except number of shares and per share amounts)	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$47,311	$63,807
Cash segregated for regulatory and other purposes	855	18,594
Deposits with clearing organizations	61,370	36,510
Receivable from brokers, dealers and clearing organizations	398,808	314,475
Receivable from customers, net of allowance for credit losses of $2,504 ($2,427 in 2014)	896,060	864,189
Income tax receivable	6,105	4,240
Securities purchased under agreements to resell	—	251,606
Securities owned, including amounts pledged of $752,758 ($518,123 in 2014), at fair value	1,040,631	843,155
Notes receivable, net of accumulated amortization and allowance for uncollectibles of $53,241 and $8,555, respectively ($42,211 and $8,606, respectively, in 2014)	33,624	34,932
Office facilities, net of accumulated depreciation of $102,640 ($103,547 in 2014)	27,731	29,589
Loans held for sale, at fair value	34,050	19,243
Mortgage servicing rights	29,594	30,140
Intangible assets	31,700	31,700
Goodwill	137,889	137,889
Other assets	108,524	107,386
Total assets	$2,854,252	$2,787,455
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Drafts payable	$24,002	$35,373
Bank call loans	147,700	59,400
Payable to brokers, dealers and clearing organizations	250,513	257,161
Payable to customers	692,416	652,256
Securities sold under agreements to repurchase	463,074	687,440
Securities sold, but not yet purchased, at fair value	311,664	92,510
Accrued compensation	125,129	165,134
Accounts payable and other liabilities	145,777	141,352
Senior secured notes	150,000	150,000
Deferred tax liabilities, net of deferred tax assets of $63,130 ($68,622 in 2014)	14,200	13,097
Total liabilities	2,324,475	2,253,723
Contingencies (Note 11)		
Stockholders' equity		
Share capital		
Class A non-voting common stock, par value $0.001 per share, 50,000,000 shares authorized, 13,333,368 and 13,530,688 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	59,019	62,264

Class B voting common stock, par value $0.001 per share, 99,680 shares authorized, issued and outstanding	133	133
	59,152	62,397
Contributed capital	43,116	45,118
Retained earnings	421,622	421,047
Accumulated other comprehensive loss	(1,084)	(918)
Total Oppenheimer Holdings Inc. stockholders' equity	522,806	527,644
Noncontrolling interest	6,971	6,088
Total stockholders' equity	529,777	533,732
Total liabilities and stockholders' equity	$2,854,252	$2,787,455

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Expressed in thousands, except number of shares and per share amounts)	2015	2014	2015	2014
REVENUE				
Commissions	$101,243	$110,862	$314,494	$349,062
Advisory fees	69,557	70,957	212,766	209,592
Investment banking	16,548	33,841	72,873	94,164
Interest	14,384	12,449	37,449	37,387
Principal transactions, net	(3,339)	4,272	16,926	24,883
Other	15,143	12,298	43,517	34,448
Total revenue	213,536	244,679	698,025	749,536
EXPENSES				
Compensation and related expenses	142,746	161,334	464,051	493,135
Communications and technology	16,475	15,991	50,050	50,261
Occupancy and equipment costs	16,158	15,801	47,920	47,105
Clearing and exchange fees	6,909	5,969	19,542	17,885
Interest	4,541	4,127	12,956	13,703
Other	28,234	30,561	92,552	111,306
Total expenses	215,063	233,783	687,071	733,395
Income (loss) before income tax provision (benefit)	(1,527)	10,896	10,954	16,141
Income tax provision (benefit)	(750)	6,271	4,965	9,349
Net income (loss) for the period	(777)	4,625	5,989	6,792
Less net income attributable to noncontrolling interest	131	155	883	652
Net income (loss) attributable to Oppenheimer Holdings Inc.	$(908)	$4,470	$5,106	$6,140
Earnings (loss) per share attributable to Oppenheimer Holdings Inc.				
Basic	$(0.07)	$0.33	$0.37	$0.45
Diluted	$(0.07)	$0.31	$0.36	$0.43
Dividends declared per share	$0.11	$0.11	$0.33	$0.33
Weighted average shares				
Basic	13,690,698	13,630,368	13,713,578	13,595,458
Diluted	13,690,698	14,297,442	14,339,205	14,217,247

