

CONSOLIDATED STATEMENT OF FINANCIAL  
CONDITION

CIBC World Markets Corp. and Subsidiaries  
April 30, 2014  
(Unaudited)

CIBC World Markets Corp. and Subsidiaries  
Consolidated Statement of Financial Condition

April 30, 2014

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## Consolidated Statement of Financial Condition

April 30, 2014

(000's Omitted, Except for Share and Par Value Information)

### Assets

Cash and cash equivalents	\$ 9,208
Securities purchased under resale agreements	1,665,888
Securities borrowed	487,580
Receivable from broker-dealers and clearing organizations	61,682
Receivable from customers	573
Trading assets, at fair value, including \$25,000 securities segregated in accordance with Rule 15c3-3	481,688
Due from affiliates – income taxes	17,980
Due from affiliates – service fees	11,395
Other assets	50,938
Total assets	<u>\$ 2,786,932</u>

### Liabilities and shareholders' equity

#### Liabilities:

Short-term note payable	\$ 571
Securities sold under repurchase agreements	1,218,291
Securities loaned	288,940
Payable to broker-dealers and clearing organizations	41,085
Payable to customers	5,386
Securities sold, not yet purchased, at fair value	321,774
Accrued employee compensation and benefits	68,839
Due to affiliates – service fees	787
Other liabilities and accrued expenses	4,956
	<u>1,950,629</u>

#### Shareholders' equity:

Common stock, par value \$0.25 per share; 6,800,000 shares authorized; 6,758,298 shares issued and outstanding	1,690
Additional paid-in capital	911,360
Accumulated deficit	(62,287)
Accumulated other comprehensive loss	(14,460)
	<u>836,303</u>

Total liabilities and shareholders' equity	<u>\$ 2,786,932</u>
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See notes to consolidated statement of financial condition.

# CIBC World Markets Corp. and Subsidiaries

## Notes to Consolidated Statement of Financial Condition

April 30, 2014  
(000's Omitted)

### **1. Organization and Significant Accounting Policies**

#### **Basis of Presentation**

The Consolidated Statement of Financial Condition includes the accounts of CIBC World Markets Corp., a registered broker-dealer, and its wholly owned subsidiaries (collectively, the "Company"). Effective October 30, 2013, CIBC World Markets Holdings Inc. was merged into CIBC Delaware Holdings Inc. ("DHI"). DHI then changed its name to CIBC USA Holdings Inc. ("CIBC USA"). The Company is a subsidiary of CIBC USA. CIBC USA is a wholly owned subsidiary of CIBC World Markets Inc. ("WMI"). WMI is ultimately a wholly owned subsidiary of the Canadian Imperial Bank of Commerce ("CIBC" or the "Parent"), Toronto, Canada. The Company's operating results and financial condition could be significantly different from those that would have been obtained if the Company had been autonomous.

The accompanying Consolidated Statement of Financial Condition of the Company as of April 30, 2014 has been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and in accordance with Accounting Standards Codification ("ASC") as set forth by the Financial Accounting Standards Board ("FASB"). All intercompany balances have been eliminated upon consolidation.

The following paragraphs describe our significant accounting policies, including the changes to our accounting policies effective since November 1, 2013.

#### **Nature of Business**

The Company provides its clients and counterparties with a full range of services in connection with securities transactions, investment banking, and acting as a broker and dealer in securities.

#### **Securities and Commodities Transactions**

The Company executes trades in securities for customers on both an agency and principal basis. Customers' securities transactions are recorded on a settlement date basis. Company transactions in securities and commodities are recorded on a trade date basis.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

(000's Omitted)

#### **1. Organization and Significant Accounting Policies (continued)**

##### **Trading Assets and Securities Sold, Not Yet Purchased**

Trading assets and securities sold, not yet purchased, are recorded at fair value. The fair values of trading positions are based on the amount at which the instrument could be exchanged in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

##### **Fair Value Option for Financial Assets and Financial Liabilities**

ASC 825, *Financial Instruments*, permits entities to choose to measure many financial instruments and certain other items at fair value. For these items, the Company has not exercised the option to adopt fair value for the current fiscal year.

##### **Investment Banking**

Investment banking revenues include gains, losses and fees which are net of syndicate expenses arising from securities offerings in which the Company acts as an underwriter or agent. Investment banking revenues also include fees earned from providing merger and acquisition, financial restructuring and advisory services. Investment banking management fees are recorded on the offering date, while sales concessions and underwriting fees are recorded at the time the underwriting is irrevocable and when income is reasonably determinable.

##### **Securities Purchased Under Resale Agreements and Securities Sold Under Repurchase Agreements**

Securities purchased under resale agreements and securities sold under repurchase agreements are treated as collateralized financing transactions. The agreements provide that the transferor will receive substantially the same securities in return at the maturity of the agreement and the transferor will obtain from the transferee sufficient cash or collateral to purchase such securities during the term of the agreement. These agreements are recorded at the amounts at which they will be subsequently resold or repurchased plus accrued interest. As these transactions are short-term in nature, their carrying amounts are a reasonable estimate of fair value.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **1. Organization and Significant Accounting Policies (continued)**

##### **Securities Purchased Under Resale Agreements and Securities Sold Under Repurchase Agreements (continued)**

The Company's policy is to take possession of securities purchased under resale agreements, except under tri-party agreements where they are held by a third party custodian. Securities purchased under resale agreements and securities sold under repurchase agreements with the same counterparty are reported on a net basis on the Consolidated Statement of Financial Condition if the conditions of ASC 860, *Transfers and Servicing*, are met.

