

INTL FCSTONE INC.  
Form 10-K  
December 14, 2016  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

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

For the Fiscal Year Ended September 30, 2016

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 000-23554

INTL FCStone Inc.  
(Exact name of registrant as specified in its charter)  
Delaware 59-2921318  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)  
708 Third Avenue, Suite 1500  
New York, NY 10017  
(Address of principal executive offices) (Zip Code)  
(212) 485-3500  
(Registrant's telephone number, including area code)

Securities registered under Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
---------------------	---

Common Stock, \$0.01 par value	NASDAQ Global Market
--------------------------------	----------------------

Securities registered under Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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  No

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). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>
Accelerated filer	<input checked="" type="checkbox"/>

Non-accelerated filer  Smaller reporting company

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

As of March 31, 2016, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$400.8 million.

As of December 12, 2016, there were 18,468,751 shares of the registrant's common stock outstanding.

---

Table of Contents

Document Incorporated by Reference

Certain portions of the definitive Proxy Statement for the Registrant's Annual Meeting of Stockholders to be held on February 23, 2017 are incorporated by reference into Part III of this Annual Report on Form 10-K.

---

Table of Contents

INTL FCStone Inc.  
 Annual Report on Form 10-K for the Fiscal Year Ended September 30, 2016  
 Table Of Contents

	Page
PART I	
Item 1. <u>Business</u>	<u>3</u>
Item 1A. <u>Risk Factors</u>	<u>11</u>
Item 1B. <u>Unresolved Staff Comments</u>	<u>22</u>
Item 2. <u>Properties</u>	<u>22</u>
Item 3. <u>Legal Proceedings</u>	<u>22</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>23</u>
PART II	
Item 5. <u>Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>24</u>
Item 6. <u>Selected Financial Data</u>	<u>26</u>
Item 7. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>54</u>
Item 8. <u>Financial Statements and Supplementary Data</u>	<u>57</u>
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	<u>113</u>
Item 9A. <u>Controls and Procedures</u>	<u>113</u>
Item 9B. <u>Other Information</u>	<u>113</u>
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	<u>114</u>
Item 11. <u>Executive Compensation</u>	<u>114</u>
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	<u>114</u>
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	<u>114</u>

Item 14.	<u>Principal Accountant Fees and Services</u>	<u>114</u>
----------	---	------------

PART IV

Item 15.	<u>Exhibits and Financial Statement Schedules</u>	<u>114</u>
----------	---	------------

	<u>Signatures</u>	<u>117</u>
--	-------------------	------------

---

## Table of Contents

### Cautionary Statement about Forward-Looking Statements

Certain statements in this report, other than purely historical information, including estimates, projections, statements relating to our business plans, objectives and expected operating results, and the assumptions upon which those statements are based, are “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties which may cause actual results to differ materially from the forward-looking statements. A detailed discussion of these and other risks and uncertainties that could cause actual results and events to differ materially from such forward-looking statements is included in the section entitled “Risk Factors” (refer to Part I, Item 1A). We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

## PART I

### Item 1. Business

#### Overview of Business and Strategy

We are a diversified global financial services organization providing execution, risk management and advisory services, market intelligence and clearing services across asset classes and markets around the world. Our global platform has a physical presence in key financial markets with regulatory approvals to execute both exchange-listed as well as over-the-counter instruments in the asset classes we are active in. These businesses are supported by our global infrastructure of regulated operating subsidiaries, our advanced technology platform and our team of more than 1,400 employees. Our customer-first approach differentiates us from large banking institutions, engenders trust, and has enabled us to establish leadership positions in a number of complex fields in financial markets around the world. We serve more than 20,000 predominantly wholesale organizations located in more than 130 countries. Our customers include commercial customers, asset managers, introducing broker-dealers, insurance companies, brokers, institutional investors, commercial and investment banks and governmental and non-governmental organizations. We believe our customers value us for our focus on their needs, our expertise and flexibility, our global reach, our ability to provide access to liquidity in hard to reach markets and opportunities, and our status as a well-capitalized and regulatory-compliant organization. Our recent acquisition of the Sterne Agee correspondent clearing and independent wealth management businesses has further expanded our ability to serve customers by providing us with a clearing capability in securities markets and added approximately 50 correspondent clearing relationships with more than 120,000 accounts of which approximately 65,000 are related to the independent wealth management business. In addition, the independent wealth management business has over 500 registered representatives, providing a valuable foothold in this growing market.

We believe we are well positioned to capitalize on key trends impacting the financial services sector. Among others, these trends include the impact of increased regulation on banking institutions and other financial services providers; increased consolidation, especially of smaller sub-scale financial services providers and independent securities clearing firms; the growing importance and complexity of conducting secure cross-border transactions; and the demand among financial institutions to transact with well-capitalized counterparties.

We engage in direct sales efforts to seek new customers, with a strategy of extending our services to potential customers who are similar in size and operations to our existing customer base. In executing this plan, we intend to both target new geographic locations and expand the services offered in current locations, where there is an unmet demand for our services particularly in areas where commodity price controls have been recently lifted. In addition, in select instances we pursue small to medium sized acquisitions in which we target customer-centric organizations to expand our product offerings and/or geographic presence.

Our strategy is to utilize a centralized and disciplined process for capital allocation, risk management and cost control, while delegating the execution of strategic objectives and day-to-day management to experienced individuals. This requires high quality managers, a clear communication of performance objectives and strong financial and compliance controls. We believe this strategy will enable us to build a scalable and significantly larger organization that embraces an entrepreneurial approach to business, supported and underpinned by strong central controls.

INTL FCStone Inc. is a Delaware corporation formed in October 1987.



## Table of Contents

### Available Information

Our internet address is [www.intlfcstone.com](http://www.intlfcstone.com). Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, statements of changes in beneficial ownership and press releases are available free of charge in the Investor Relations section of this website. Our website also includes information regarding our corporate governance, including our Code of Ethics, which governs our directors, officers and employees.

### Capabilities

#### Clearing and Execution

We provide competitive and efficient clearing in all major futures and securities exchanges globally, as well as prime brokerage in all major foreign currency pairs and swap transactions. We provide “high touch” execution as well as electronic access through a wide variety of technology platforms in a number of critically important global markets. Asset and product types include listed futures and options on futures, equities, mutual funds, equity options, corporate, government and municipal bonds and unit investment trusts. We also provide global payments and treasury services in more than 175 countries to a broad array of commercial customers, including financial institutions, multi-national corporations, and governmental and charitable organizations. Finally, we provide clearing of foreign exchange transactions as well as for a wide range of over-the-counter products.

#### Advisory Services

We provide value-added advisory services across a variety of financial markets, including commodities, foreign currencies, interest rates, institutional asset management, and independent wealth management.

For commercial customers with exposure to commodities, foreign currencies and interest rates, we work through our proprietary Integrated Risk Management Program (“IRMP®”) to systematically identify and quantify their risks and then develop strategic plans to effectively manage these risks with a view to protecting their margins and ultimately improving their bottom lines.

We also participate in the underwriting and trading of municipal securities in domestic markets as well as asset-backed securities in our Argentinean operations. Through our asset management activities, we leverage our specialist expertise in niche markets to provide institutional investors with tailored investment products. Through our acquisition of the Sterne Agee independent wealth management business, we provide advisory services to the growing retail investor market.

#### Physical Trading

We trade in a variety of physical commodities, primarily precious metals, as well as select soft commodities including various agricultural oils, animal fats and feed ingredients. Through these trading activities, we have the ability to offer complex hedging structures as part of each physical contract to provide customers with enhanced price risk mitigation. We also offer customers efficient off-take or supply services, as well as logistics management.

#### OTC / Market-Making

We offer customers access to the over-the-counter (“OTC”) markets for virtually all traded commodities, foreign currencies and interest rates, as well as for foreign securities in the U.S. For customers with commodity price and financial risk, our customized and complex OTC structures help mitigate those risks by integrating the processes of product design, execution of the underlying components of the structured risk product, transaction reporting and valuation.

By providing market-making and execution in a variety of financial products including commodity options, unlisted American Depositary Receipts (“ADRs”) and Global Depositary Receipts (“GDRs”), foreign ordinary shares, and foreign currencies. In addition, we are an institutional dealer in fixed income securities including United States (“U.S.”) Treasury, U.S. government agency, agency mortgage-backed and asset-backed securities.

#### Trading Revenues

In our business, we may act as principal in the purchase and sale of individual securities, currencies, commodities, or derivative instruments with our customers. These transactions may be offset simultaneously with another customer or counterparty, offset with similarly but not identical positions on an exchange, made from inventory, or aggregated with other purchases to provide liquidity intra-day, for a number of days, or in some cases even longer periods (during which fair value may fluctuate). In addition, in our Clearing and Execution Services segment, we operate a proprietary foreign exchange desk which arbitrages the futures and cash markets.



Operating Segments

We organize our business activities into five functional areas: Commercial Hedging, Global Payments, Securities, Physical Commodities and Clearing and Execution Services.

4

---

## Table of Contents

### Commercial Hedging

We serve our commercial customers through our team of risk management consultants, providing a high-value-added service that we believe differentiates us from our competitors and maximizes the opportunity to retain our customers. Our risk management consulting services are designed to quantify and monitor commercial entities' exposure to commodity and financial risk. Upon assessing this exposure, we develop a plan to control and hedge these risks with post-trade reporting against specific customer objectives. Our customers are assisted in the execution of their hedging strategies through a wide range of products from listed exchange-traded futures and options, to basic OTC instruments that offer greater flexibility and structured OTC products designed for customized solutions.

Our services span virtually all traded commodity markets, with the largest concentrations in agricultural and energy commodities (consisting primarily of grains, energy and renewable fuels, coffee, sugar, cotton, and food service) and base metals products listed on the London Metals Exchange ("LME"). Our base metals business includes a position as a Category One ring dealing member of the LME, providing execution, clearing and advisory services in exchange-traded futures and OTC products. We also provide execution of foreign currency forwards and options and interest rate swaps as well as a wide range of structured product solutions to our commercial customers who are seeking cost-effective hedging strategies. Generally, our customers direct their own trading activity, and our risk management consultants do not have discretionary authority to transact trades on behalf of our customers.

Within this segment, our risk management consultants organize their marketing efforts into customer industry product lines, and currently serve customers in the following areas:

#### Financial Agricultural & Energy

##### Agricultural -

Grain elevator operators, grain merchandisers, traders, processors, manufacturers and end-users.

Livestock production, feeding and processing, dairy and users of agricultural commodities in the food industry.

Coffee, sugar and cocoa producers, processors and end-users.

Global fiber, textile and apparel industry.

##### Energy and renewable fuels -

Producers, refiners, wholesalers, transportation companies, convenience store chains, automobile and truck fleet operators, industrial companies, railroads, and municipalities.

Consumers of natural gas including some of the largest natural gas consumers in North America, including municipalities and large manufacturing firms, as well as major utilities.

Ethanol and biodiesel producers and end-users.

##### Other -

Lumber mills, wholesalers, distributors and end-users.

Commercial entities seeking to hedge their foreign exchange exposures.

#### LME Metals

##### Commercial -

Producers, consumers and merchants of copper, aluminum, zinc, lead, nickel, tin and other ferrous products.

##### Institutional -

Commodity trading advisors and hedge funds seeking clearing and execution of LME and NYMEX/COMEX base metal products.

#### Global Payments

We provide global payment solutions to banks and commercial businesses as well as charities and non-governmental organizations and government organizations. We offer payments services in more than 175 countries and 140 currencies, which we believe is more than any other payments solution provider, and provide competitive and transparent pricing.

Our proprietary FXecute global payments platform is integrated with a financial information exchange ("FIX") protocol. This FIX protocol is an electronic communication method for the real-time exchange of information, and we believe it represents one of the first FIX offerings for cross-border payments in exotic currencies. FIX functionality allows customers to view real time market rates for various currencies, execute and manage orders in real-time, and view the status of their payments through the easy-to-use portal.



## Table of Contents

Additionally, as a member of SWIFT (Society for Worldwide Interbank Financial Telecommunication), we are able to offer our services to large money center and global banks seeking more competitive international payments services. Through this single comprehensive platform and our commitment to customer service, we believe we are able to provide simple and fast execution, ensuring delivery of funds in any of these countries quickly through our global network of approximately 300 correspondent banks. In this business, we primarily act as a principal in buying and selling foreign currencies on a spot basis. We derive revenue from the difference between the purchase and sale prices. We believe our customers value our ability to provide exchange rates that are significantly more competitive than those offered by large international banks, a competitive advantage that stems from our years of foreign exchange expertise focused on smaller, less liquid currencies.