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(Expressed in thousands)	2015	2014	2015	2014
Net income (loss) for the period	$(777)	$4,625	$5,989	$6,792
Other comprehensive loss, net of tax [(1)]				
Currency translation adjustment	(916)	(1,608)	(166)	(1,356)
Comprehensive income (loss) for the period	(1,693)	3,017	5,823	5,436
Less net income attributable to noncontrolling interests	131	155	883	652
Comprehensive income (loss) attributable to Oppenheimer Holdings Inc.	$(1,824)	$2,862	$4,940	$4,784

(1) Other comprehensive loss is attributable to Oppenheimer Holdings Inc. No other comprehensive loss is attributable to noncontrolling interests.

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

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OPPENHEIMER HOLDINGS INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS’ EQUITY (unaudited)
FOR THE NINE MONTHS ENDED SEPTEMBER 30,

(Expressed in thousands)	2015	2014
Share capital		
Balance at beginning of period	$62,397	$60,198
Issuance of Class A non-voting common stock	3,373	2,199
Repurchase of Class A non-voting common stock for cancellation	(6,618)	—
Balance at end of period	59,152	62,397
Contributed capital		
Balance at beginning of period	45,118	42,407
Tax benefit (deficiency) from share-based awards	(235)	1,275
Share-based expense	3,289	4,445
Vested employee share plan awards	(5,056)	(4,177)
Balance at end of period	43,116	43,950
Retained earnings		
Balance at beginning of period	421,047	418,204
Net income for the period attributable to Oppenheimer Holdings Inc.	5,106	6,140
Dividends paid ($0.33 per share)	(4,531)	(4,483)
Balance at end of period	421,622	419,861
Accumulated other comprehensive income (loss)		
Balance at beginning of period	(918)	1,709
Currency translation adjustment	(166)	(1,356)
Balance at end of period	(1,084)	353
Total Oppenheimer Holdings Inc. stockholders’ equity	522,806	526,561
Noncontrolling interest		
Balance at beginning of period	6,088	5,353
Net income attributable to noncontrolling interest	883	652
Balance at end of period	6,971	6,005
Total stockholders’ equity	$529,777	$532,566

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

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

(Expressed in thousands)	2015	2014
Cash flows from operating activities		
Net income for the period	$5,989	$6,792
Adjustments to reconcile net income to net cash used in operating activities		
Payment of taxes due for vested share-based awards related to amounts the Company withheld on behalf of its employees to meet minimum statutory tax withholding requirements	(1,683)	(2,074)
Non-cash items included in net income:		
Depreciation and amortization of office facilities and leasehold improvements	5,471	5,787
Deferred income taxes	1,103	6,423
Amortization of notes receivable	9,742	12,393
Amortization of debt issuance costs	364	408
Write-off of debt issuance costs	—	588
Amortization of mortgage servicing rights	829	2,025
Provision for credit losses	77	28
Share-based compensation	2,569	3,682
Decrease (increase) in operating assets:		
Cash segregated for regulatory and other purposes	17,739	17,217
Deposits with clearing organizations	(24,860)	(7,932)
Receivable from brokers, dealers and clearing organizations	(84,333)	(16,070)
Receivable from customers	(31,948)	(14,292)
Income tax receivable	(1,865)	(1,239)
Securities purchased under agreements to resell	251,606	(65,175)
Securities owned	(197,476)	49,316
Notes receivable	(8,434)	(9,315)
Loans held for sale	(14,807)	55,894
Mortgage servicing rights	(283)	(2,642)
Other assets	(1,668)	31,644
Increase (decrease) in operating liabilities:		
Drafts payable	(11,371)	(23,882)
Payable to brokers, dealers and clearing organizations	(6,648)	(18,365)
Payable to customers	40,160	62,799
Securities sold under agreements to repurchase	(224,366)	(69,181)
Securities sold, but not yet purchased	219,154	51,948
Accrued compensation	(39,285)	(40,574)
Accounts payable and other liabilities	4,425	(22,466)
Cash provided by (used in) operating activities	(89,799)	13,737
Cash flows from investing activities		
Purchase of office facilities	(3,613)	(3,366)
Cash used in investing activities	(3,613)	(3,366)
Cash flows from financing activities		
Cash dividends paid on Class A non-voting and Class B voting common stock	(4,531)	(4,483)
Issuance of Class A non-voting common stock	—	185
Repurchase of Class A non-voting common stock for cancellation	(6,618)	—
Tax benefit (deficiency) from share-based awards	(235)	1,275