ASU 2011-03, *Consideration of Effective Control on Repurchase Agreements* ("ASU 2011-03"), deals with the accounting for repurchase agreements and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. ASU 2011-03 changes the rules for determining when these transactions should be accounted for as financings, as opposed to sales.

##### **Securities Borrowed and Securities Loaned**

Securities borrowed and securities loaned transactions are generally reported as collateralized financings except where other securities are used as collateral. Securities borrowed transactions require the Company to deposit cash or other collateral with the lender. With respect to securities loaned, the Company receives collateral in the form of cash or other collateral in an amount generally in excess of the market value of the securities loaned.

The Company monitors the market value of securities borrowed and securities loaned on a daily basis, with additional collateral obtained or refunded as necessary. Securities borrowed and securities loaned are recorded at contract value on the Consolidated Statement of Financial Condition. Securities borrowed and securities loaned transactions are substantially short-term in nature, and accordingly, their carrying amounts are a reasonable estimate of fair value.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **1. Organization and Significant Accounting Policies (continued)**

##### **Offsetting Assets and Liabilities**

In December 2011, the FASB issued Accounting Standards Update ("ASU") No. 2011-11, Balance Sheet (ASC Topic 210), "Disclosures about Offsetting Assets and Liabilities" ("ASU No. 2011-11"), and in January 2013, the FASB issued ASU No. 2013-01 (ASC Topic 210) "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities" which clarifies the requirements of ASU 2011-11. This accounting guidance changes the disclosure requirements regarding the offsetting of assets and liabilities. It allows the users of the financial statements to evaluate the effect or potential effect of netting arrangements on its financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments. Required disclosures include the gross and net amounts of the assets and liabilities, as well as the amounts of offset, and those amounts subject to a master netting agreement that management chooses not to offset. This is effective for periods beginning on or after January 1, 2013. The Company adopted ASU 2011-11 on January 1, 2013; see Note 5 for additional information.

##### **Collateral**

The Company accepts and pledges collateral in connection with secured financing and securities borrowing transactions. Agreements covering these transactions may permit the secured party to sell or repledge the collateral. The Company monitors the risk of loss by assessing the fair value of the collateral accepted or pledged as compared with the related receivable, payable or other collateral exchanged, and requests additional collateral where deemed appropriate.

Collateral accepted from securities purchased under resale agreements, and securities borrowed transactions is used to cover short positions, to enter into secured financing transactions, and to satisfy deposit requirements with clearing organizations.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **1. Organization and Significant Accounting Policies (continued)**

##### **Furniture, Fixtures, Equipment, Software, and Leasehold Improvements**

Furniture, fixtures and leasehold improvements are carried at cost, less accumulated depreciation and amortization and are included in other assets on the Consolidated Statement of Financial Condition. Depreciation of furniture and fixtures is provided on a straight-line basis over a period of 4 to 15 years. Depreciation of computer equipment and software is provided on a straight-line basis over a period of 2 to 7 years. Amortization of leasehold improvements is provided on a straight-line basis over the lesser of the economic useful lives of the improvements or the terms of the leases.

##### **Use of Estimates**

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and related disclosures. Estimates and assumptions are primarily made in the area of accounting for financial instruments, income taxes, contingent liabilities and employee pension and post-retirement benefits. Actual results could differ from these estimates and assumptions.

##### **Currency Translation**

Assets and liabilities denominated in foreign currencies are translated at exchange rates at the Consolidated Statement of Financial Condition date.

##### **Income Taxes**

The Company uses the asset and liability method to provide for deferred income taxes. The asset and liability method requires that deferred income taxes reflect the expected future tax effect of temporary differences between the carrying amounts of assets or liabilities and their tax bases. These temporary differences as well as unused tax losses and other tax attributes are tax-effected at rates expected to be in effect in the taxation year when the asset is realized or the liability is settled. A valuation allowance is established, if necessary, to reduce any deferred income tax asset to an amount that is more-likely-than-not to be realized.



## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

(000's Omitted)

#### 1. Organization and Significant Accounting Policies (continued)

##### Accounting for Uncertainty in Income Taxes

ASC 740, *Income Taxes* ("ASC 740"), requires that an entity recognize in the Consolidated Statement of Financial Condition the impact of a tax position, if that position is more-likely-than-not to be sustained on examination by the taxing authorities, based on the technical merits of the position. Tax benefits resulting from such a position are measured at an amount that has a greater than fifty percent likelihood on a cumulative basis to be sustained on examination.

##### Share-Based Payments

The Company provides compensation to certain employees in the form of stock options, restricted share-based awards ("RSAs") and/or performance share units ("PSUs"). Forfeitures are required to be estimated upfront in the year an award is granted and are periodically reassessed and adjusted to reflect actual forfeitures. The holders of RSAs and PSUs are entitled to receive a cash dividend based on the dividends declared on the common stock of CIBC.