### Securities

We provide value-added solutions that facilitate cross-border trading and believe our customers value our ability to manage complex transactions, including foreign exchange, utilizing our local understanding of market convention, liquidity and settlement protocols around the world. Our customers include U.S.-based regional and national broker-dealers and institutions investing or executing customer transactions in international markets and foreign institutions seeking access to the U.S. securities markets. We are one of the leading market makers in foreign securities, including unlisted ADRs, GDRs and foreign ordinary shares. We make markets in over 3,600 ADRs, GDRs and foreign ordinary shares, of which over 2,000 trade in the OTC market. In addition, we will, on request, make prices in more than 10,000 unlisted foreign securities. We are a broker-dealer in Argentina where we are active in providing institutional executions in the local capital markets.

We act as an institutional dealer in fixed income securities, including U.S. Treasury, U.S. government agency, agency mortgage-backed and asset-backed securities to a customer base including asset managers, commercial bank trust and investment departments, broker-dealers and insurance companies.

We originate, structure and place debt instruments in the international and domestic capital markets. These instruments include complex asset-backed securities (primarily in Argentina) and domestic municipal securities. On occasion, we may invest our own capital in debt instruments before selling them. We also actively trade in a variety of international debt instruments as well as operate an asset management business in which we earn fees, commissions and other revenues for management of third party assets and investment gains or losses on our investments in funds and proprietary accounts managed either by our investment managers or by independent investment managers.

### Physical Commodities

This segment consists of our physical Precious Metals trading and Physical Agricultural (“Ag”) and Energy commodity businesses. In Precious Metals, we provide a full range of trading and hedging capabilities, including OTC products, to select producers, consumers, and investors. In our trading activities, we act as a principal, committing our own capital to buy and sell precious metals on a spot and forward basis.

Our Physical Ag & Energy commodity business provides financing to commercial commodity-related companies against physical inventories, including grain, lumber, meats, energy products and renewable fuels. We use sale and repurchase agreements to purchase commodities evidenced by warehouse receipts, subject to a simultaneous agreement to sell such commodities back to the original seller at a later date. Transactions where the sale and repurchase price are fixed upon execution, and meet additional required conditions, are accounted for as product financing arrangements, and accordingly no commodity inventory, purchases or sales are recorded. Transactions where the repurchase price is not fixed upon execution do not meet all the criteria to be accounted for as product financing arrangements and therefore are recorded as commodity inventory and purchases and sales. Additionally, we engage as a principal in physical purchase and sale transactions related to inputs to the renewable fuels and feed ingredient industries.

We generally mitigate the price risk associated with commodities held in inventory through the use of derivatives. We do not elect hedge accounting under accounting principles generally accepted in the United States of America (“U.S. GAAP”) in accounting for this price risk mitigation.

### Clearing and Execution Services (“CES”)

We provide competitive and efficient clearing and execution in all major futures and securities exchanges globally as well as prime brokerage in all major foreign currency pairs and swap transactions. Through our platform, customer

orders are accepted and directed to the appropriate exchange for execution. We then facilitate the clearing of customers' transactions. Clearing involves the matching of customer' trades with the exchange, the collection and management of customer margin deposits to support the transactions, and the accounting and reporting of the transactions to customers.

As of September 30, 2016, we held \$2.1 billion in required customer segregated assets, which we believe makes us the third largest independent futures commission merchant ("FCM") in the United States not affiliated with a major financial institution

## Table of Contents

or commodity intermediary, end-user or producer, as measured by required customer segregated assets. We seek to leverage our capabilities and capacity by offering facilities management or outsourcing solutions to other FCM's. Following our acquisition of the Sterne Agee correspondent securities clearing business, we are an independent full-service provider to introducing broker-dealers ("IBD's") of clearing, custody, research, syndicated and security-based lending products and services, including a proprietary technology platform which offers seamless connectivity to ensure a positive customer experience through the clearing and settlement process. Also as part of this transaction, we acquired Sterne Agee's independent wealth management business which offers a comprehensive product suite to retail customers nationwide. As a result we are one of the leading mid-market clearer's in the securities industry, clearing for 50 correspondent clearing customers and in aggregate over 120,000 underlying individual retail securities accounts with over \$12 billion in assets under management ("AUM") as of September 30, 2016. In addition, we believe we are one of the largest non-bank prime brokers and swap dealers in the world. Through this offering, we provide prime brokerage foreign exchange ("FX") services to financial institutions and professional traders. We provide our customers with the full range of OTC products, including 24-hour a day execution of spot, forwards and options as well as non-deliverable forwards in both liquid and exotic currencies. We also operate a proprietary foreign exchange desk that arbitrages the exchange-traded foreign exchange markets with the cash markets.

### Acquisition during Fiscal Year 2016

#### Sterne Agee

Effective July 1, 2016, we acquired all of the legacy independent brokerage and clearing businesses of Sterne Agee, LLC, a wholly-owned subsidiary of Stifel Financial Corp. Effective August 1, 2016, we acquired all of the legacy Registered Investment Advisor ("RIA") business of Sterne Agee, LLC. Pursuant to the two stock purchase agreements, we acquired Sterne Agee & Leach, Inc.; Sterne Agee Clearing, Inc.; Sterne Agee Financial Services, Inc.; Sterne Agee Asset Management, Inc. and Sterne Agee Investment Advisor Services, Inc. for cash consideration. The purchase price of \$45.0 million represents a discount to the preliminary allocation of fair value to the net assets of the Sterne entities acquired. The \$6.2 million discount in the purchase price as compared to the preliminary allocation of fair value to the net assets at closing has been reflected as a bargain purchase gain on the transaction within "gain on acquisition" in the Consolidated Income Statement for the year ended September 30, 2016.

### Acquisition and Internal Subsidiary Consolidation during Fiscal Year 2015

#### G.X. Clarke & Co.

Effective January 1, 2015, we acquired all of the partnership interests of G.X. Clarke & Co. ("G.X. Clarke"), an SEC registered institutional dealer in fixed income securities. G.X. Clarke was based in New Jersey, transacted in U.S. Treasury, U.S. government agency and agency mortgage-backed securities, and was a member of the Financial Industry Regulatory Authority ("FINRA") with an institutional customer base consisting of asset managers, commercial bank trust and investment departments, broker-dealers, and insurance companies. The purchase price was equal to G.X. Clarke's net tangible book value at closing of \$25.9 million plus a premium of \$1.5 million, and up to an additional \$1.5 million over the next three years, subject to the achievement of certain profitability thresholds. In conjunction with the acquisition, the name of G.X. Clarke was changed to INTL FCStone Partners L.P. Our consolidated financial statements include the operating results of INTL FCStone Partners L.P. from the date of acquisition.

#### Internal Subsidiary Consolidation

Effective July 1, 2015, we merged three of our wholly-owned regulated U.S. subsidiaries into our wholly owned regulated U.S. subsidiary, INTL FCStone Securities Inc., and the surviving entity was renamed INTL FCStone Financial Inc. and is registered as both a broker-dealer and a FCM. As such, the assets, liabilities and equity of FCStone, LLC, INTL FCStone Partners L.P., and FCC Investments, Inc. were transferred into INTL FCStone Financial.

### Disposal during Fiscal Year 2014

#### Completed Exit of Physical Base Metals Business

During fiscal 2014 we completed our exit of physical base metals business through the sale and orderly liquidation of then-current open positions. The remaining open contract positions were fulfilled during fiscal 2014, at which time we reclassified the physical base metals activities in the financial statements as discontinued operations. We continue to

operate the component of our base metals business related to non-physical assets conducted primarily through the LME.

Competition

The international commodities and financial markets are highly competitive and rapidly evolving. In addition, these markets are dominated by firms with significant capital and personnel resources that are not matched by our resources. We expect these

7

---

## Table of Contents

competitive conditions to continue in the future, although the nature of the competition may change as a result of ongoing changes in the regulatory environment. We believe that we can compete successfully with other commodities and financial intermediaries in the markets we seek to serve, based on our expertise, products and quality of consulting and execution services.

We compete with a large number of firms in the exchange-traded futures and options on futures execution sector and in the OTC derivatives sector. We compete primarily on the basis of diversity and value of services offered, and to a lesser extent on price. Our competitors in the exchange-traded futures and options sector include international, national and regional brokerage firms as well as local introducing brokers, with competition driven by price level and quality of service. Many of these competitors also offer OTC trading programs. In addition, there are a number of financial firms and physical commodities firms that participate in the OTC markets, both directly in competition with us and indirectly through firms like us. We compete in the OTC market by making specialized OTC transactions available to our customers in contract sizes that are smaller than those usually available from major counterparties. Investor interest in the markets we serve impact and will continue to impact our activities. The instruments traded in these markets compete with a wide range of alternative investment instruments. We seek to counterbalance changes in demand in specified markets by undertaking activities in multiple uncorrelated markets.

Technology has increased competitive pressures on commodities and financial intermediaries by improving dissemination of information, making markets more transparent and facilitating the development of alternative execution mechanisms. In certain instances, we compete by providing technology-based solutions to facilitate customer transactions and solidify customer relationships.

### Administration and Operations

We employ operations personnel to supervise and, for certain products, complete the clearing and settlement of transactions.

INTL FCStone Financial's securities transactions are cleared through Broadcort, a division of Merrill Lynch, Pierce, Fenner & Smith, Inc and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation. In relation to security transactions, INTL FCStone Financial does not hold customer funds or directly clear or settle securities transactions.

Sterne, Agee & Leach, Inc. is a self-clearing broker-dealer which does hold customer funds and maintains deposits with the National Securities Clearing Corporation, Inc. ("NSCC"), MBS Clearing Corporation, Inc., Depository Trust & Clearing Corporation, Inc. ("DTCC") and the Options Clearing Corporation ("OCC").

We utilize front-end electronic trading, back office and accounting systems to process transactions on a daily basis. In some cases these systems are integrated. The systems provide record keeping, trade reporting to exchange clearing organizations, internal risk controls, and reporting to government and regulatory entities, corporate managers, risk managers and customers. A third-party service bureau located in Hopkins, MN maintains our futures and options back office system. It has a disaster recovery site in Salem, NH.

We hold customer funds in relation to certain of our activities. In regulated entities, these customer funds are segregated, but in unregulated entities they are not. For a further discussion of customer segregated funds in our regulated entities, please see the "Customer Segregated Assets" discussion below.

Our administrative staff manages our internal financial controls, accounting functions, office services and compliance with regulatory requirements.

### Governmental Regulation and Exchange Membership

Our activities are subject to significant governmental regulation, both in the U.S. and overseas. Failure to comply with regulatory requirements could result in administrative or court proceedings, censure, fines, issuance of cease-and-desist orders, or suspension or disqualification of the regulated entity, its officers, supervisors or representatives. The regulatory environment in which we operate is subject to frequent change and these changes directly impact our business and operating results.

The commodities industry in the U.S. is subject to extensive regulation under federal law. We are required to comply with a wide range of requirements imposed by the Commodity Futures Trading Commission (the "CFTC"), the National Futures Association (the "NFA") and the Chicago Mercantile Exchange, which is our designated self-regulatory organization. We are also a member of the Chicago Mercantile Exchange's divisions: the Chicago Board of Trade, the



New York Mercantile Exchange and COMEX, ICE Futures US, ICE Europe Ltd, the New Zealand Exchange and the Minneapolis Grain Exchange. These regulatory bodies protect customers by imposing requirements relating to capital adequacy, licensing of personnel, conduct of business, protection of customer assets, record-keeping, trade-reporting and other matters.

The securities industry in the U.S. is subject to extensive regulation under federal and state securities laws. We must comply with a wide range of requirements imposed by the Securities and Exchange Commission (the "SEC"), state securities commissions, the Municipal Securities Rulemaking Board ("MSRB") and FINRA. These regulatory bodies safeguard the

Table of Contents

integrity of the financial markets and protect the interests of investors in these markets. They also impose minimum capital requirements on regulated entities.

The Financial Conduct Authority (“FCA”), the regulator of the financial services industry in the United Kingdom, regulates our subsidiary, INTL FCStone Ltd, as a Financial Services Firm under part IV of the Financial Services and Markets Act 2000. The regulations impose regulatory capital, as well as conduct of business, governance, and other requirements. The conduct of business rules include those that govern the treatment of customer money and other assets which, under certain circumstances for certain classes of customers must be segregated from the firm’s own assets. INTL FCStone Ltd is a member of the LME, ICE Europe Ltd, LCH Enclear, Euronext, the European Energy Exchange, Eurex and Norexco ASA.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) created a comprehensive new regulatory regime governing over-the-counter derivatives (“swaps”) and further regulations on listed derivatives. The Dodd-Frank Act also created a registration regime for new categories of market participants, such as “swap dealers”, among others. Our wholly owned subsidiary, INTL FCStone Markets, LLC is a CFTC provisionally registered swap dealer, whose business is overseen by the National Futures Association (“NFA”), the self-regulatory organization for the U.S. derivatives industry.