Redemption of senior secured notes	—	(45,000)
Increase in bank call loans, net	88,300	17,300
Cash provided by (used in) financing activities	76,916	(30,723)
Net decrease in cash and cash equivalents	(16,496)	(20,352)
Cash and cash equivalents, beginning of period	63,807	98,294
Cash and cash equivalents, end of period	$47,311	$77,942
Schedule of non-cash financing activities		
Employee share plan issuance	$3,373	$2,014
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	$9,568	$11,400
Cash paid during the period for income taxes, net of refunds	$5,972	$4,103

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

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OPPENHEIMER HOLDINGS INC.
Notes to Condensed Consolidated Financial Statements (unaudited)

1. Organization and basis of presentation

Organization

Oppenheimer Holdings Inc. ("OPY") is incorporated under the laws of the State of Delaware. The condensed consolidated financial statements include the accounts of OPY and its subsidiaries (together, the "Company"). The Company engages in a broad range of activities in the financial services industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), research, market-making, trust services, mortgage banking and investment advisory and asset management services.

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

Oppenheimer provides its services from 90 offices in 24 states located throughout the United States and in 6 foreign jurisdictions. Oppenheimer owns Freedom Investments, Inc. ("Freedom"), a registered broker dealer in securities, which provides discount brokerage services, and Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel. Oppenheimer holds a trading permit on the New York Stock Exchange and is a member of several other regional exchanges in the United States.

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014 (the "Form 10-K"). The accompanying December 31, 2014 condensed consolidated balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Preparing financial statements requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and the accompanying disclosures. Although these estimates are based on management’s knowledge of current events and actions that the Company may undertake in the future, actual results may differ materially from the estimates. The condensed consolidated results of operations for the nine month period ended September 30, 2015 are not necessarily indicative of the results to be expected for any future interim or annual period.

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

Accounting standards require the Company to present noncontrolling interests as a separate component of stockholders’ equity on the Company’s condensed consolidated balance sheet. As of September 30, 2015, the Company owned 83.68% of OMHHF and the noncontrolling interest recorded in the condensed consolidated balance sheet was $7.0 million.

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2. New accounting pronouncements

Recently Adopted

In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." Under this ASU, a discontinued operation is defined as a disposal of a component or group of components that is disposed of and represents a strategic shift that has or will have a major effect on an entity’s operation. The ASU also modified related disclosure requirements. The ASU became effective for the annual reporting period in the fiscal year that begins after December 15, 2014. The adoption of this accounting guidance did not have a material impact on the Company’s condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing – Repurchase-to-Maturity Transactions, Repurchase Financing, and Disclosures," which makes amendments to the guidance in Accounting Standards Codification 860 on accounting for certain repurchase agreements. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2015, except for the disclosures related to transactions accounted for as secured borrowings, which became effective for the period beginning on or after March 15, 2015. The adoption of this accounting guidance did not have a material impact on the Company’s condensed consolidated financial statements. See Note 6, Collateralized transactions, below.

In November 2014, the FASB issued ASU No. 2014-17, "Business Combination - Pushdown Accounting." The ASU gives the acquired entity the option of applying pushdown accounting in its stand-alone financial statements upon a change-in-control event. The ASU became effective upon issuance. The adoption of this accounting guidance did not have a material impact on the Company’s condensed consolidated financial statements.