##### Limited Partnerships

According to ASC 810, *Consolidation* ("ASC 810"), variable interest entities ("VIEs") lack one or more of the characteristics of a voting interest entity. Under ASC 810, the determination of whether to consolidate a VIE is based on the power to direct the activities of the VIE that most significantly impact the VIE's economic performance, together with either the obligation to absorb losses or the right to receive benefits that could be significant to the VIE, as well as the VIE's purpose and design. The Company does not hold any investments in entities considered to be VIEs.

When the Company does not have a controlling financial interest in an entity but exerts significant influence over the entity's operating and financial policies, the Company accounts for its investment in accordance with the equity method of accounting prescribed by ASC 323, *Investments – Equity Method and Joint Ventures*. This generally applies to cases in which the Company owns a voting or economic interest of between 20 and 50 percent.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **1. Organization and Significant Accounting Policies (continued)**

##### **Limited Partnerships (continued)**

The Company uses the accounting guidance issued by ASC 810 when determining whether a general partner controls a limited partnership. ASC 810 is based on the fundamental principle that a general partner in a limited partnership is presumed to control the limited partnership, regardless of the extent of its ownership interest. Consequently, a general partner is required to consolidate the partnership unless the presumption of control can be overcome. The Company invests as a general partner in partnership structures that have another unrelated general partner. They work jointly to manage the partnership. Neither general partner can individually control or direct the actions of the partnership, therefore the Company's interest in these partnerships are accounted for under the equity method.

##### **Accounting for Defined Benefit Pension and Other Post-retirement Plans**

ASC 715, *Compensation – Retirement Benefits* (“ASC 715”), requires an entity to recognize the over-funded or under-funded status of a defined benefit post-retirement plan as an asset or liability in its Consolidated Statement of Financial Condition. ASC 715 also requires an entity to measure the funded status of a plan at the Consolidated Statement of Financial Condition date.

##### **Fair Value Measurements**

ASC 820, *Fair Value Measurements* (“ASC 820”), provides a single definition of fair value together with a framework for measurement, and requires additional disclosure about the use of fair value techniques to measure assets and liabilities. ASC 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under ASC 820, fair value measurements are disclosed by level within that hierarchy.

##### **Netting**

Options are recognized on a gross basis on the Consolidated Statement of Financial Condition. The fair value of options does not include the netting of collateral held, if any.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

(000's Omitted)

#### 2. Cash and Cash Equivalents

Cash represents funds deposited with financial institutions that can be withdrawn without restriction. All cash is on deposit with major banks or the Parent. Cash equivalents are highly liquid overnight deposits held in the ordinary course of business.

#### 3. Receivable from Broker-Dealers and Clearing Organizations and Payable to Broker-Dealers and Clearing Organizations

The components of receivable from broker-dealers and clearing organizations and payable to broker-dealers and clearing organizations as of April 30, 2014 are as follows:

Receivable from broker-dealers and clearing organizations:	
Clearing organizations	\$ 14,722
Securities failed to deliver	12,290
Investment banking receivable	4,695
Receivable from Oppenheimer	25,000
Other	4,975
	<u>\$ 61,682</u>
Payable to broker-dealers and clearing organizations:	
Clearing organizations	\$ 8,335
Securities failed to receive	380
Investment banking payable	191
Broker-dealers	3,218
Net trade date accrual	26,218
Other	2,743
	<u>\$ 41,085</u>

Securities failed to deliver and securities failed to receive are substantially short-term in nature, and accordingly, their carrying amounts are a reasonable estimate of fair value.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **3. Receivable from Broker-Dealers and Clearing Organizations and Payable to Broker-Dealers and Clearing Organizations (continued)**

Effective January 1, 2008, the Parent sold the Company's U.S. based investment banking, leveraged finance, equities, and related debt capital markets businesses and its Israeli investment banking and equities business (the "Transferred Business") to Oppenheimer & Co. Inc. ("Oppenheimer"). The sale to Oppenheimer of certain other U.S. capital markets-related business located in the United Kingdom and Asia closed in the fourth quarter of 2008. In consideration, Oppenheimer provided the Parent warrants for one million shares of Oppenheimer exercisable at the end of five years. In addition, Oppenheimer was contractually obligated to pay the Company a minimum deferred purchase price of \$25,000 at the end of five years based on the earnings of the Transferred Business. Oppenheimer has not paid the deferred purchase price to the Company and has placed the funds in escrow pending the outcome of legal proceedings (referred to in Note 12 below). Accordingly, included in receivable from broker-dealers and clearing organizations on the Consolidated Statement of Financial Condition is \$25,000 which represents the deferred purchase price.

#### **4. Receivable from and Payable to Customers**

Accounts receivable from and payable to customers include amounts due on cash transactions. Securities owned by customers are held as collateral for these receivables

#### **5. Secured Financing Transactions**

At April 30, 2014, the fair value of collateral accepted under securities purchased under resale agreements and securities borrowed transactions was \$2,147,847 all of which was sold or re-pledged.

In transactions where the Company acts as the net borrower in a securities exchange, the securities borrowed and pledged are treated as off-balance-sheet transactions. At April 30, 2014, the Company had pledged securities with a fair value of approximately \$232,364 against borrowed securities with a fair value of approximately \$227,661.