The Dodd-Frank Act generally introduced a framework for (i) swap data reporting and recordkeeping on counterparties and data repositories; (ii) centralized clearing for swaps, with limited exceptions for end-users; (iii) the requirement to execute swaps on regulated swap execution facilities; (iv) imposition on swap dealers to exchange margin on uncleared swaps with counterparties; and (v) the requirement to comply with new capital rules.

Effective September 2016, CFTC margin rules came into effect, imposing new requirements to exchange initial and variation margin, depending upon aggregate daily notional transactions outstanding, with an implementation period ending in 2020. CFTC capital rules have not been finalized and therefore it is too early to predict with any degree of certainty how we will be affected. We will continue to monitor all applicable developments in the ongoing implementation of the Dodd-Frank Act. The legislation and implementing regulations affect not only us, but also our customers and counterparties.

The European Markets Infrastructure Regulation (“EMIR”) is the European regulations on OTC derivatives, central counterparties and trade repositories. The EMIR has been implemented across the European Economic Area member states by the European Securities and Markets Authority (“ESMA”). The EMIR has imposed new requirements on our European operations, including (a) reporting derivatives to a trade repository; (b) putting in place certain risk management procedures for OTC derivative transactions that are not cleared; (c) changes to our clearing account models and increased central counterparty margin requirements. Reporting requirements came into effect in February 2014 and most risk mitigation procedures were set at the end of 2013. Implementation of collateral obligations applicable to non-cleared OTC transactions will begin to come into force in 2017. ESMA is continuing to evaluate and set clearing obligations for certain OTC derivatives. INTL FCStone Ltd complies with the enacted provisions and will do so when pending EMIR provisions are finalized as relevant to its activities.

In addition to the EMIR, the FCA will be enforcing additional European Union issued regulations such as the Markets in Financial Instruments Directive II (“MIFID II”), for which implementation is scheduled for 2018, and the Markets in Financial Instruments Regulation (“MIFIR”). Principal areas of impact related to this directive will involve oversight of organized trade facilities (“OTF’s”) for trading OTC non-equity products, customer type re-assessment, investor protection, enhanced conflict of interest and execution policies and extended transaction reporting requirements.

The USA PATRIOT Act contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers and other financial services companies. The USA PATRIOT Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside of the U.S. contain similar provisions. We believe that we have implemented, and that we maintain, appropriate internal practices, procedures and controls to enable us to comply with the provisions of the USA PATRIOT Act and other anti-money laundering laws.

The U.S. maintains various economic sanctions programs administered by the U.S. Treasury Department’s Office of Foreign Assets Control (“OFAC”). The OFAC administered sanctions take many forms, but generally prohibit or restrict

trade and investment in and with sanctions targets, and in some cases require blocking of the target's assets. Violations of any of the OFAC-administered sanctions are punishable by civil fines, criminal fines, and imprisonment. We established policies and procedures designed to comply with applicable OFAC requirements. Although we believe that our policies and procedures are effective, there can be no assurance that our policies and procedures will effectively prevent us from violating the OFAC-administered sanctions in every transaction in which we may engage.

**Net Capital Requirements**

INTL FCStone Financial is a dually registered broker-dealer/FCM and is subject to minimum capital requirements under Section 4(f)(b) of the Commodity Exchange Act, Part 1.17 of the rules and regulations of the CFTC and the SEC Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934. These rules specify the minimum amount of capital that must be available to support our customers' open trading positions, including the amount of assets that INTL FCStone Financial must

Table of Contents

maintain in relatively liquid form, and are designed to measure general financial integrity and liquidity. Net capital and the related net capital requirement may fluctuate on a daily basis. Compliance with minimum capital requirements may limit our operations if we cannot maintain the required levels of capital and restrict the ability of INTL FCStone Financial to make distributions to us. Moreover, any change in these rules or the imposition of new rules affecting the scope, coverage, calculation or amount of capital we are required to maintain could restrict our ability to operate our business and adversely affect our operations.

Sterne, Agee & Leach, Inc., Sterne Agee Clearing, Inc. and Sterne Agee Financial Services, Inc. are subject to the SEC Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934.

INTL FCStone Ltd, a Financial Services Firm regulated by the FCA is subject to a net capital requirement.

The Australian Securities and Investment Commission regulates INTL FCStone Pty. Ltd. It is subject to a net tangible asset capital requirement.

The Brazilian Central Bank and Securities and Exchange Commission of Brazil regulates INTL FCStone DTVM Ltda. (“INTL FCStone DTVM”). It is a registered broker-dealer and is subject to a capital adequacy requirement.

The Comision Nacional de Valores regulates INTL Gainvest S.A. and INTL CIBSA S.A. and they are subject to net capital and capital adequacy requirements. The Rosario Futures Exchange and the General Inspector of Justice regulate INTL Capital, S.A. It is subject to a capital adequacy requirement.

Certain of our other non-U.S. subsidiaries are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate.

All of our subsidiaries are in compliance with all of their capital regulatory requirements as of September 30, 2016. Additional information on these net capital and minimum net capital requirements can be found in Note 12 to the Consolidated Financial Statements.

**Segregated Customer Assets**

INTL FCStone Financial maintains customer segregated deposits from its customers relating to their trading of futures and options on futures on U.S. commodities exchanges held with INTL FCStone Financial, making it subject to CFTC regulation 1.20, which specifies that such funds must be held in segregation and not commingled with the firm’s own assets. INTL FCStone Financial maintains acknowledgment letters from each depository at which it maintains customer segregated deposits in which the depository acknowledges the nature of funds on deposit in the account. In addition, CFTC regulations require filing of a daily segregation calculation which compares the assets held in customers segregated depositories (“segregated assets”) to the firm’s total segregated assets held on deposit from customers (“segregated liabilities”). The amount of customer segregated assets must be in excess of the segregated liabilities owed to customers and any shortfall in such assets must be immediately communicated to the CFTC. As of September 30, 2016, INTL FCStone Financial maintained \$51.5 million in segregated assets in excess of its segregated liabilities.

In addition, INTL FCStone Financial is subject to CFTC regulation 1.25, which governs the acceptable investment of customer segregated assets. This regulation allows for the investment of customer segregated assets in readily marketable instruments including U.S. Treasury securities, municipal securities, government sponsored enterprise securities, certificates of deposit, commercial paper and corporate notes or bonds which are guaranteed by the U.S. under the Temporary Liquidity Guarantee Program, interest in money market mutual funds, and repurchase transactions with unaffiliated entities in otherwise allowable securities. INTL FCStone Financial predominately invests its customer segregated assets in U.S. Treasury securities and money market mutual funds.

Sterne, Agee & Leach, Inc. maintains deposits from its customers related to its status as a self-clearing broker-dealer registered with the SEC and FINRA making it subject to Rule 15c3-3 under the Securities Exchange Act of 1934, which specifies that under certain circumstances a broker-dealer must maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of its customers. As of September 30, 2016, Sterne, Agee & Leach, Inc. did not have a segregated reserve account requirement.

INTL FCStone Ltd is subject to certain business rules, including those that govern the treatment of customer money and other assets which under certain circumstances for certain classes of customer must be segregated from the firm’s own assets. As of September 30, 2016, INTL FCStone Ltd was in compliance with the applicable segregated funds requirements.

Secured Customer Assets

INTL FCStone Financial maintains customer secured deposits from its customers funds relating to their trading of futures and options on futures traded on, or subject to the rules of, a foreign board of trade held with INTL FCStone Financial, making it subject to CFTC Regulation 30.7, which requires that such funds must be carried in separate accounts in an amount sufficient to satisfy all of INTL FCStone Financial's current obligations to customers trading foreign futures and foreign options on foreign

10

---

## Table of Contents

commodity exchanges or boards of trade, which are designated as secured customers' accounts. As of September 30, 2016, INTL FCStone Financial maintained \$16.4 million in secured assets in excess of its secured liabilities.

### Foreign Operations

We operate in a number of foreign jurisdictions, including Canada, Ireland, the United Kingdom, Argentina, Brazil, Colombia, Uruguay, Paraguay, Mexico, Nigeria, Dubai, China, South Korea, Hong Kong, Australia and Singapore. We established wholly owned subsidiaries in Uruguay and Nigeria but do not have offices or employees in those countries.

INTL FCStone Ltd is domiciled in the United Kingdom, and subject to regulation by the FCA.

In Argentina, the activities of INTL Gainvest S.A. and INTL CIBSA S.A. are subject to regulation by the Comision Nacional de Valores and the activities of INTL Capital, S.A. are subject to regulation by the Rosario Futures Exchange and the General Inspector of Justice.

In Brazil, the activities of FCStone do Brasil are subject to regulation by BM&F Bovespa, and the activities of INTL FCStone DTVM Ltda. are regulated by the Brazilian Central Bank and Securities and Exchange Commission of Brazil.

The activities of INTL Commodities DMCC are subject to regulation by the Dubai Multi Commodities Centre.

INTL FCStone Pte. Ltd. is subject to regulation by the Monetary Authority of Singapore.

INTL FCStone Pty. Ltd. is subject to regulation by the Australian Securities and Investments Commission.

INTL FCStone (Hong Kong) Limited holds a type 2 derivatives license and is subject to regulation by the Securities & Futures Commission of Hong Kong.

### Business Risks

We seek to mitigate the market and credit risks arising from our financial trading activities through an active risk management program. The principal objective of this program is to limit trading risk to an acceptable level while maximizing the return generated on the risk assumed.

We have a defined risk policy administered by our risk management committee, which reports to the risk committee of our board of directors. We established specific exposure limits for inventory positions in every business, as well as specific issuer limits and counterparty limits. We designed these limits to ensure that in a situation of unexpectedly large or rapid movements or disruptions in one or more markets, systemic financial distress, the failure of a counterparty or the default of an issuer, the potential estimated loss will remain within acceptable levels. The risk committee of our board of directors reviews the performance of the risk management committee on a quarterly basis to monitor compliance with the established risk policy.

### Employees

As of September 30, 2016, we employed 1,464 people globally: 1,014 in the U.S., 204 in the United Kingdom, 95 in Brazil, 68 in Argentina, 38 in Singapore, 12 in Dubai, 10 in Australia, 8 in Paraguay, 8 in China, 4 in Hong Kong and 3 in Mexico. None of our employees operate under a collective bargaining agreement, and we have not suffered any work stoppages or labor disputes. Many of our employees are subject to employment agreements, certain of which contain non-competition provisions.

### Item 1A. Risk Factors

We face a variety of risks that could adversely impact our financial condition and results of operations, including the following:

Our ability to achieve consistent profitability is subject to uncertainty due to the nature of our businesses and the markets in which we operate. During the fiscal year ended September 30, 2016 we recorded net income of \$54.7 million, compared to net income of \$55.7 million in fiscal 2015 and \$19.3 million in fiscal 2014.

Our revenues and operating results may fluctuate significantly in the future because of the following factors:

• Market conditions, such as price levels and volatility in the commodities, securities and foreign exchange markets in which we operate;

• Changes in the volume of our market-making and trading activities;

• Changes in the value of our financial instruments, currency and commodities positions and our ability to manage related risks;

• The level and volatility of interest rates;

- The availability and cost of funding and capital;
- Our ability to manage personnel, overhead and other expenses;
- Changes in execution and clearing fees;
- The addition or loss of sales or trading professionals;
- Changes in legal and regulatory requirements; and
- General economic and political conditions.

Table of Contents

Although we continue our efforts to diversify the sources of our revenues, it is likely that our revenues and operating results will continue to fluctuate substantially in the future and such fluctuations could result in losses. These losses could have a material adverse effect on our business, financial condition and operating results.

The manner in which we account for certain of our precious metals commodities inventory may increase the volatility of our reported earnings. Our net income is subject to volatility due to the manner in which we report our precious metals commodities inventory held by subsidiaries that are not broker-dealers. Our precious metals inventory held in subsidiaries which are not broker-dealers is stated at the lower of cost or market value. We generally mitigate the price risk associated with our commodities inventory through the use of derivatives. We do not elect hedge accounting under U.S. GAAP for this price risk mitigation. In such situations, any unrealized gains in our precious metals inventory in our non-broker-dealer subsidiaries are not recognized under U.S. GAAP, but unrealized gains and losses in related derivative positions are recognized under U.S. GAAP. As a result, our reported earnings from these business segments are subject to greater volatility than the earnings from our other business segments.