Recently Issued

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Additionally, the ASU expands the disclosure requirements for revenue recognition. The ASU will be effective for the annual reporting period in the fiscal year that begins after December 15, 2017 and early adoption is permitted as of the original effective date. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

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

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern," which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The ASU requires management of an entity to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements and also provide disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2016 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact on its disclosure.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items," to simplify income statement classification by removing the concept of extraordinary items. Under the existing guidance, an entity is required to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is of an unusual nature and occurs infrequently. This separate, net-of-tax presentation (and corresponding earnings per share impact) will no longer be allowed. However, the existing requirement to separately present items that are of an unusual nature or occur infrequently on a pre-tax basis within income from continuing operations has been retained. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2015. Early adoption is permitted, but only as of the beginning of the fiscal year of adoption. Upon adoption, a reporting entity may elect prospective or retrospective application. If adopted prospectively, both the nature and amount of any subsequent adjustments to previously reported extraordinary items must be disclosed. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

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In February 2015, the FASB issued ASU No. 2015-02, "Consolidation - Amendments to the Consolidation Analysis," to eliminate the deferral of the application of the revised consolidation rules and make changes to both the variable interest model and the voting model. Under this ASU, a general partner will not consolidate a partnership or similar entity under the voting model. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2015 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2015 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which removes the requirement to categorize within the fair value hierarchy all investments measured using the net asset value per share practical expedient and related disclosures. The ASU is effective for the annual reporting periods in the fiscal year that begins after December 15, 2015 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

3. Earnings per share

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

Earnings per share have been calculated as follows:

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
Basic weighted average number of shares outstanding	13,690,698	13,630,368	13,713,578	13,595,458
Net dilutive effect of share-based awards, treasury method (1)	—	667,074	625,627	621,789
Diluted weighted average number of shares outstanding	13,690,698	14,297,442	14,339,205	14,217,247
Net income (loss) for the period	$(777)	$4,625	$5,989	$6,792
Net income attributable to noncontrolling interest, net of tax	131	155	883	652
Net income (loss) attributable to Oppenheimer Holdings Inc.	$(908)	$4,470	$5,106	$6,140
Basic earnings (loss) per share	$(0.07)	$0.33	$0.37	$0.45
Diluted earnings (loss) per share	$(0.07)	$0.31	$0.36	$0.43

(1) For the three and nine months ended September 30, 2015, the diluted earnings per share computation does not include the anti-dilutive effect of 1,304,185 and 40,309 shares of Class A Stock granted under share-based compensation arrangements, respectively (58,008 for both the three and nine months ended September 30, 2014).

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

(Expressed in thousands)

	As of September 30, 2015	December 31, 2014
Receivable from brokers, dealers and clearing organizations consist of:		
Securities borrowed	$296,362	$242,172
Receivable from brokers	53,550	38,149
Securities failed to deliver	16,380	11,055
Clearing organizations	23,766	21,106
Other	8,750	1,993
Total	$398,808	$314,475
Payable to brokers, dealers and clearing organizations consist of:		
Securities loaned	$209,125	$137,892
Payable to brokers	4,380	4,559
Securities failed to receive	31,266	23,573
Other	5,742	91,137
Total	$250,513	$257,161

5. Fair value measurements

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

Securities Owned and Securities Sold, But Not Yet Purchased at Fair Value

(Expressed in thousands)

	As of September 30, 2015		As of December 31, 2014	
	Owned	Sold	Owned	Sold
U.S. Government, agency and sovereign obligations	$750,031	$259,810	$570,607	$30,615
Corporate debt and other obligations	15,475	7,070	19,795	2,646
Mortgage and other asset-backed securities	7,276	28	6,689	255
Municipal obligations	74,365	50	60,833	51
Convertible bonds	54,946	9,539	49,813	11,369
Corporate equities	41,209	35,167	42,751	47,574
Money markets	846	—	1,245	—
Auction rate securities	96,483	—	91,422	—
Total	$1,040,631	$311,664	$843,155	$92,510

Securities owned and securities sold, but not yet purchased, consist of trading and investment securities at fair values. Included in securities owned at September 30, 2015 are corporate equities with estimated fair values of approximately $13.4 million ($15.7 million at December 31, 2014), which are related to deferred compensation liabilities to certain employees included in accrued compensation on the condensed consolidated balance sheet.