The Company enters into collateralized resale and repurchase agreements and securities borrowing and lending transactions that may result in credit exposure in the event the counterparty to the transaction is unable to fulfill its contractual obligations.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

(000's Omitted)

#### 5. Secured Financing Transactions (continued)

The Company minimizes credit risk associated with these activities by monitoring counterparty credit exposure and collateral values on a daily basis and requiring additional collateral to be deposited with or returned by the Company when deemed necessary. In addition, the Company manages credit risk by entering into netting agreements with counterparties. These netting agreements generally enable the counterparties to offset liabilities against available assets received – in the ordinary course of business and/or in the event that the counterparty to the transaction is unable to fulfill its contractual obligation. The Company offsets these financial assets and financial liabilities on statement of financial condition only when it has an enforceable legal right to offset the respective recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The following table presents information regarding the offsetting of these financial assets and financial liabilities:

	Gross Amounts	Amounts Offset on the Statement of Financial Condition <sup>1</sup>	Net Amounts Presented on the Statement of Financial Condition	Amounts Not Offset on the Statement of Financial Condition <sup>2</sup>	Net Amount
<b>Financial Assets</b>					
Securities purchased under resale agreements	\$ 1,922,611	\$ (256,723)	\$ 1,665,888	\$ (1,665,888)	\$ -
Securities borrowed	487,580	-	487,580	(487,580)	-
<b>Financial Liabilities</b>					
Securities sold under resale agreements	\$ 1,475,014	\$ (256,723)	\$ 1,218,291	\$ (1,218,291)	-
Securities loaned	288,940	-	288,940	(288,940)	-

<sup>1</sup> Amounts relate to master netting agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting accounting guidance ASC 210-20-45-11.

<sup>2</sup> Amounts relate to master netting agreements and collateral agreements which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are not met in accordance with applicable offsetting accounting guidance ASC 210-20-45-11.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

(000's Omitted)

#### 6. Fair Value Measurements

ASC 820 establishes a framework for measuring fair value and expands disclosures about fair value measurements in financial statements.

The various inputs that may be used to determine the value of the Company's investments are summarized in three levels. The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities.

*Level 1* – Quoted prices in active markets for identical securities.

*Level 2* – Significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.).

*Level 3* – Significant unobservable inputs (including the Company's own assumptions used to determine the fair value of investments).

The investment's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for investments measured at fair value:

*Common stocks, exchange-traded options and U.S. government securities:* Common stocks and exchange-traded options are valued at the closing price; U.S. government securities are valued at the last price from active markets.

*Corporate bonds:* Corporate bonds are valued using dealer quotes, bond market activity, and other market observable movements.

*Certificates of deposit:* Certificates of deposit are valued using dealer quotes and other market observable activity.

*Unregistered investment companies:* The Company's investments in unregistered investment companies are valued based upon the Company's applicable ownership interest in the net assets. Net assets include gains/losses on underlying investments of the unregistered investment company as well as other income/expenses of the unregistered investment company.

CIBC World Markets Corp. and Subsidiaries

Notes to Consolidated Statement of Financial Condition (continued)

(000's Omitted)

**6. Fair Value Measurements (continued)**

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, the Company's investments at fair value as of April 30, 2014.

	<b>Assets at Fair Value as of April 30, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common stocks	\$ 26,050	\$ –	\$ –	\$ 26,050
U.S. government securities	48,944	–	–	48,944
Corporate bonds	–	345,947	–	345,947
Certificates of deposit	–	1,200	–	1,200
Exchange-traded options	55,149	–	–	55,149
Unregistered investment companies	–	–	4,398	4,398
Total trading assets, at fair value	<u>\$ 130,143</u>	<u>\$ 347,147</u>	<u>\$ 4,398</u>	<u>\$ 481,688</u>

	<b>Liabilities at Fair Value as of April 30, 2014</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common stocks	\$ 17,226	\$ –	\$ –	\$ 17,226
U.S. government securities	84,230	–	–	84,230
Corporate bonds	–	175,562	–	175,562
Exchange-traded options	44,756	–	–	44,756
Total securities sold, not yet purchased, at fair value	<u>\$ 146,212</u>	<u>\$ 175,562</u>	<u>\$ –</u>	<u>\$ 321,774</u>

There have been no transfers between Level 1, Level 2 or Level 3 assets or liabilities since October 31, 2013.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **6. Fair Value Measurements (continued)**

Trading assets with a market value of \$25,000 have been segregated in a special reserve bank account for the exclusive benefit of customers pursuant to Rule 15c3-3.

The majority of the Company's investments in unregistered investment companies balance relates to a single company which is commencing an orderly wind down and making liquidating distributions to the company's members. The Company may not redeem this investment without prior approval from the unregistered investment company's board of directors.

#### **7. Securities Sold, Not Yet Purchased, at Fair Value**

The Company may sell securities short. A short sale is a transaction whereby the Company sells securities it does not own in anticipation of a decline in the market price of the securities as part of a hedging strategy or to facilitate a transaction. The Company is obligated to repurchase the securities at their market price at the time of replacement. Cash related to short sales is restricted until the securities are purchased. Short sales involve certain risks and special considerations. Possible losses from short sales differ from losses that could be incurred from the purchase of a security because losses from short sales are not limited, whereas losses from purchases cannot exceed the total amount invested.