Our indebtedness could adversely affect our financial condition. As of September 30, 2016, our total consolidated indebtedness was \$228.3 million, and we may increase our indebtedness in the future as we continue to expand our business. Our indebtedness could have important consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;
- requiring that a portion of our cash flow from operations be used for the payment of interest on our debt, thereby reducing our ability to use our cash flow to fund working capital, capital expenditures, acquisitions and general corporate requirements;
- limiting our ability to obtain additional financing to fund future working capital, capital expenditures, acquisitions and general corporate requirements;
- limiting our flexibility in planning for, or reacting to, changes in our business and the securities industry; and
- restricting our ability to pay dividends or make other payments.

We may be able to incur additional indebtedness in the future, including secured indebtedness. If new indebtedness is added to our current indebtedness levels, the related risks that we now face could intensify.

Committed credit facilities currently available to us might not be renewed. We currently have four committed credit facilities under which we may borrow up to \$447.0 million, consisting of:

- a \$247.0 million facility available to INTL FCStone Inc., for general working capital requirements, committed until March 18, 2019.
- a \$75.0 million facility available to our wholly owned subsidiary, INTL FCStone Financial, for short-term funding of margin to commodity exchanges, committed until April 6, 2017.
- a \$100.0 million committed facility available to our wholly owned subsidiary, FCStone Merchant Services, LLC, for commodity financing arrangements and commodity repurchase agreements, committed until May 1, 2018.
- a \$25.0 million facility available to our wholly owned subsidiary, INTL FCStone Ltd, for short-term funding of margin to commodity exchanges, committed until October 27, 2017.

During fiscal 2017, \$75 million of our committed credit facilities are scheduled to expire. There is no guarantee that we will be successful in renewing, extending or rearranging these facilities.

It is possible that these facilities might not be renewed at the end of their commitment periods and that we will be unable to replace them with other facilities. If our credit facilities are unavailable or insufficient to support future levels of business activities, we may need to raise additional funds externally, either in the form of debt or equity. If we cannot raise additional funds on acceptable terms, we may not be able to develop or enhance our business, take advantage of future opportunities or respond to competitive pressure or unanticipated requirements, leading to reduced profitability.

Our failure to successfully integrate the operations of businesses acquired by us in the last twelve months could have a material adverse effect on our business, financial condition and operating results. Since September 30, 2015, we have acquired the Sterne Agee correspondent securities clearing and independent wealth management businesses. We will need to meet challenges to realize the expected benefits and synergies of this acquisition, including:

- integrating the management teams, strategies, cultures, technologies and operations of the acquired companies;
- retaining and assimilating the key personnel of acquired companies;



retaining existing customers of the acquired companies;  
creating uniform standards, controls, procedures, policies and information systems; and  
achieving revenue growth because of risks involving (1) the ability to retain customers, (2) the ability to sell the services and products of the acquired companies to the existing customers of our other business segments, and (3) the ability to sell the services and products of our other business segments to the existing customers of the acquired companies.

12

---

Table of Contents

The accomplishment of these objectives will involve considerable risk, including:

- the potential disruption of each company's ongoing business and distraction of their respective management teams;
- unanticipated expenses related to technology integration; and
- potential unknown liabilities associated with the acquisition.

It is possible that the integration process could result in the loss of the technical skills and management expertise of key employees, the disruption of the ongoing businesses or inconsistencies in standards, controls, procedures and policies due to possible cultural conflicts or differences of opinions on technical decisions and product road maps that adversely affect our ability to maintain relationships with customers, counterparties, and employees or to achieve the anticipated benefits of the acquisition.

We face risks associated with our market-making and trading activities. We conduct our market-making and trading activities predominantly as a principal, which subjects our capital to significant risks. These activities involve the purchase, sale or short sale for customers and for our own account of financial instruments, including equity and debt securities, commodities and foreign exchange. These activities are subject to a number of risks, including risks of price fluctuations, rapid changes in the liquidity of markets and counterparty creditworthiness.

These risks may limit our ability to either resell financial instruments we purchased or to repurchase securities we sold in these transactions. In addition, we may experience difficulty borrowing financial instruments to make delivery to purchasers to whom we sold short, or lenders from whom we have borrowed. From time to time, we have large position concentrations in securities of a single issuer or issuers in specific countries and markets. This concentration could result in higher trading losses than would occur if our positions and activities were less concentrated.

The success of our market-making activities depends on:

- the price volatility of specific financial instruments, currencies and commodities,
- our ability to attract order flow;
- the skill of our personnel;
- the availability of capital; and
- general market conditions.

To attract market-trading, market-making and trading business, we must be competitive in:

- providing enhanced liquidity to our customers;
- the efficiency of our order execution;
- the sophistication of our trading technology; and
- the quality of our customer service.

In our role as a market maker and trader, we attempt to derive a profit from the difference between the prices at which we buy and sell financial instruments, currencies and commodities. However, competitive forces often require us to:

- match the quotes other market makers display; and
- hold varying amounts of financial instruments, currencies and commodities in inventory.

By having to maintain inventory positions, we are subject to a high degree of risk. We cannot ensure that we will be able to manage our inventory risk successfully or that we will not experience significant losses, either of which could materially adversely affect our business, financial condition and operating results.

We operate as a principal in the OTC derivatives markets which involves the risks associated with commodity derivative instruments. We offer OTC derivatives to our customers in which we act as a principal counterparty. We endeavor to simultaneously offset the commodity price risk of the instruments by establishing corresponding offsetting positions with commodity counterparties, or alternatively we may offset those transactions with similar but not identical positions on an exchange. To the extent that we are unable to simultaneously offset an open position or the offsetting transaction is not fully effective to eliminate the commodity derivative risk, we have market risk exposure on these unmatched transactions. Our exposure varies based on the size of the overall positions, the terms and liquidity of the instruments brokered, and the amount of time the positions remain open.

To the extent an unhedged position is not disposed of intra-day, adverse movements in the commodities underlying these positions or a downturn or disruption in the markets for these positions could result in a substantial loss. In addition, any principal gains and losses resulting from these positions could on occasion have a disproportionate effect, positive or negative, on our financial condition and results of operations for any particular reporting period.

Transactions involving OTC derivative contracts may be adversely affected by fluctuations in the level, volatility, correlation or relationship between market prices, rates, indices and/or other factors. These types of instruments may also suffer from illiquidity in the market or in a related market.

## Table of Contents

OTC derivative transactions are subject to unique risks. OTC derivative transactions are subject to the risk that, as a result of mismatches or delays in the timing of cash flows due from or to counterparties in OTC derivative transactions or related hedging, trading, collateral or other transactions, we or our counterparty may not have adequate cash available to fund its current obligations.

We could incur material losses pursuant to OTC derivative transactions because of inadequacies in or failures of our internal systems and controls for monitoring and quantifying the risk and contractual obligations associated with OTC derivative transactions and related transactions or for detecting human error, systems failure or management failure. OTC derivative transactions may be modified or terminated only by mutual consent of the original parties and subject to agreement on individually negotiated terms. Accordingly it may not be possible to modify, terminate or offset obligations or exposure to the risk associated with a transaction prior to its scheduled termination date.

We may have difficulty managing our growth. We have experienced significant growth in our business. Our operating revenues grew from \$448.1 million in fiscal 2012 to \$671.0 million in fiscal 2016.

This growth required, and will continue to require, us to increase our investment in management personnel, financial and management systems and controls, and facilities. In the absence of continued revenue growth, the costs associated with our expected growth would cause our operating margins to decline from current levels. In addition, as is common in the financial industry, we are and will continue to be highly dependent on the effective and reliable operation of our communications and information systems.

The scope of procedures for assuring compliance with applicable rules and regulations changes as the size and complexity of our business increases. In response, we have implemented and continue to revise formal compliance procedures.

It is possible that we will not be able to manage our growth successfully. Our inability to do so could have a material adverse effect on our business, financial condition and operating results.

Our risk management policies and procedures may leave us exposed to unidentified or unanticipated risk, which could harm our business. We have devoted significant resources to develop our risk management policies and procedures and expect to continue to do so in the future. However, our risk management policies and procedures may not be fully effective in mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Our risk management policies and procedures require, among other things, that we properly record and verify many thousands of transactions and events each day, and that we continuously monitor and evaluate the size and nature of our or our customers' positions and the associated risks. In light of the high volume of transactions, it is impossible for us to review and assess every single transaction or to monitor at every moment in time our or our customers' positions and the associated risks.

Our policies and procedures used to identify, monitor and control a variety of risks, including risks related to human error, customer defaults, market movements, fraud and money-laundering, are established and reviewed by the Risk Committee of our Board of Directors. Some of our methods for managing risk are discretionary by nature and are based on internally developed controls and observed historical market behavior, and also involve reliance on standard industry practices. These methods may not adequately prevent losses, particularly as they relate to extreme market movements, which may be significantly greater than historical fluctuations in the market. Our risk management policies and procedures also may not adequately prevent losses due to technical errors if our testing and quality control practices are not effective in preventing software or hardware failures. In addition, we may elect to adjust our risk management policies and procedures to allow for an increase in risk tolerance, which could expose us to the risk of greater losses. Our risk management policies and procedures rely on a combination of technical and human controls and supervision that are subject to error and failure. These policies and procedures may not protect us against all risks or may protect us less than anticipated, in which case our business, financial condition and results of operations and cash flows may be materially adversely affected.

We are exposed to the credit risk of our customers and counterparties and their failure to meet their financial obligations could adversely affect our business. We have substantial credit risk in both our securities and commodities businesses. As a market-maker of OTC and listed securities and a dealer in fixed income securities, we conduct the majority of our securities transactions as principal with institutional counterparties. We clear our principal securities transactions through unaffiliated clearing brokers. Substantially all of our principal equity and debt securities are held

by these clearing brokers. Our clearing brokers have the right to charge us for losses that result from a counterparty's failure to fulfill its contractual obligations. We borrow securities from, and lend securities to, other broker-dealers, and may also enter into agreements to repurchase and agreements to resell securities. A sharp change in the security market values utilized in these transactions may result in losses if counterparties to these transactions fail to honor their commitments.

In our correspondent securities clearing and independent wealth management businesses, we permit customers to purchase securities on margin, subject to various regulatory and internal margin requirements. During periods of significant price declines, the value of collateral securing the customer's margin loan may decline below the customers obligation to us. In the

Table of Contents

event, the customer is unable to deposit additional collateral for these margin loans, we may incur credit losses on these transactions or additional costs in attempting to secure additional collateral. While introducing broker-dealers and independent representatives are generally responsible for the credit losses of their customers, we may incur losses if they do not fulfill their obligations.

As a clearing broker in futures and option transactions, we act on behalf of our customers for all trades consummated on exchanges. We must pay initial and variation margin to the exchanges before we receive the required payments from our customers. Accordingly, we are responsible for our customers' obligations with respect to these transactions, including margin payments, which exposes us to significant credit risk. Customer positions which represent a significant percentage of open positions in a given market or concentrations in illiquid markets may expose us to the risk that we are not able to liquidate a customer's position in a manner which does not result in a deficit in that customer's account. A substantial part of our working capital is at risk if customers default on their obligations to us and their account balances and security deposits are insufficient to meet all of their obligations.

We act as a principal for OTC commodity and foreign exchange derivative transactions, which exposes us to both the credit risk of our customers and the counterparties with which we offset the customer's position. As with exchange-traded transactions, our OTC transactions require that we meet initial and variation margin payments on behalf of our customers before we receive the required payment from our customers. In addition, with OTC transactions, there is a risk that a counterparty will fail to meet its obligations when due. We would then be exposed to the risk that a settlement of a transaction which is due a customer will not be collected from the respective counterparty with which the transaction was offset. Customers and counterparties that owe us money, securities or other assets may default on their obligations to us due to bankruptcy, lack of liquidity, operational failure or other reasons.

We act as a principal in our physical commodities trading activities which exposes us to the credit risk of our counterparties and customers in these activities. Any metals or other physical commodities positions are held by third party custodians.

Although we have procedures for reviewing credit exposures to specific customers and counterparties to address present credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee, including rapid changes in securities, commodity and foreign exchange price levels. Some of our risk management methods depend upon the evaluation of information regarding markets, customers or other matters that are publicly available or otherwise accessible by us. That information may not, in all cases, be accurate, complete, up-to-date or properly evaluated. In addition, concerns about, or a default by, one institution could lead to significant liquidity problems, losses or defaults by other institutions, which in turn could adversely affect us. We may be materially and adversely affected in the event of a significant default by our customers and counterparties.