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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.
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.
Loans Held for Sale
The Company elected the fair value option for loans held for sale and determines the fair value using both a discounted cash flow model (see key assumptions used in determining mortgage servicing rights below) and quoted observable prices from market participants.
Interest Rate Lock Commitments
OMHHF records an interest rate lock commitment upon the commitment to originate a loan with a borrower. This commitment, which can be an asset or a liability, is recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan. The interest rate lock commitments are valued using a discounted cash flow model developed based on U.S. Treasury rate changes and other observable market data. The fair value is determined after considering the potential impact of collateralization.

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To-Be-Announced ("TBA") sale contracts

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

Mortgage Servicing Rights ("MSRs")

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

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

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

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

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

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

Auction Rate Securities ("ARS")

In February 2010, Oppenheimer finalized settlements with each of the New York Attorney General's office ("NYAG") and the Massachusetts Securities Division ("MSD" and, together with the NYAG, the "Regulators") concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer's marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions more fully described below. As of September 30, 2015, the Company had $75,000 of outstanding ARS purchase commitments 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. Pursuant to completed Purchase Offers (as defined) under the settlements with the Regulators and client related legal settlements and awards to purchase ARS, as of September 30, 2015, the Company purchased and holds (net of redemptions) approximately $101.9 million in ARS from its clients. In addition, the Company is committed to purchase another $9.5 million in ARS from clients through 2017 under legal settlements and awards.

The ARS positions that the Company owns and is committed to purchase primarily represent auction rate preferred securities issued by closed-end funds and, to a lesser extent, municipal auction rate securities which are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities which are asset-backed securities backed by student loans.

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

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

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Additional information regarding the valuation technique and inputs for ARS used is as follows:
(Expressed in thousands)
Quantitative Information about Level 3 Fair Value Measurements at September 30, 2015

Product	Principal	Valuation Adjustment	Fair Value	Valuation Technique	Unobservable Input	Range	Weighted Average
Auction Rate Securities Owned [1]							
Auction Rate Preferred Securities	$89,600	$ 3,965	$85,635	Discounted Cash Flow	Discount Rate [2]	1.26% to 1.72%	1.48%
					Duration	4.0 years	4.0 years
					Current Yield [3]	0.16% to 0.52%	0.33%
Municipal Auction Rate Securities	8,150	705	7,445	Discounted Cash Flow	Discount Rate [4]	2.21%	2.21%
					Duration	4.5 years	4.5 years
					Current Yield [3]	0.16%	0.16%
Student Loan Auction Rate Securities	500	41	459	Discounted Cash Flow	Discount Rate [5]	2.95%	2.95%
					Duration	7.0 years	7.0 years
					Current Yield [3]	1.64%	1.64%
Other [7]	3,625	681	2,944	Secondary Market Trading Activity	Observable trades in inactive market for in portfolio securities	81.22% of par	81.22% of par
	$101,875	$ 5,392	$96,483				
Auction Rate Securities Commitments to Purchase [6]							
Auction Rate Preferred Securities	$8,065	$ 344	$7,721	Discounted Cash Flow	Discount Rate [2]	1.26% to 1.72%	1.48%
					Duration	4.0 years	4.0 years
					Current Yield [3]	0.16% to 0.52%	0.33%
Municipal Auction Rate Securities	1,535	133	1,402	Discounted Cash Flow	Discount Rate [4]	2.21%	2.21%
					Duration	4.5 years	4.5 years
					Current Yield [3]	0.16%	0.16%
Student Loan Auction Rate Securities	1	—	1	Discounted Cash Flow	Discount Rate [5]	2.95%	2.95%
					Duration	7.0 years	7.0 years
					Current Yield [3]	1.64%	1.64%
	$9,601	$ 477	$9,124				
Total	$111,476	$ 5,869	$105,607				