#### **8. Derivative Financial Instruments**

In the normal course of business, the Company utilizes derivative financial instruments in connection with its trading activities. Investments in derivative contracts are subject to additional risks that can result in a loss of all or part of an investment. The Company's derivative activities and exposure to derivative contracts are impacted by the following primary underlying risks: interest rate and credit risks (which includes issuer and counterparty risk). The Company records its derivatives at fair value.

Notional amounts, which represent the sum of gross long and short derivatives contracts provide an indication of the volume of the Company's derivative activity; however, they do not represent anticipated losses.

The notional or contractual amounts below do not represent the potential market risk to the Company. Generally, these instruments are hedged with offsetting positions or are utilized to reduce the Company's market risk.



## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **8. Derivative Financial Instruments (continued)**

Similarly, the notional or contractual amounts of these instruments do not represent the Company's exposure to credit risk. Credit risk arises from the failure of the counterparty to perform according to the terms of the contract.

##### **Options**

The Company enters into option transactions to facilitate client orders, hedge Company risk and for investment purposes. Option contracts purchased give the Company the right, but not the obligation, to buy or sell within a limited time, a financial instrument, commodity or currency at a contracted price that may also be settled in cash, based on differentials between specified indices or prices.

Options contracts purchased require the payment of premiums in exchange for the right to purchase or sell underlying instruments at various strike prices and maturities. When the Company purchases options, the premium paid by the Company is recorded as an asset and is subsequently adjusted to the fair value of the option purchased. As a purchaser of an option contract, the Company is subject to credit risk since the counterparty is obligated to make payments under the terms of the option contract if the Company exercises the option.

Options written obligate the Company to buy or sell within a limited time, a financial instrument, commodity or currency at a contracted price. Alternatively, the Company would provide a cash settlement to the holder in the amount of the difference between the strike price of the option and the current market value. Options written by the Company may expose the Company to the market risk of an unfavorable change in the financial instrument underlying the written option.

As a writer of options, the Company receives premiums in exchange for bearing the risk of unfavorable changes in the price of the underlying instruments. When the Company writes options, the premium received by the Company is recorded as a liability and is subsequently adjusted to the fair value of the option written. If a written put option is exercised, the premium received reduces the cost basis of the security purchased by the Company.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### 8. Derivative Financial Instruments (continued)

##### Options (continued)

The contractual or notional amounts of exchange-traded options as of April 30, 2014 are set forth below:

	<u>Notional</u>	<u>Fair Value</u>
Exchange-traded options:		
Purchased	\$ 1,857,215	\$ 55,150
Written	\$ 1,763,329	\$ 44,756

Exchange-traded options are reflected at fair value in the Consolidated Statement of Financial Condition. The fair value of exchange-traded options purchased and written at April 30, 2014 are included in trading assets, at fair value and securities sold, not yet purchased at fair value, respectively.

##### Futures Contracts

The Company is subject to interest rate and equity price risk in the normal course of pursuing its investment objectives. The Company may use futures contracts to gain exposure to, or hedge against changes in the value of interest rates. A futures contract represents a commitment for the future purchase or sale of an asset at a specified price on a specified date.

The purchase and sale of futures contracts requires margin deposits with a Futures Commission Merchant ("FCM"). Futures contracts provide reduced counterparty risk to the Company since futures are exchange-traded, and the exchange's clearinghouse, as the counterparty to all exchange-traded futures, guarantees the futures against default.

The Commodity Exchange Act requires an FCM to segregate all customer transactions and assets from the FCM's proprietary activities. A customer's cash and other equity deposited with the FCM are considered commingled with all other customer funds subject to the FCM's segregation requirements. In the event of an FCM's insolvency, recovery may be limited to the Company's pro rata share of segregated customer funds available. It is possible that the recovery amount could be less than the total of cash and other equity deposited. The Company has not experienced any losses on these accounts and does not believe it is exposed to any significant credit risk with respect to cash and other equity deposited with the FCM.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### 8. Derivative Financial Instruments (continued)

##### Futures Contracts (continued)

The contractual or notional amounts of exchange-traded futures contracts as of April 30, 2014 are set forth below:

	<u>Notional</u>	<u>Fair Value</u>
Exchange-traded futures contracts:		
Commitments to sell	\$ 41,526	\$ (12)

Exchange-traded futures contracts are reflected at fair value in the Consolidated Statement of Financial Condition. The fair value of exchange-traded futures contracts at April 30, 2014 is included in receivable from broker-dealers and clearing organizations.

#### 9. Related Party Transactions

In the normal course of business, the Company engages in various transactions with CIBC and affiliates. These transactions include, but are not limited to, securities purchased under resale agreements and securities sold under repurchase agreements, securities loaned, trade execution and custodial services, and services related to investment banking and financial products activities. In addition, certain revenues and expenses for shared services are allocated among affiliates and the Company on an agreed-upon basis in accordance with CIBC policy.