In our securities and commodities businesses we rely on the ability of our clearing brokers to adequately discharge their obligations on a timely basis. We also depend on the solvency of our clearing brokers and custodians. Any failure by a clearing broker to adequately discharge its obligations on a timely basis, or insolvency of a clearing broker or custodian, or any event adversely affecting our clearing brokers or custodians, could have a material adverse effect on our business, financial condition and operating results.

As a clearing member firm of commodities clearing houses in the U.S. and abroad, we are also exposed to clearing member credit risk. Commodities clearing houses require member firms to deposit cash and/or government securities to a clearing fund. If a clearing member defaults in its obligations to the clearing house in an amount larger than its own margin and clearing fund deposits, the shortfall is absorbed pro rata from the deposits of the other clearing members. Several clearing houses of which we are members also have the authority to assess their members for additional funds if the clearing fund is depleted. A large clearing member default could result in a substantial cost to us if we are required to pay such assessments.

Our net operating revenues may decrease due to changes in market volume, prices or liquidity. Declines in the volume of securities, commodities and foreign exchange transactions and in market liquidity generally may result in lower revenues from market-making and trading activities. Changes in price levels of securities and commodities and foreign exchange rates also may result in reduced trading activity and reduce our revenues from market-making transactions. Changed price levels also can result in losses from changes in the fair value of securities and

commodities held in inventory. Sudden sharp changes in fair values of securities and commodities can result in:

- illiquid markets;
- fair value losses arising from positions held by us;
- the failure of buyers and sellers of securities and commodities to fulfill their settlement obligations, redemptions from funds managed in our asset management business segment and consequent reductions in management fees;
- reductions in accrued performance fees in our asset management business segment; and
- increases in claims and litigation.

## Table of Contents

Any change in market volume, price or liquidity or any other of these factors could have a material adverse effect on our business, financial condition and operating results.

Our net operating revenues may decrease due to changes in customer trading volumes which are dependent in large part on commodity prices and commodity price volatility. Customer trading volumes are largely driven by the degree of volatility—the magnitude and frequency of fluctuations—in prices of commodities. Higher volatility increases the need to hedge contractual price risk and creates opportunities for arbitrage trading. Energy and agricultural commodities markets periodically experience significant price volatility. In addition to price volatility, increases in commodity prices generally lead to increased trading volume. As prices of commodities rise, especially energy prices, new participants enter the markets to address their growing risk-management needs or to take advantage of greater trading opportunities. Sustained periods of stability in the prices of commodities or generally lower prices could result in lower trading volumes and, potentially, lower revenues. Lower volatility and lower volumes could lead to lower customer balances held on deposit, which in turn may reduce the amount of interest revenue based on these deposits. Factors that are particularly likely to affect price volatility and price levels of commodities include:

- supply and demand of commodities;
- weather conditions affecting certain commodities;
- national and international economic and political conditions;
- perceived stability of commodities and financial markets;
- the level and volatility of interest rates and inflation; and
- financial strength of market participants.

Any one or more of these factors may reduce price volatility or price levels in the markets for commodities trading, which in turn could reduce trading activity in those markets. Moreover, any reduction in trading activity could reduce liquidity which in turn could further discourage existing and potential market participants and thus accelerate any decline in the level of trading activity in these markets.

Our net operating revenues may be impacted by diminished market activity due to adverse economic, political and market conditions. The amount of our revenues depends in part on the level of activity in the securities, foreign exchange and commodities markets in which we conduct business. The level of activity in these markets is directly affected by numerous national and international factors that are beyond our control, including:

- economic, political and market conditions;
- the availability of short-term and long-term funding and capital;
- the level and volatility of interest rates;
- legislative and regulatory changes; and
- currency values and inflation.

Any one or more of these factors may reduce the level of activity in these markets, which could result in lower revenues from our market-making and trading activities. Any reduction in revenues or any loss resulting from these factors could have a material adverse effect on our business, financial condition and operating results.

We depend on our management team. Our future success depends, in large part, upon our management team who possess extensive knowledge and management skills with respect to securities, commodities and foreign exchange businesses we operate. The unexpected loss of services of any of our executive officers could adversely affect our ability to manage our business effectively or execute our business strategy. Although some of these officers have employment contracts with us, they are generally not required to remain with us for a specified period of time.

We depend on our ability to attract and retain key personnel. Competition for key personnel and other highly qualified management, sales, trading, compliance and technical personnel is significant. It is possible that we will be unable to retain our key personnel and to attract, assimilate or retain other highly qualified personnel in the future. The loss of the services of any of our key personnel or the inability to identify, hire, train and retain other qualified personnel in the future could have a material adverse effect on our business, financial condition and operating results.

From time to time, other companies in the financial sector have experienced losses of sales and trading professionals. The level of competition to attract these professionals is intense. It is possible that we will lose professionals due to increased competition or other factors in the future. The loss of a sales and trading professional, particularly a senior professional with broad industry expertise, could have a material adverse effect on our business, financial condition



and operating results.

In the event of employee misconduct or error, our business may be harmed. There have been a number of highly publicized cases involving fraud or other misconduct by employees of financial services firms in recent years.

Employee misconduct or error could subject us to legal liability, financial losses and regulatory sanctions and could seriously harm our reputation and negatively affect our business. Misconduct by employees could include engaging in improper or unauthorized transactions or activities, failing to properly supervise other employees or improperly using confidential information. Employee errors,

16

---

Table of Contents

including mistakes in executing, recording or processing transactions for customers, could cause us to enter into transactions that customers may disavow and refuse to settle, which could expose us to the risk of material losses even if the errors are detected and the transactions are unwound or reversed. If our customers are not able to settle their transactions on a timely basis, the time in which employee errors are detected may be increased and our risk of material loss could be increased. The risk of employee error or miscommunication may be greater for products that are new or have non-standardized terms. It is not always possible to deter employee misconduct or error, and the precautions we take to detect and prevent this activity may not be effective in all cases.

Internal or third party computer systems failures, capacity constraints and breaches of security could increase our operating costs and/or credit losses, decrease net operating revenues and cause us to lose customers. We are heavily dependent on the capacity and reliability of the computer and communications systems supporting our operations, whether owned and operated internally or by third parties, including those used for execution and clearance of our customer's trades and our market making activities. We receive and process a large portion of our trade orders through electronic means, such as through public and private communications networks. These computer and communications systems and networks are subject to performance degradation or failure from any number of reasons, including loss of power, acts of war or terrorism, human error, natural disasters, fire, sabotage, hardware or software malfunctions or defects, computer viruses, intentional acts of vandalism, customer error or misuse, lack of proper maintenance or monitoring and similar events. Our systems, or those of our third party providers, may fail or operate slowly, causing one or more of the following:

- unanticipated disruptions in service to our customers;
- slower response times;
- delays in our customers' trade execution;
- failed settlement of trades;
- decreased customer satisfaction with our services;
- incomplete, untimely or inaccurate accounting, recording, reporting or processing of trades;
- financial losses;
- litigation or other customer claims; and
- regulatory sanctions.

The occurrence of degradation or failure of the communications and computer systems on which we rely may lead to financial losses, litigation or arbitration claims filed by or on behalf of our customers and regulatory investigations and sanctions, including by the CFTC, which require that our trade execution and communications systems be able to handle anticipated present and future peak trading volumes. Any such degradation or failure could also have a negative effect on our reputation, which in turn could cause us to lose existing customers to our competitors or make it more difficult for us to attract new customers in the future. Further, any financial loss that we suffer as a result of such degradations or failures could be magnified by price movements of contracts involved in transactions impacted by the degradation or failure, and we may be unable to take corrective action to mitigate any losses we suffer.

We are subject to extensive government regulation. The securities and commodities futures industries are subject to extensive regulation under federal, state and foreign laws. In addition, the SEC, the CFTC, FINRA, MSRB, the NFA, the CME Group and other self-regulatory organizations, commonly referred to as SROs, state securities commissions, and foreign regulators require compliance with their respective rules and regulations. These regulatory bodies are responsible for safeguarding the integrity of the financial markets and protecting the interests of participants in those markets.

As participants in various financial markets, we may be subject to regulation concerning certain aspects of our business, including:

- trade practices;
- the way we communicate with, and disclose risks to customers;
- financial and reporting requirements and practices;
- customer identification and anti-money laundering requirements;
- capital structure;
- record retention; and

the conduct of our directors, officers and employees.

Failure to comply with any of these laws, rules or regulations could result in adverse consequences. We and certain of our officers and employees have, in the past, been subject to claims arising from acts that regulators asserted were in contravention of these laws, rules and regulations. These claims resulted in the payment of fines and settlements. It is possible that we and our officers and other employees will be subject to similar claims in the future. An adverse ruling against us or our officers and other employees could result in our or our officers and other employees being required to pay a substantial fine or settlement and could result in a suspension or revocation of required registrations or memberships. Such sanctions could have a material adverse effect on our business, financial condition and operating results.

Table of Contents

The regulatory environment in which we operate is subject to change. In November 2013, the CFTC finalized new rules known as “Enhancing Customer Protections Rules”. These provisions, among other things, require enhanced customer protections, risk management programs, internal monitoring and controls, capital and liquidity standards, customer disclosures, and auditing and examination programs for FCMs. These rule changes, additional legislation or regulations, changes required under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and any new or revised regulation by the SEC, the CFTC, other U.S. or foreign governmental regulatory authorities, SROs, MSRB or FINRA could have a material adverse effect on our business, financial condition and operating results. Changes in the interpretation or enforcement of existing laws and rules by these governmental authorities, SROs, MSRB and FINRA could also have a material adverse effect on our business, financial condition and operating results. Failure to comply with current or future legislation or regulations that apply to our operations could subject us to fines, penalties, or material restrictions on our business in the future.

Additional regulation, changes in existing laws and rules, or changes in interpretations or enforcement of existing laws and rules often directly affect financial services firms. We cannot predict what effect any such changes might have. Our business, financial condition and operating results may be materially affected by both regulations that are directly applicable to us and regulations of general application. Our level of trading and market-making activities can be affected not only by such legislation or regulations of general applicability, but also by industry-specific legislation or regulations.

We have incurred significant additional operational and compliance costs to meet the requirements of recent legislation and related regulations. This legislation and the related regulations may significantly affect our business in the future. Recent market and economic conditions have led to legislation and regulation affecting the financial services industry. These changes could eventually have an effect on our revenue and profitability, limit our ability to pursue certain business opportunities, impact the value of assets that we hold, require us to change certain business practices, impose additional costs on us, and otherwise adversely affect our business. Accordingly, we cannot provide assurance that new legislation and regulation will not eventually have an adverse effect on our business, results of operations, cash flows and financial condition.

The principal legislation is the Dodd-Frank Act which creates a comprehensive new regulatory regime governing the OTC and listed derivatives markets and their participants by requiring, among other things: centralized clearing of standardized derivatives (with certain stated exceptions); the trading of clearable derivatives on swap execution facilities or exchanges; and registration and comprehensive regulation of new categories of market participants as “swap dealers” and swap “introducing brokers.” The Dodd-Frank Act grants regulatory authorities, such as the CFTC and the SEC, broad rule-making authority to implement various provisions of the Dodd-Frank Act, including comprehensive regulation of the OTC derivatives market. These regulators will continue to exercise, their expanded rule-making powers in ways that will affect how we conduct our business.

We have incurred and expect to continue to incur significant costs to comply with these regulatory requirements. We have also incurred and expect to continue to incur significant costs related to the development, operation and enhancement of our technology relating to trade execution, trade reporting, surveillance, record keeping and data reporting obligations, compliance and back-up and disaster recovery plans designed to meet the requirements of the regulators.

Changes that will be required in our OTC and clearing businesses may adversely impact our results of operations. Following the implementation of all of the rules contemplated by the Dodd-Frank Act, the markets for cleared and non-cleared swaps may be less robust, there may be less volume and liquidity in these markets and there may be less demand for our services. Certain banks and other institutions will be limited in their conduct of proprietary trading and will be further limited or prohibited from trading in certain derivatives. The new rules, including the restrictions on the trading activities for certain banks and large institutions, could impact transaction volumes and liquidity in these markets and our revenues would be adversely impacted as a result.