(1) Principal amount represents the par value of the ARS and is included in securities owned in the condensed consolidated balance sheet at September 30, 2015. The valuation adjustment amount is included as a reduction to securities owned in the condensed consolidated balance sheet as well as principal transactions revenue in the

statement of operations at September 30, 2015.

(2) Derived by applying a multiple to the spread between 110% to 150% to the U.S. Treasury rate of 1.15%.

(3) Based on current auctions in comparable securities that have not failed.

(4) Derived by applying a multiple to the spread of 175% to the U.S. Treasury rate of 1.26%.

(5) Derived by applying the sum of the spread of 1.20% to the U.S. Treasury rate of 1.75%.

(6) Principal amount represents the present value of the ARS par value that the Company is committed to purchase at a future date. This principal amount is presented as an off-balance sheet item. The valuation adjustment amount is included in accounts payable and other liabilities on the condensed consolidated balance sheet at September 30, 2015.

(7) Represents ARS issued by a credit default obligation structure that the Company has purchased and is committed to purchase as a result of a legal settlement.

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

- The impact of a 25 basis point increase in the discount rate at September 30, 2015 would result in a decrease in the fair value of $1.0 million (does not consider a corresponding reduction in duration as discussed above).

- The impact of a 50 basis point increase in the discount rate at September 30, 2015 would result in a decrease in the fair value of $2.0 million (does not consider a corresponding reduction in duration as discussed above).

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

Due to the less observable nature of these inputs, the Company categorizes ARS in Level 3 of the fair value hierarchy. As of September 30, 2015, the Company had a valuation adjustment (unrealized loss) of $5.4 million for ARS owned which is included as a reduction to securities owned on the condensed consolidated balance sheet. As of September 30, 2015, the Company also had a valuation adjustment of $477,000 on ARS purchase commitments from settlements with the Regulators and legal settlements and awards which is included in other liabilities on the condensed consolidated balance sheet. The total valuation adjustment was $5.9 million as of September 30, 2015. The valuation adjustment represents the difference between the principal value and the fair value of the ARS owned and ARS purchase commitments.

Investments

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

The following table provides information about the Company’s investments in Company-sponsored funds at September 30, 2015:

(Expressed in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds (1)	$2,304	$—	Quarterly - Annually	30 - 120 Days
Private equity funds (2)	5,662	1,251	N/A	N/A
	$7,966	$1,251		

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

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

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Valuation Process

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

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

For financial instruments categorized in Level 3 of the fair value hierarchy measured on a recurring basis, primarily for ARS, a group comprised of the CFO, the Controller, and an Operations Director are responsible for the ARS valuation model and resulting fair valuations. Procedures performed include aggregating all ARS owned by type from firm inventory accounts and ARS purchase commitments from regulatory and legal settlements and awards provided by the Legal Department. Observable and unobservable inputs are aggregated from various sources and entered into the ARS valuation model. For unobservable inputs, the group reviews the appropriateness of the inputs to ensure consistency with how a market participant would arrive at the unobservable input. For example, for the duration assumption, the group would consider recent policy statements regarding short-term interest rates by the Federal Reserve and recent ARS issuer redemptions and announcements for future redemptions. The model output is reviewed for reasonableness and consistency. Where available, comparisons are performed between ARS owned or committed to purchase to ARS that are trading in the secondary market.