The Company and its affiliates purchase goods and services from unaffiliated entities under contracts where each company in the affiliated group pays their pro-rata share of the external invoice. The Company does not consider payments made under these contracts to be related party transactions.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

(000's Omitted)

#### 9. Related Party Transactions (continued)

The following amounts related to transactions with CIBC and affiliates are included in the accompanying Consolidated Statement of Financial Condition:

<b>Assets</b>	
Cash	\$ 899
Securities purchased under resale agreements	68,176
Receivable from broker-dealers and clearing organizations	8,590
Trading assets, at fair value	2,317
Due from affiliates – income taxes	17,980
Due from affiliates – service fees	11,395
Other assets	49,344
<b>Liabilities</b>	
Securities sold under repurchase agreements	1,118,291
Securities loaned	288,940
Payable to broker-dealers and clearing organizations	3,239
Payable to customers	1,552
Securities sold, not yet purchased, at fair value	3,213
Due to affiliates – service fees	787
Short-term note payable	571

Payable to customers represents an affiliate customer payable that does not meet the definition of customer under Rule 15c3-3.

#### 10. Liabilities Subordinated to Claims of General Creditors

The Company has two \$250,000 revolving subordinated loans which expire on July 29, 2016 and July 31, 2017, respectively. The two \$250,000 revolving subordinated loans represent commitments by an affiliate to fund the Company and were not utilized as of April 30, 2014. The Company is not charged a fee for unutilized commitments.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **10. Liabilities Subordinated to Claims of General Creditors (continued)**

The revolving liabilities are subordinated to all existing and future claims of all non-subordinated creditors of the Company. They have been approved as regulatory capital and would constitute part of the Company's net capital under the Securities and Exchange Commission's ("SEC") Uniform Net Capital Rule 15c3-1 (the "Uniform Net Capital Rule") and Commodity Futures Trading Commission ("CFTC") Regulation 1.17(d) and 1.17(h) if utilized by the Company.

#### **11. Income Taxes**

The Company is part of CIBC USA's consolidated group for purposes of filing its U.S. federal income tax return. For New York State ("NYS") and New York City ("NYC") income tax purposes, the Company is part of a banking corporation combined group with various affiliates.

Pursuant to a tax-sharing arrangement, CIBC USA arranges for the payment of U.S. federal, state, and local income taxes on behalf of the entire consolidated group. The Company reimburses or receives payment on a current basis from CIBC USA based upon its proportionate share of the group's total U.S. federal, state, and local tax liability.

Under ASC 740, temporary differences between carrying value and the tax basis of assets and liabilities are accounted for at future income tax rates. Under certain circumstances, estimates are used in determination of temporary differences.

As of April 30, 2014, the amount due from CIBC USA that pertains to income taxes was \$17,980, recorded as due from affiliates – income taxes in the Consolidated Statement of Financial Condition. Included in that amount are net deferred tax assets of \$38,640 reduced by \$20,660 of current tax liability. The principal temporary differences that give rise to the Company's deferred tax assets are depreciation, deferred compensation and pension.

On March 31, 2014, NYS enacted the new 2014-15 NYS Tax Reform. The deferred tax assets as at April 30, 2014 reflect the effect of the new rates on the timing differences that would reverse in future years.

The Company has evaluated the potential impact of ASC 740 and has concluded that there are no tax positions requiring recognition, measurement or disclosure in the Consolidated Statement of Financial Condition, nor are there any events expected over the following fiscal year that would require recognition, measurement or disclosure in the Consolidated Statement of Financial

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **11. Income Taxes (continued)**

Condition. The federal, NYS, and NYC income tax audits are closed for all tax years up to and including 2009. The statute of limitation for assessment or refund remains open for the tax years from 2010 to 2012.

As of April 30, 2014, the Company has no federal, NYS and NYC net operating loss ("NOL") carryforwards.

#### **12. Commitments and Contingencies**

##### **Long-Term Lease Commitments**

The Company leases office space, under non-cancelable operating leases expiring on various dates between 2015 and 2019. At April 30, 2014 aggregate minimum rental commitments for non-cancelable leases are as follows:

Period ending April 30:	
2015	\$ 1,185
2016	360
2017	219
2018	163
2019	103
	<u>\$ 2,030</u>

Some of the Company's leases contain escalation provisions for tax and operating expenses. In addition, some of the Company's leases contain provisions for optional renewal, which are at the Company's option with defined terms.

At April 30, 2014, the Company remained primarily liable for minimum rental commitments for leases on premises that have been surrendered to the landlord or subleased to a third-party tenant. The Company's commitments on these leases expire on various dates between 2014 and 2016. The Company expects to receive \$383 which represents the minimum amount due from third-party tenants on non-cancelable subleases through 2015. The Company has \$1,148 in reserves for any projected losses on these subleases.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **12. Commitments and Contingencies (continued)**

##### **Assigned Lease Commitments**

In connection with the sale of its U.S. Wealth Management Division to Oppenheimer in 2003, the Company also remains contingently liable under the terms of the leases that have been assigned to Oppenheimer in the event of an Oppenheimer default. At April 30, 2014, future minimum rental payments for these leases for which the Company is contingently liable are as follows:

Period ending April 30:	
2015	\$ 2,421
	<u>\$ 2,421</u>

##### **Other Commitments**

The Company enters into forward starting resell agreements (agreements that have a trade date at or prior to April 30, 2014 and settle subsequent to April 30, 2014) primarily collateralized by U.S. Government, agency and mortgage-backed securities. At April 30, 2014, these agreements have a carrying value of \$400,000 which settles after 91 days. These agreements are not recorded on the Company's statement of financial condition until the effective date of the transaction.