Changes that will be required in our OTC and clearing businesses may also adversely impact our cash flows and financial condition. Registration will impose substantial new requirements upon these entities including, among other things, capital and margin requirements, business conduct standards and record keeping and data reporting obligations. Increased regulatory oversight could also impose administrative burdens on us related to, among other

things, responding to regulatory examinations or investigations. Effective September 2016, CFTC margin rules came into effect, imposing new requirements to exchange initial and variation margin, depending upon aggregate daily notional transactions outstanding, with an implementation period ending in 2020. CFTC Capital rules have not been finalized and therefore it is too early to predict with any degree of certainty how we will be affected.

The EMIR is the European regulations on OTC derivatives, central counterparties and trade repositories. The EMIR has been implemented across the European Economic Area member states by the ESMA. The EMIR has imposed new requirements on our European operations, including (a) reporting derivatives to a trade repository; (b) putting in place certain risk management procedures for OTC derivative transactions that are not cleared; (c) changes to our clearing account models and increased central counterparty margin requirements. Reporting requirements came into effect in February 2014 and most risk mitigation procedures were set at the end of 2013. Implementation of collateral obligations applicable to non-cleared OTC transactions

Table of Contents

will begin to come into force in 2017. ESMA is continuing to evaluate and set clearing obligations for certain OTC derivatives. INTL FCStone Ltd complies with the enacted provisions and will do so when pending EMIR provisions are finalized as relevant to its activities.

In addition to the EMIR, the FCA will be enforcing additional European Union issued regulations such as MIFID II, for which implementation is scheduled for 2018, and MIFIR. Principal areas of impact related to this directive will involve oversight of OTFs for trading OTC non-equity products, customer type re-assessment, investor protection, enhanced conflict of interest and execution policies and extended transaction reporting requirements.

The increased costs associated with compliance, and the changes that will be required in our OTC and clearing businesses, may adversely impact our results of operations, cash flows, and/or financial condition.

We are subject to net capital requirements. The SEC, FINRA and the CFTC require our dually registered broker-dealer/FCM subsidiary, INTL FCStone Financial to maintain specific levels of net capital. Failure to maintain the required net capital may subject this subsidiary to suspension or revocation of registration by the SEC, and suspension or expulsion by FINRA and other regulatory bodies and may subject this subsidiary to limitations on its activities, including suspension or revocation of its registration by the CFTC and suspension or expulsion by the NFA and various exchanges of which it is a member.

Sterne, Agee & Leach, Inc., Sterne Agee Clearing, Inc. and Sterne Agee Financial Services, Inc. are subject to the SEC Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934.

The FCA requires our U.K. subsidiary, INTL FCStone Ltd to maintain specific levels of net capital. Failure to maintain the required net capital may subject INTL FCStone Ltd to suspension or revocation of its registration by the FCA.

Ultimately, any failure to meet capital requirements by our dually registered broker-dealer/FCM subsidiary, our broker-dealer subsidiaries or our U.K. subsidiary could result in liquidation of the subsidiary. Failure to comply with the net capital rules could have material and adverse consequences such as limiting their operations, or restricting us from withdrawing capital from these subsidiaries.

In addition, a change in the net capital rules, the imposition of new rules or any unusually large charge against net capital could limit our operations that require the intensive use of capital. They could also restrict our ability to withdraw capital from these subsidiaries. Any limitation on our ability to withdraw capital could limit our ability to pay cash dividends, repay debt and repurchase shares of our outstanding stock. A significant operating loss or any unusually large charge against net capital could adversely affect our ability to expand or even maintain our present levels of business, which could have an adverse effect on our business, financial condition and operating results.

We are subject to margin funding requirements on short notice. Our business involves establishment and carrying of substantial open positions for customers on futures exchanges and in the OTC derivatives markets. We are required to post and maintain margin or credit support for these positions. Although we collect margin or other deposits from our customers for these positions, significant adverse price movements can occur which will require us to post margin or other deposits on short notice, whether or not we are able to collect additional margin or credit support from our customers. We maintain borrowing facilities for the purpose of funding margin and credit support and have systems to endeavor to collect margin and other deposits from customers on a same-day basis, there can be no assurance that these facilities and systems will be adequate to eliminate the risk of margin calls in the event of severe adverse price movements affecting open positions of our customers. Generally, if a customer is unable to meet its margin call, we promptly liquidate the customer's account. However, there can be no assurance that in each case the liquidation of the account will not result in a loss to us or that liquidation will be feasible, given market conditions, size of the account and tenor of the positions.

Low short-term interest rates negatively impact our profitability. The level of prevailing short-term interest rates affects our profitability because we derive a portion of our revenue from interest earned from the investment of funds deposited with us by our customers. As of September 30, 2016, we had \$2.2 billion in customer segregated assets, the majority of which are generally invested in U.S. Treasury securities and money market mutual funds. In addition, in our correspondent securities clearing business, we earn interest on customer cash held in money market mutual funds and FDIC sweep accounts. Our financial performance generally benefits from rising interest rates. Higher interest rates increase the amount of interest income earned from these customer deposits. If short-term interest rates remain

low or continue to fall, our revenues derived from interest will decline which would negatively impact our profitability.

Short-term interest rates are highly sensitive to factors that are beyond our control, including general economic conditions and the policies of various governmental and regulatory authorities. In particular, decreases in the federal funds rate by the Board of Governors of the Federal Reserve System usually lead to decreasing interest rates in the U.S., which generally lead to a decrease in short-term interest rates.

We may issue additional equity securities. The issuance of additional common stock or securities convertible into our common stock could result in dilution of the ownership interest in us held by existing stockholders. We are authorized to issue, without

Table of Contents

stockholder approval, a significant number of additional shares of our common stock and securities convertible into either common stock or preferred stock.

We are subject to risks relating to litigation and potential securities and commodities law liability. We face significant legal risks in our businesses, including risks related to currently pending litigation involving the Company. Many aspects of our business involve substantial risks of liability, including liability under federal and state securities and commodities laws, other federal, state and foreign laws and court decisions, as well as rules and regulations promulgated by the SEC, the CFTC, FINRA, MSRB, the NFA, the FCA and other regulatory bodies. Substantial legal liability or significant regulatory action against us and our subsidiaries could have adverse financial effects or cause significant reputational harm to us, which in turn could seriously harm our business prospects. Any such litigation could lead to more volatility of our stock price.

For a further discussion of litigation risks, see Item 3—Legal Proceedings below and Note 11 - Commitments and Contingencies in the Consolidated Financial Statements.

We are subject to intense competition. We derive a significant portion of our revenues from market-making and trading activities involving securities and commodities. The market for these services, particularly market-making services through electronic communications gateways, is rapidly evolving and intensely competitive. We expect competition to continue and intensify in the future. We compete primarily with wholesale, national, and regional broker-dealers and FCMs, as well as electronic communications networks. We compete primarily on the basis of our expertise and quality of service.

We also derive a significant portion of our revenues from commodities risk management services. The commodity risk management industry is very competitive and we expect competition to continue to intensify in the future. Our primary competitors in this industry include both large, diversified financial institutions and commodity-oriented businesses, smaller firms that focus on specific products or regional markets and independent FCMs.

A number of our competitors have significantly greater financial, technical, marketing and other resources than we have. Some of them may:

- offer alternative forms of financial intermediation as a result of superior technology and greater availability of information;
- offer a wider range of services and products than we offer;
- be larger and better capitalized;
- have greater name recognition; and
- have more extensive customer bases.

These competitors may be able to respond more quickly to new or evolving opportunities and customer requirements. They may also be able to undertake more extensive promotional activities and offer more attractive terms to customers. Recent advances in computing and communications technology are substantially changing the means by which market-making services are delivered, including more direct access on-line to a wide variety of services and information. This has created demand for more sophisticated levels of customer service. Providing these services may entail considerable cost without an offsetting increase in revenues. In addition, current and potential competitors have established or may establish cooperative relationships or may consolidate to enhance their services and products. New competitors or alliances among competitors may emerge and they may acquire significant market share.

We cannot assure you that we will be able to compete effectively with current or future competitors or that the competitive pressures we face will not have an adverse effect on our business, financial condition and operating results.

Our business could be adversely affected if we are unable to retain our existing customers or attract new customers. The success of our business depends, in part, on our ability to maintain and increase our customer base. Customers in our market are sensitive to, among other things, the costs of using our services, the quality of the services we offer, the speed and reliability of order execution and the breadth of our service offerings and the products and markets to which we offer access. We may not be able to continue to offer the pricing, service, speed and reliability of order execution or the service, product and market breadth that customers desire. In addition, once our risk management consulting customers have become better educated with regard to sources of risk and the tools available to facilitate the management of this risk and we have provided them with recommended hedging strategies, they may no longer



continue paying monthly fees for these services. Furthermore, our existing customers, including IRMP customers, are not generally obligated to use our services and can switch providers of clearing and execution services or decrease their trading activity conducted through us at any time. As a result, we may fail to retain existing customers or be unable to attract new customers. Our failure to maintain or attract customers could have an adverse effect on our business, financial condition and operating results.

We rely on relationships with introducing brokers for obtaining some of our customers. The failure to maintain these relationships could adversely affect our business. We have relationships with introducing brokers who assist us in establishing new customer relationships and provide marketing and customer service functions for some of our customers. These introducing brokers receive compensation for introducing customers to us. Many of our relationships with introducing brokers

Table of Contents

are non-exclusive or may be canceled on relatively short notice. In addition, our introducing brokers have no obligation to provide new customer relationships or minimum levels of transaction volume. Our failure to maintain these relationships with these introducing brokers or the failure of these introducing brokers to establish and maintain customer relationships would result in a loss of revenues, which could adversely affect our business.

Certain provisions of Delaware law and our charter may adversely affect the rights of holders of our common stock and make a takeover of us more difficult. We are organized under the laws of the State of Delaware. Certain provisions of Delaware law may have the effect of delaying or preventing a change in control. In addition, certain provisions of our certificate of incorporation may have anti-takeover effects and may delay, defer or prevent a takeover attempt that a stockholder might consider in its best interest. Our certificate of incorporation authorizes the board to determine the terms of our unissued series of preferred stock and to fix the number of shares of any series of preferred stock without any vote or action by our stockholders. As a result, the board can authorize and issue shares of preferred stock with voting or conversion rights that could adversely affect the voting or other rights of holders of our common stock. In addition, the issuance of preferred stock may have the effect of delaying or preventing a change of control, because the rights given to the holders of a series of preferred stock may prohibit a merger, reorganization, sale, liquidation or other extraordinary corporate transaction.

Our stock price is subject to volatility. The market price of our common stock has been and can be expected to be subject to fluctuation as a result of a variety of factors, many of which are beyond our control, including:

- actual or anticipated variations in our results of operations;
- announcements of new products by us or our competitors;
- technological innovations by us or our competitors;
- changes in earnings estimates or buy/sell recommendations by financial analysts;
- the operating and stock price performance of other companies;
- general market conditions or conditions specific in specific markets;
- conditions or trends affecting our industry or the economy generally;
- announcements relating to strategic relationships or acquisitions; and
- risk factors and uncertainties set forth elsewhere in this Form 10-K.

Because of this volatility, we may fail to meet the expectations of our stockholders or of securities analysts, and the trading prices of our common stock could decline as a result. In addition, any negative change in the public perception of the securities industry could depress our stock price regardless of our operating results.

Future sales by existing stockholders could depress the market price of our common stock. If our stockholders sell substantial amounts of our common stock in the public market, the market price of our common stock could fall. Such sales also might make it more difficult for us to sell equity securities in the future at a time and price that we deem appropriate.

Our international operations involve special challenges that we may not be able to meet, which could adversely affect our financial results. We engage in a significant amount of business with customers in the international markets.

Certain additional risks are inherent in doing business in international markets, particularly in a regulated industry.

These risks include:

- the inability to manage and coordinate the various regulatory requirements of multiple jurisdictions that are constantly evolving and subject to unexpected change;
- tariffs and other trade barriers;
- difficulties in recruiting and retaining personnel, and managing international operations;
- difficulties of debt collection in foreign jurisdictions;
- potentially adverse tax consequences; and
- reduced protection for intellectual property rights.

Our operations are subject to the political, legal and economic risks associated with politically unstable and less developed regions of the world, including the risk of war and other international conflicts and actions by governmental authorities, insurgent groups, terrorists and others. Specifically, we conduct business in countries whose currencies may be unstable. Future instability in such currencies or the imposition of governmental or regulatory restrictions on such currencies could impede our foreign business and our ability to collect on collateral held in such

currencies.