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

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Assets and Liabilities Measured at Fair Value

The Company's assets and liabilities, recorded at fair value on a recurring basis as of September 30, 2015 and December 31, 2014, 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 September 30, 2015
(Expressed in thousands)

	Fair Value Measurements at September 30, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$328	$—	$—	$328
Deposits with clearing organizations	43,497	—	—	43,497
Securities owned:				
U.S. Treasury securities	727,722	—	—	727,722
U.S. Agency securities	461	18,223	—	18,684
Sovereign obligations	—	3,625	—	3,625
Corporate debt and other obligations	—	15,475	—	15,475
Mortgage and other asset-backed securities	—	7,276	—	7,276
Municipal obligations	—	74,300	65	74,365
Convertible bonds	—	54,946	—	54,946
Corporate equities	41,209	—	—	41,209
Money markets	846	—	—	846
Auction rate securities	—	—	96,483	96,483
Securities owned, at fair value	770,238	173,845	96,548	1,040,631
Investments (1)	—	3,088	8,633	11,721
Loans held for sale	—	34,050	—	34,050
Derivative contracts:				
TBAs	—	344	—	344
Interest rate lock commitments	—	—	10,808	10,808
Derivative contracts, total	—	344	10,808	11,152
Total	$814,063	$211,327	$115,989	$1,141,379
Liabilities				
Securities sold, but not yet purchased:				
U.S. Treasury securities	$259,730	$—	$—	$259,730
U.S. Agency securities	—	20	—	20
Sovereign obligations	—	60	—	60
Corporate debt and other obligations	—	7,070	—	7,070
Mortgage and other asset-backed securities	—	28	—	28
Municipal obligations	—	50	—	50
Convertible bonds	—	9,539	—	9,539
Corporate equities	35,167	—	—	35,167
Securities sold, but not yet purchased, at fair value	294,897	16,767	—	311,664
Derivative contracts:				
Futures	870	—	—	870
Foreign currency forward contracts	5	—	—	5
TBAs	—	7,161	—	7,161
Interest rate lock commitments	—	—	187	187
ARS purchase commitments	—	—	477	477
Derivative contracts, total	875	7,161	664	8,700
Total	$295,772	$23,928	$664	$320,364

(1) Included in other assets on the condensed consolidated balance sheet.

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Assets and liabilities measured at fair value on a recurring basis as of December 31, 2014
(Expressed in thousands)

	Fair Value Measurements at December 31, 2014			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$31,175	$—	$—	$31,175
Deposits with clearing organizations	24,188	—	—	24,188
Securities owned:				
U.S. Treasury securities	540,223	—	—	540,223
U.S. Agency securities	—	26,261	—	26,261
Sovereign obligations	—	4,123	—	4,123
Corporate debt and other obligations	—	19,795	—	19,795
Mortgage and other asset-backed securities	—	6,689	—	6,689
Municipal obligations	—	60,669	164	60,833
Convertible bonds	—	49,813	—	49,813
Corporate equities	42,751	—	—	42,751
Money markets	1,245	—	—	1,245
Auction rate securities	—	—	91,422	91,422
Securities owned, at fair value	584,219	167,350	91,586	843,155
Investments (1)	—	698	9,508	10,206
Loans held for sale	—	19,243	—	19,243
Securities purchased under agreements to resell (2)	—	250,000	—	250,000
Derivative contracts:				
TBAs	—	4,535	—	4,535
Interest rate lock commitments	—	—	7,576	7,576
Derivative contracts, total	—	4,535	7,576	12,111
Total	$639,582	$441,826	$108,670	$1,190,078
Liabilities				
Securities sold, but not yet purchased:				
U.S. Treasury securities	$30,581	$—	$—	$30,581
U.S. Agency securities	—	34	—	34
Corporate debt and other obligations	—	2,646	—	2,646
Mortgage and other asset-backed securities	—	255	—	255
Municipal obligations	—	51	—	51
Convertible bonds	—	11,369	—	11,369
Corporate equities	47,574	—	—	47,574
Securities sold, but not yet purchased, at fair value	78,155	14,355	—	92,510
Derivative contracts:				
Futures	353	—	—	353
Foreign currency forward contracts	10	—	—	10
TBAs	—	1,018	—	1,018
Interest rate lock commitments	—	—	1,222	1,222
ARS purchase commitments	—	—	902	902
Derivative contracts, total	363	1,018	2,124	3,505
Total	$78,518	$15,373	$2,124	$96,015

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

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There were no transfers between Level 1 and Level 2 financial assets and liabilities in the three and nine months ended September 30, 2015.