##### **Litigation**

The Company is a party to a number of legal proceedings, including regulatory investigations, in the ordinary course of its business. While there exists an inherent difficulty in predicting the outcome of such matters, based on current knowledge and consultation with legal counsel, the Company does not expect that the outcome of any of these matters, individually or in aggregate, would have a material adverse effect on the Company's financial position. However, the outcome of any such matters, individually or in aggregate, may be material to the Company's operating results for a particular year.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **12. Commitments and Contingencies (continued)**

As part of the January 2008 purchase and sale agreement between Oppenheimer and CIBC, Oppenheimer was required to pay the Company a deferred purchase price of at least \$25,000 in April 2013. Oppenheimer has not paid the deferred purchase price (referred to in Note 3 above) to the Company and has placed the funds in escrow pending the outcome of legal proceedings. In June 2013, CIBC filed an arbitration claim against Oppenheimer for \$25,000 plus statutory interest and attorney's fees.

In March 2013, a claim was filed in New York State Supreme Court against CIBC and the Company by Oppenheimer, Oppenheimer Holdings Inc. and OPY Credit Corp. seeking damages of approximately \$176,000 relating to an alleged breach of a credit facility that CIBC entered into in connection with the sale of CIBC's capital markets business to Oppenheimer in January 2008.

In November 2013, the court dismissed all claims brought by Oppenheimer and Oppenheimer Holdings Inc. against CIBC and the Company and reduced the claim to one cause of action, a claim by OPY Credit Corp. alleging CIBC breached the credit facility.

#### **13. Employee Benefit and Other Compensation Plans**

The Company participates in a defined contribution plan administered by an affiliate, which meets the requirements of Section 401(k) of the Internal Revenue Code. A plan participant may contribute between 2% and 50% of their base salary on a before tax or after tax basis, subject to Internal Revenue Service ("IRS") limitations. The Company matches up to 50% of a participant's contribution, up to 6% of the participant's base salary.

The Company also provides compensation to certain employees in the form of share-based awards and/or stock options of CIBC.



## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **13. Employee Benefit and Other Compensation Plans (continued)**

Under the RSA and PSU plans, certain key employees are granted awards to receive the cash equivalent of CIBC common shares. RSAs and PSUs settle in the cash equivalent of CIBC common shares. In general, RSAs vest one-third annually beginning in the year after the grant and PSUs vest at the end of three years from the grant date.

Under an immunization agreement with the Parent, the Parent bears the risk of any fair value changes between grant date and measurement date. Included in other assets on the Consolidated Statement of Financial Condition is \$41,295 which represents the receivable from the Parent for RSAs and PSUs granted to employees. Also, included in accrued employee compensation and benefits is \$24,647 due to employees for RSAs and PSUs. Both the receivable from the Parent and the amount due to employees fluctuate based on the changes in the price of CIBC common shares.

#### **14. Post-retirement Benefits**

##### **Healthcare**

Through the CIBC World Markets Retiree Health and Life Insurance Benefits Plan which is administered by an affiliate, the Company currently provides certain healthcare and life insurance benefits to eligible retired employees. Eligible retirees share in the cost of the healthcare benefits. The Company and its affiliates share in the cost of the plan based on their respective number of active employees.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

(000's Omitted)

#### 14. Post-retirement Benefits (continued)

##### Pension Benefits

The Company, other affiliates and U.S. employees of CIBC participate in the CIBC World Markets Retirement Plan for US Employees, the CIBC Unfunded Expatriate Retirement Income Plan and the CIBC Employment Contracts (collectively the "Pension Plan"). Under IRS regulations each of the affiliated companies is jointly and severally liable for the Pension Plan. The Pension Plan is a noncontributory defined benefit plan whose benefit payment formula is generally based upon a retired employee's length of service and a percentage of qualifying compensation during the final years of employment. The Company and its affiliates share in the cost of the Pension Plan based on their respective number of active employees. The Pension Plan records do not enable the allocation of the Pension Plan by company, therefore the actuarial information presented is for the entire Pension Plan.

The Pension Plan assets are held in a trust. Pension Plan fiduciaries set investment policies and strategies for the Pension Plan. Long-term strategic investment objectives include preserving the funded status of the Pension Plan and balancing risk and return. The Pension Plan fiduciaries oversee the investment allocation process, which includes selecting investment managers, setting long-term strategic targets and monitoring asset allocations.

The following is a description of the valuation methodologies used for Pension Plan assets measured at fair value:

*Registered investment companies:* Valued at the net asset value ("NAV") of shares based on quoted prices in active markets for identical securities.