Our operations are required to comply with the laws and regulations of foreign governmental and regulatory authorities of each country in which we conduct business, and if we violate these regulations, we may be subject to significant penalties. The financial services industry is subject to extensive laws, rules and regulations in every country in which we operate. Firms that engage in commodity futures brokerage, securities and derivatives trading and investment banking must comply with the laws, rules and regulations imposed by the governing country, state, regulatory bodies and self-regulatory bodies with governing authority over such activities. Such laws, rules and regulations cover all aspects of the financial services business, including, but not limited to, sales and trading methods, trade practices, use and safekeeping of customers' funds and securities, capital structure, anti-money laundering and anti-bribery and corruption efforts, recordkeeping and the conduct of directors, officers and employees.

21

---

## Table of Contents

Each of our regulators supervises our business activities to monitor compliance with such laws, rules and regulations in the relevant jurisdiction. In addition, if there are instances in which our regulators question our compliance with laws, rules, and regulations, they may investigate the facts and circumstances to determine whether we have complied. At any moment in time, we may be subject to one or more such investigation or similar reviews. At this time, we believe all such investigations, and similar reviews are insignificant in scope and immaterial to us. However, there can be no assurance that, in the future, the operations of our businesses will not violate such laws, rules, and regulations and that related investigations and similar reviews could result in adverse regulatory requirements, regulatory enforcement actions and/or fines.

Additional legislation, changes in rules, changes in the interpretation or enforcement of existing laws and rules, or the entering into businesses that subject us to new rules and regulations may directly affect our business, results of operations and financial condition.

We are reviewing the regulatory changes that will be introduced by MIFID II and MIFIR to assess the impact this legislation is likely to have on our U.K. business which is expected to be implemented in 2017. Among other things, the legislation will impose additional transaction and position reporting requirements, disclosure obligations, as well as requiring certain over-the-counter derivatives to be traded on OTFs.

The U.K.'s proposed withdrawal from the European Union could have an adverse effect on our business and financial results.

On June 23, 2016, a referendum was held in the U.K. to determine whether the country should remain a member of the European Union, with voters approving withdrawal from the E.U. (commonly referred to as "Brexit"). Following the results of this referendum, the U.K. government is expected to begin discussions with the E.U. on the terms and conditions of the proposed withdrawal from the E.U. Current uncertainty over whether the U.K. will ultimately leave the E.U., as well as the final outcome of the negotiations between the U.K. and E.U., could have an adverse effect on our business and financial results. The long-term effects of Brexit will depend on the terms negotiated between the U.K. and the E.U., which may take years to complete. Our operations in the U.K. as well as our global operations could be impacted by the global economic uncertainty caused by Brexit.

If we are unable to manage any of these risks effectively, our business could be adversely affected.

### Item 1B. Unresolved Staff Comments

We have received no written comments regarding our periodic or current reports from the staff of the SEC that were issued 180 days or more preceding the end of our fiscal year 2016 that remain unresolved.

### Item 2. Properties

The Company maintains offices in New York, New York; Winter Park, Florida; West Des Moines, Iowa; Chicago, Illinois; Kansas City, Missouri; St. Louis, Missouri; Bloomfield, Nebraska; Omaha, Nebraska; Minneapolis, Minnesota; Bloomington, Illinois; Miami, Florida; Indianapolis, Indiana; Bowling Green, Ohio; Nashville, Tennessee; Lawrence, Kansas; Mobile, Alabama; Boca Raton, Florida; Twin Falls, Idaho; Birmingham, Alabama; Charlotte, North Carolina; Youngstown, Ohio; Mexico City, Mexico; Buenos Aires, Argentina; Campinas, Brazil; Sao Paulo, Brazil; Maringa, Brazil; Passo Fundo, Brazil; Goiania, Brazil; Recife, Brazil; Sorriso, Brazil; Patrocinio, Brazil; Asuncion and Ciudad del Este, Paraguay; Bogota, Colombia; London, United Kingdom; Dublin, Ireland; Dubai, United Arab Emirates; Singapore, Singapore; Beijing and Shanghai, China; Hong Kong, and Sydney, Australia. All of our offices and other principal business properties are leased, except for the space in Buenos Aires, which we own. We believe that our leased and owned facilities are adequate to meet anticipated requirements for our current lines of business.

### Item 3. Legal Proceedings

In addition to the matters discussed below, from time to time and in the ordinary course of business, we are involved in various legal actions and proceedings, including tort claims, contractual disputes, employment matters, workers' compensation claims and collections. We carry insurance that provides protection against certain types of claims, up to the policy limits of our insurance. In the opinion of management, possible exposure from loss contingencies in excess of the amounts accrued, and in addition to the possible losses discussed below, is not material to our earnings, financial position or liquidity.

The following is a summary of a significant legal matter.

**Sentinel Litigation**

Prior to the July 1, 2015 merger into INTL FCStone Financial, our subsidiary, FCStone, LLC, had a portion of its excess segregated funds invested with Sentinel Management Group Inc. (“Sentinel”), a registered futures commission merchant (“FCM”) and an Illinois-based money manager that provided cash management services to other FCMs. In August 2007, Sentinel halted redemptions

22

---

Table of Contents

to customers and sold certain of the assets it managed to an unaffiliated third party at a significant discount. On August 17, 2007, subsequent to Sentinel's sale of certain assets, Sentinel filed for bankruptcy protection. In aggregate, \$15.5 million of FCStone, LLC's \$21.9 million in invested funds were returned to it before and after Sentinel's bankruptcy petition.

In August 2008, the bankruptcy trustee of Sentinel filed adversary proceedings against FCStone, LLC, and a number of other FCMs in the Bankruptcy Court for the Northern District of Illinois. The case was subsequently reassigned to the U.S. District Court, for the Northern District of Illinois. In the complaint, the trustee sought avoidance of alleged transfers or withdrawals of funds received by FCStone, LLC and other FCMs within 90 days prior to the filing of the Sentinel bankruptcy petition, as well as avoidance of post-petition distributions and disallowance of the proof of claim filed by FCStone, LLC. The trustee sought recovery of pre- and post-petition transfers totaling approximately \$15.5 million.

The trial of this matter took place, as a test case, during October 2012. The trial court entered a judgment against FCStone, LLC on January 4, 2013. On January 17, 2013, the trial court entered an agreed order, staying execution and enforcement, pending an appeal of the judgment. On March 19, 2014, the appeal court ruled in favor of FCStone, LLC. In April 2014, the trustee filed a petition for rehearing of the appeal. In May 2014, the U.S. Court of Appeals for the Seventh Circuit denied the petition. The trustee did not file a writ for certiorari with the U.S. Supreme Court during the time allotted to do so.

On February 10, 2015, based on a new theory, the trustee filed a motion for judgment against FCStone, LLC in the U.S. District Court, for the Northern District of Illinois, seeking to claw back the post-petition transfer of \$14.5 million and to recover the funds held in reserve in the name of FCStone, LLC. FCStone, LLC filed its opposition brief and an associated motion for judgment on March 17, 2015. The trustee filed its reply briefs on April 7, 2015 and we filed our reply briefs on April 22, 2015.

On March 28, 2016, the U.S. District Court for the Northern District of Illinois entered an order in favor of FCStone, LLC (now INTL FCStone Financial Inc.) and against the trustee on the trustee's post-petition claim, in light of the Seventh Circuit's opinion. The same court ruled against INTL FCStone Financial and in favor of the trustee with respect to the funds held in reserve accounts.

On April 25, 2016, INTL FCStone Financial filed a notice of appeal to the U.S. Court of Appeals for the Seventh Circuit relating to the portion of the final judgment dated March 28, 2016 of the district court and INTL FCStone Financial's claim to funds in reserve accounts. On April 26, 2016, the trustee filed its notice of appeal from the March 28, 2016 final judgment of the district court. On April 27, 2016, the court consolidated the two appeals and directed the trustee to file an opening brief. On June 27, 2016 the trustee filed his appellate brief. On August 31, 2016, the Futures Industry Association, Inc. filed an amicus curiae brief in support of INTL FCStone Financial's cross-appeal. We have determined that losses related to the trustee's appeal are neither probable nor reasonably possible.

Our assessments are based on estimates and assumptions that have been deemed reasonable by management, but that may later prove to be incomplete or inaccurate, and unanticipated events and circumstances may occur that might cause us to change those estimates and assumptions.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on The NASDAQ Stock Market LLC ("NASDAQ") under the symbol 'INTL'. Our common stock trades on the NASDAQ Global Select Market. As of September 30, 2016, there were approximately 325 registered holders of record of our common stock. The high and low sales prices per share of our common stock for each full quarterly period during fiscal 2016 and 2015 were as follows:

	Price Range	
	High	Low
2016:		
Fourth Quarter	\$39.48	\$26.38
Third Quarter	\$28.64	\$25.17
Second Quarter	\$32.67	\$24.87
First Quarter	\$36.02	\$25.15
2015:		
Fourth Quarter	\$35.22	\$24.50
Third Quarter	\$37.15	\$29.74
Second Quarter	\$30.44	\$19.25
First Quarter	\$20.70	\$16.96

We have never declared any cash dividends on our common stock, and do not currently have any plans to pay dividends on our common stock. The payment of cash dividends in the future is subject to the discretion of the Board of Directors and will depend on our earnings, financial condition, capital requirements, contractual restrictions and other relevant factors. Our credit agreements currently prohibit the payment of cash dividends by us.

On August 18, 2016, our Board of Directors authorized for fiscal 2017, the repurchase of up to 1.0 million shares of our outstanding common stock from time to time in open market purchases and private transactions, commencing on October 1, 2016 and ending on September 30, 2017, subject to the discretion of the senior management team to implement our stock repurchase plan, and subject to market conditions and as permitted by securities laws and other legal, regulatory and contractual requirements and covenants.

Table of Contents

Our common stock repurchase program activity for the three months ended September 30, 2016 was as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Maximum Number of Shares Remaining to be Purchased Under the Program <sup>(1)</sup>
July 1, 2016 to July 31, 2016	—	\$	—	249,796
August 1, 2016 to August 31, 2016	—	—	—	249,796
September 1, 2016 to September 30, 2016	—	—	—	249,796
Total	—	\$	—	

<sup>(1)</sup> The maximum number of shares remaining to be purchased under the program was reestablished to 1.0 million shares effective October 1, 2016.

Information relating to compensation plans under which our equity securities are authorized for issuance is set forth in Part III, Item 12 of our Annual Report on Form 10-K.



Table of Contents

## Item 6. Selected Financial Data

The following selected financial and operating data are derived from our consolidated financial statements and should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations, included in Item 7 and our Consolidated Financial Statements included in Item 8.

## Selected Summary Financial Information

(in millions, except share and per share amounts)	Year Ended September 30,					
	2016	2015	2014	2013	2012	
Revenues:						
Sales of physical commodities	\$14,112.0	\$34,089.9	\$33,546.4	\$42,031.2	\$66,249.4	
Trading gains, net	321.2	328.6	244.5	244.0	246.8	
Commission and clearing fees	224.3	192.5	180.7	173.3	161.0	
Consulting and management fees	42.0	42.5	42.1	35.1	27.9	
Interest income	55.2	39.4	8.0	8.9	8.0	
Other income	0.2	0.3	0.7	0.9	0.3	
Total revenues	14,754.9	34,693.2	34,022.4	42,493.4	66,693.4	
Cost of sales of physical commodities	14,083.9	34,068.9	33,531.5	42,025.2	66,245.3	
Operating revenues	671.0	624.3	490.9	468.2	448.1	
Transaction-based clearing expenses	129.9	122.7	108.5	110.1	105.3	
Introducing broker commissions	68.9	52.7	49.9	40.5	31.0	
Interest expense	28.3	17.1	10.5	7.9	5.6	
Net operating revenues	443.9	431.8	322.0	309.7	306.2	
Compensation and other expenses:						
Compensation and benefits	263.9	251.1	201.9	198.7	197.2	
Communication and data services	32.7	28.1	25.8	23.1	22.4	
Occupancy and equipment rental	13.3	13.5	12.3	12.0	11.0	
Professional fees	14.0	12.5	14.9	12.4	12.6	
Travel and business development	11.5	10.5	9.9	10.4	10.4	
Depreciation and amortization	8.2	7.2	7.3	8.0	7.2	
Bad debts and impairments	4.4	7.3	5.5	0.8	1.5	
Other	29.4	23.5	18.4	23.1	21.4	
Total compensation and other expenses	377.4	353.7	296.0	288.5	283.7	
Gain on acquisition	6.2	—	—	—	—	
Income from continuing operations, before tax	72.7	78.1	26.0	21.2	22.5	
Income tax expense	18.0	22.4	6.4	2.6	5.5	
Net income from continuing operations	54.7	55.7	19.6	18.6	17.0	
(Loss) income from discontinued operations, net of tax	—	—	(0.3	) 0.7	(4.3	)
Net income	54.7	55.7	19.3	19.3	12.7	
Add: Net loss attributable to noncontrolling interests	—	—	—	—	0.1	
Net income attributable to INTL FCStone Inc. common stockholders	\$54.7	\$55.7	\$19.3	\$19.3	\$12.8	
Earnings per share:						
Basic	\$2.94	\$2.94	\$1.01	\$1.01	\$0.67	
Diluted	\$2.90	\$2.87	\$0.98	\$0.97	\$0.64	
Number of shares:						
Basic	18,410,561	18,525,374	18,528,302	18,443,233	18,282,939	
Diluted	18,625,372	18,932,235	19,132,302	19,068,497	19,156,899	
Selected Balance Sheet Information:						
Total assets	\$5,951.3	\$5,070.0	\$3,039.7	\$2,848.0	\$2,953.0	
Lenders under loans	\$182.8	\$41.6	\$22.5	\$61.0	\$218.2	