The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended September 30, 2015 and 2014:

(Expressed in thousands)

	Level 3 Assets and Liabilities For the Three Months Ended September 30, 2015					
	Beginning Balance	Total Realized and Unrealized Gains (Losses) (5)(6)	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
Assets						
Municipals	$62	$ 3	$—	$—	$—	$65
Auction rate securities (1)(7)(8)	100,384	1,799	5,600	(11,300)	—	96,483
Interest rate lock commitments (2)	5,060	5,748	—		—	10,808
Investments (3)	9,114	(427)	29	(83)	—	8,633
Liabilities						
Interest rate lock commitments (2)	683	496	—	—	—	187
ARS purchase commitments (4)	1,034	557	—	—	—	477

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

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

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

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

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

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

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

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

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(Expressed in thousands)

	Level 3 Assets and Liabilities For the Three Months Ended September 30, 2014					
	Beginning Balance	Total Realized and Unrealized Gains (Losses) (5)(6)	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
Assets						
Municipals	$52	$77	$—	$—	$—	$129
Auction rate securities (1)(7)(8)	92,548	(645)	2,375	(6,955)	—	87,323
Interest rate lock commitments (2)	10,528	(5,017)	—	—	—	5,511
Investments (3)	8,779	(254)	180	(282)	—	8,423
Liabilities						
Interest rate lock commitments (2)	3,833	645	—	—	—	3,188
ARS purchase commitments (4)	1,514	477	—	—	—	1,037

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

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

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

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

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

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

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

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

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The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the nine months ended September 30, 2015 and 2014:
(Expressed in thousands)

	Level 3 Assets and Liabilities For the Nine Months Ended September 30, 2015					
	Beginning Balance	Total Realized and Unrealized Gains (Losses) [5][6]	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
Assets						
Municipals	$164	$ (79)	$—	$(20)	$—	$65
Auction rate securities [1][7][8]	91,422	1,736	16,325	(13,000)	—	96,483
Interest rate lock commitments [2]	7,576	3,232	—	—	—	10,808
Investments [3]	9,508	(812)	417	(369)	(111)	8,633
Liabilities						
Interest rate lock commitments [2]	1,222	1,035	—	—	—	187
ARS purchase commitments [4]	902	425	—	—	—	477

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

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

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

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

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

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

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

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

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(Expressed in thousands)

Level 3 Assets and Liabilities
For the Nine Months Ended September 30, 2014

	Beginning Balance	Total Realized and Unrealized Gains (Losses) (5)(6)	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
Assets						
Municipals	$236	$(107)	$—	$—	$—	$129
Auction rate securities (1)(7)(8)	85,124	(971)	16,550	(13,380)	—	87,323
Interest rate lock commitments (2)	2,375	3,136	—	—	—	5,511
Investments (3)	5,946	(341)	4,444	(1,006)	(620)	8,423
Liabilities						
Interest rate lock commitments (2)	3,653	465	—	—	—	3,188
ARS purchase commitments (4)	2,600	1,563	—	—	—	1,037

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

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

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

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

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

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

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

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

Financial Instruments Not Measured at Fair Value

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

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

The fair value of MSRs is based on observable and unobservable inputs and thus categorized as Level 3 in the fair value hierarchy. See valuation techniques above for key assumptions used.

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Assets and liabilities not measured at fair value on a recurring basis as of September 30, 2015
(Expressed in thousands)

	As of September 30, 2015		Fair Value Measurement: Assets As of September 30, 2015			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Cash	$46,983	$46,983	$46,983	$—	$—	$46,983
Cash segregated for regulatory and other purposes	855	855	855	—	—	855
Deposits with clearing organization	17,873	17,873	17,873	—	—	