*Money markets:* Recorded at carrying value, which approximates fair value.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

CIBC World Markets Corp. and Subsidiaries

Notes to Consolidated Statement of Financial Condition (continued)

(000's Omitted)

**14. Post-retirement Benefits (continued)**

The following table sets forth by level, within the fair value hierarchy, the Pension Plan assets at fair value as of April 30, 2014:

	Assets at Fair Value as of April 30, 2014			
	Level 1	Level 2	Level 3	Total
Registered investment companies:				
Debt Index	\$ 49,580	\$ –	\$ –	\$ 49,580
Equity Index	42,930	–	–	42,930
Money markets	–	714	–	714
Total assets, at fair value	<u>\$ 92,510</u>	<u>\$ 714</u>	<u>\$ –</u>	<u>\$ 93,224</u>

The weighted-average asset allocations are as follows:

<b>At April 30, 2014</b>	
Debt securities	53%
Equity securities	46
Other	1
Total	<u>100%</u>

**15. Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk**

In the normal course of business, the Company enters into securities transactions with various counterparties. If the securities subject to such transactions are not in the possession or control of the Company, the Company is subject to risk of loss if the security is not received and the fair value has increased over the contract amount of the transactions.

The Company enters into various transactions in financial instruments with off-balance sheet risk in order to meet the needs of its clients and to manage its exposure to market risks. These transactions include the purchase and sale of futures, and the writing of exchange-traded options. Each of these transactions contains varying degrees of off-balance sheet risk.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **15. Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)**

Risks arise in financial futures, forward contracts and from unfavorable changes in currency exchange rates or in the market price of the underlying financial instruments. In written option contracts, the Company receives premiums at the outset and then bears the risk of unfavorable changes in fair values of the underlying instruments.

As an agent, the Company executes securities and commodities transactions on behalf of its customers. If either the customer or a counterparty fails to perform, the Company may be required to discharge the obligations of the nonperforming party. In such circumstances, the Company may sustain a loss if the fair value of the security or commodity contract is different from the contract value of the transaction.

The Company may deliver securities as collateral in support of various secured financing sources such as bank loans, securities loaned agreements and repurchase agreements. In such circumstances, the Company may incur a loss up to the amount by which the fair value of the securities delivered exceeds the fair value of the loan or other collateral received or in the possession or control of the Company. Additionally, the Company delivers customer securities as collateral to satisfy margin requirements of various exchanges. In the event the counterparty is unable to meet its contractual obligation to return customer securities delivered as collateral, the Company may be obligated to purchase the securities in order to return them to the customer.

As a general partner, the Company may be liable for the obligations of various limited partnerships engaged primarily in securities investments and real-estate activities. Such liabilities, if any, for the obligations of the partnerships are not expected in the aggregate to have a material adverse effect on the Company's financial position.

The majority of the Company's transactions and its credit exposures are with customers, broker-dealers and other financial institutions in the United States. These activities primarily involve collateralized arrangements and may result in credit exposure in the event that the counterparty fails to meet its contractual obligations.

The Company's exposure to credit risk can be directly impacted by volatile securities markets, which may impair the ability of counterparties to satisfy their contractual obligations.

## CIBC World Markets Corp. and Subsidiaries

### Notes to Consolidated Statement of Financial Condition (continued)

*(000's Omitted)*

#### **15. Financial Instruments with Off-Balance Sheet Risk and Concentration of Credit Risk (continued)**

The Company seeks to control its credit risk through a variety of reporting and control procedures, including establishing credit limits based upon a review of the counterparties' financial conditions and credit ratings. In addition, the Company monitors collateral levels on a daily basis for compliance with regulatory and internal guidelines and requests changes in collateral levels as appropriate.

#### **16. Net Capital Requirements**

As a SEC registered broker-dealer and member firm of the Financial Industry Regulatory Authority ("FINRA"), the Company is subject to the Uniform Net Capital Rule. The Company has elected to use the alternative method, permitted by the Uniform Net Capital Rule, which requires that the Company maintains minimum net capital, as defined, equal to the greater of \$1,500 or 2% of aggregate debit items arising from customer transactions, as defined. FINRA may prohibit a member firm from expanding its business and declaring dividends if its net capital is less than 5% of aggregate debit items. As an introducing broker regulated by the National Futures Association, the Company is subject to the minimum net capital requirements adopted and administered by the CFTC and by certain commodity exchanges in the United States and in foreign locations. In the United States, the Company is required to maintain adjusted net capital (as defined by the CFTC) equivalent to or in excess of \$45 or the minimum amount required by the Uniform Net Capital Rule, whichever is greater.

As of April 30, 2014, the Company's net capital under the Uniform Net Capital Rule was \$625,397. The amounts in excess of the greater of the minimum amount required by the Uniform Net Capital Rule or the CFTC minimum requirement, and the greater of 5% of aggregate debit items or \$1,800 or the CFTC early warning level were \$623,897 and \$623,597 respectively.

The financial information of the Company's subsidiaries is included in the accompanying Consolidated Statement of Financial Condition but not included in the Company's unconsolidated net capital computation.

CIBC World Markets Corp. and Subsidiaries

Notes to Consolidated Statement of Financial Condition (continued)

(000's Omitted)

**16. Net Capital Requirements**

As of April 30, 2014, these balances consisted of:

	<b>Totals per Unconsolidated Form 17A-5</b>	<b>Subsidiary Balances</b>	<b>Effect of Intercompany Eliminations</b>	<b>Totals per Consolidated Statement of Financial Condition</b>
Assets	\$ 2,786,541	\$ 735	\$ (344)	\$ 2,786,932
Liabilities	1,950,238	0	391	1,950,629