Edgar Filing: INTL FCSTONE INC. - Form 10-K

Senior unsecured notes	\$45.5	\$45.5	\$45.5	\$45.5	\$—
Stockholders' equity	\$433.8	\$397.1	\$345.4	\$335.4	\$313.2

26

---

Table of Contents

	Year Ended September 30,				
	2016	2015	2014	2013	2012
Other Data:					
Return on average stockholders' equity (from continuing operations) <sup>(a)</sup>	13.2	% 15.0	% 5.8	% 5.7	% 5.6
EBITDA <sup>(b)</sup> (in millions)	\$109.2	\$102.4	\$43.8	\$37.1	\$35.3
Employees, end of period	1,464	1,231	1,141	1,094	1,074
Compensation and benefits as a percentage of operating revenues	39.3	% 40.2	% 41.1	% 42.4	% 44.0

(a) For all periods presented, the return on average stockholders' equity (from continuing operations) excludes the effects of discontinued operations and net loss attributable to noncontrolling interests, if any.

(b) See "Non-GAAP Financial Measure" below.

**Non-GAAP Financial Measure**

EBITDA consists of net income from continuing operations before interest expense, income tax expense and depreciation and amortization. We have included EBITDA in our Form 10-K because we use it as an important supplemental measure of our performance and believe that it is frequently used by securities analysts, investors and other interested persons in the evaluation of companies in our industry, some of which present EBITDA when reporting their financial results. EBITDA is a financial measure that is not recognized by U.S. GAAP, and should not be considered as an alternative to operating revenues, net operating revenues, net income from continuing operations, net income or stockholders' equity calculated under U.S. GAAP or as an alternative to any other measures of performance derived in accordance with U.S. GAAP. The following table reconciles EBITDA with our net income from continuing operations.

	Year Ended September 30,				
(in millions)	2016	2015	2014	2013	2012
Net income from continuing operations	\$54.7	\$55.7	\$19.6	\$18.6	\$17.0
Plus: interest expense	28.3	17.1	10.5	7.9	5.6
Plus: depreciation and amortization	8.2	7.2	7.3	8.0	7.2
Plus: income taxes	18.0	22.4	6.4	2.6	5.5
EBITDA	\$109.2	\$102.4	\$43.8	\$37.1	\$35.3

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion should be read together with the Consolidated Financial Statements and Notes thereto appearing elsewhere in this Annual Report on Form 10-K. Certain statements in "Management's Discussion and Analysis of Financial Condition and Results of Operations" are forward-looking statements that involve known and unknown risks and uncertainties, many of which are beyond our control. Words such as "may", "will", "should", "would", "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates" and similar expressions identify such forward-looking statements. The forward-looking statements contained herein are based on current expectations and entail various risks and uncertainties that could cause actual results to differ materially from those expressed in such forward-looking statements. Factors that might cause such a difference include, among other things, those set forth under "Risk Factors" and those appearing elsewhere in this Form 10-K. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's analysis only as of the date hereof. We assume no obligation to update these forward-looking statements to reflect actual results or changes in factors or assumptions affecting forward-looking statements. Readers are cautioned that any forward-looking statements are not guarantees of future performance.

**Overview**

INTL FCStone Inc. is a diversified global financial services organization providing execution, risk management and advisory services, market intelligence, and clearing services across assets classes and markets around the world. We help our customers access market liquidity, maximize profits and manage risk. We are a leader in the development of specialized financial services in commodities, securities, global payments, foreign exchange and other markets. Our revenues are derived primarily from financial products and advisory services that fulfill our customers' real needs and provide bottom-line benefits to their businesses. We create added value for our customers by providing access to

global financial markets using our industry and financial expertise, deep partner and network relationships, insight and guidance, and integrity and transparency. Our customer-first approach differentiates us from large banking institutions, engenders trust, and has enabled us to establish leadership positions in a number of complex fields in financial markets around the world.

Table of Contents

Our leadership positions span markets such as commodity risk management advisory services; global payments; market-making in international equities and other securities; fixed income; correspondent securities clearing and independent wealth management; physical trading and hedging of precious metals and select other commodities; execution of listed futures and options on futures contracts on all major commodity exchanges and foreign currency trading, among others. These businesses are supported by our global infrastructure of regulated operating subsidiaries, advanced technology platform and team of more than 1,400 employees. We currently serve more than 20,000 predominantly wholesale organizations, located in more than 130 countries. Our recent acquisition of the Sterne Agee correspondent clearing and independent wealth management businesses added approximately 50 correspondent clearing relationships with more than 120,000 accounts of which 65,000 are related to the independent wealth management business acquired.

Our customers include producers, processors and end-users of nearly all widely traded physical commodities; commercial counterparties who are end-users of our products and services; governmental and non-governmental organizations; and commercial banks, asset managers, introducing broker-dealers, insurance companies, brokers, institutional investors and major investment banks. We believe our customers value us for our focus on their needs, our expertise and flexibility, our global reach, our ability to provide access to hard-to-reach markets and opportunities, and our status as a well-capitalized and regulatory-compliant organization.

We believe we are well positioned to capitalize on key trends impacting the financial services sector. Among others, these trends include the impact of increased regulation on banking institutions and other financial services providers; increased consolidation, especially of smaller sub-scale financial services providers and independent securities clearing firms; the growing importance and complexity of conducting secure cross-border transactions; and the demand among financial institutions to transact with well-capitalized counterparties.

We focus on mitigating exposure to market risk, ensuring adequate liquidity to maintain daily operations and making non-interest expenses variable, to the greatest extent possible. We report our operating segments based on services provided to customers. Our business activities are managed as operating segments and organized into reportable segments consisting of Commercial Hedging, Global Payments, Securities, Physical Commodities, and Clearing and Execution Services (“CES”). See Segment Information for a listing of our operating segment components.

Recent Events Affecting the Financial Services Industry

The Dodd-Frank Act created a comprehensive new regulatory regime governing the OTC and listed derivatives markets. Most of the rules related to this regime have come into effect, however some important rules, such as those setting capital and margin requirements, have not been finalized or fully implemented. Effective September 2016, CFTC margin rules came into effect, imposing new requirements to exchange initial and variation margin, depending upon aggregate daily notional transactions outstanding, with an implementation period ending in 2020. CFTC capital rules have not been finalized and therefore it is too early to predict with any degree of certainty how we will be affected. We will continue to monitor all applicable developments in the ongoing implementation of the Dodd-Frank Act. The legislation and implementing regulations affect not only us, but also our customers and counterparties. The European Markets Infrastructure Regulation (“EMIR”) is the European regulations on OTC derivatives, central counterparties and trade repositories. The EMIR has been implemented across the European Economic Area member states by the European Securities and Markets Authority (“ESMA”). Implementation of collateral obligations applicable to non-cleared OTC transactions will begin to come into force in 2017. ESMA is continuing to evaluate and set clearing obligations for certain OTC derivatives. We will continue to monitor all applicable developments in the ongoing implementation of EMIR.

In addition to the EMIR, the FCA will be enforcing additional European Union issued regulations such as the Markets in Financial Instruments Directive II (“MIFID II”), for which implementation is scheduled for 2018, and the Markets in Financial Instruments Regulation (“MIFIR”). Principal areas of impact related to this directive will involve oversight of organized trade facilities (“OTF’s”) for trading OTC non-equity products, customer type re-assessment, investor protection, enhanced conflict of interest and execution policies and extended transaction reporting requirements. We will continue to monitor all applicable developments in the ongoing implementation of MIFID II.



## Table of Contents

### Fiscal 2016 Highlights

Overall operating revenues, grew 7% to \$671.0 million, including record operating revenues in our Securities segment.

Completed the acquisition of the Sterne Agee correspondent securities clearing and independent wealth management businesses in the fourth fiscal quarter of 2016.

Renewed and expanded our parent company three-year syndicated committed loan facility to \$247.0 million and on September 15, 2016 notified the trustee of our intention to redeem our 8.5% Senior Notes.

Launched a financial information exchange (“FIX”) protocol for cross-border payments platform in our Global Payments segment, which we believe marks one of the first FIX offerings for cross-border payments in exotic currencies.

Reached an agreement with ICAP plc to acquire their Europe, Middle East and Africa (“EMEA”) oil voice brokerage business.

Realized a 13.2% return on equity for fiscal 2016 and grew net asset value per share to \$23.56 per common share.

### Executive Summary

We achieved 7% growth in operating revenues in fiscal 2016, with strong growth in our Securities, Physical Commodities and CES segments partially offset by lower Commercial Hedging and Global Payments operating revenues. Overall, segment income increased 10% while net income from continuing operations declined 7% to \$72.7 million in fiscal 2016. Our Securities segment income increased \$28.9 million, while Physical Commodities and CES segments added \$7.5 million and \$1.9 million in segment income, respectively. Segment income in the Commercial Hedging and Global Payments declined \$16.9 million and \$3.5 million, respectively.

Our Securities segment’s strong growth in operating performance was a result of a 87% increase in debt trading operating revenues primarily as a result of the January 1, 2015 acquisition of G.X. Clarke as well as strong performance in our Argentina operations. Operating revenues in our Physical Commodities segment increased both as a result of a \$9.7 million increase in precious metals as well as a \$3.6 million increase in our Physical Agricultural & Energy business. CES operating revenues increased primarily as a result of the fourth quarter acquisition of the Sterne Agee correspondent securities clearing and independent wealth management businesses which collectively added \$24.1 million incremental operating revenues.

The decline in our core Commercial Hedging segment income was primarily the result of a 17% decline in OTC volumes which drove a \$28.8 million decline in operating revenues which was partially offset by higher exchange traded commission and clearing fee revenues and interest income.

Our Global Payments segment grew the number of payments made by 37%, however a narrowing of spreads per payment as a result of a continuing increase in lower dollar value per payment transaction volume from financial institutions more than offset the volume gains leading to the decline in operating revenues.

In the fiscal fourth quarter of 2016, the Company completed its acquisition of the correspondent securities clearing and independent wealth management businesses of Sterne Agee and recognized a \$6.2 million bargain purchase gain on the transaction within net income from continuing operations in fiscal 2016.

In connection with the merger of our wholly owned U.S. subsidiaries in the prior year, we transferred available-for-sale securities to the trading category during the fourth quarter of fiscal 2015. The transfer resulted in \$3.3 million, net of tax, of unrealized gains not previously recognized in earnings. See further discussion in our Results of Operations.

On the expense side, we continue to focus on maintaining our variable cost model and limiting the growth of our non-variable expenses. To that end, variable expenses were 58% of total expenses in fiscal 2016 compared to 59% in the fiscal 2015. Non-variable expenses increased 10% year-over-year, primarily as a result of incremental expenses from the acquisition of G.X. Clarke and Sterne Agee.

### Selected Summary Financial Information

#### Discontinued Operations

During fiscal 2014, we completed the exit of the physical base metals business, that began in fiscal 2013, through the sale and orderly liquidation of then-current open positions. The physical base metals activities in the financial statements for fiscal 2014 are presented as discontinued operations. We continue to operate the portion of our base

metals business related to non-physical assets, conducted primarily through the LME in our Commercial Hedging segment.

29

---



Table of Contents

## Results of Operations

Set forth below is our discussion of the results of our operations, as viewed by management, for the fiscal years ended September 30, 2016, 2015, and 2014.

The discussion below relates only to continuing operations. All revenues and expenses, including income tax expense, relating to discontinued operations have been removed from disclosures of total revenues and expenses for the applicable periods, and are reported net in our consolidated income statements in “loss from discontinued operations, net of tax”.

## Financial Overview

The following table shows an overview of our financial results:

## Financial Overview (Unaudited)

(in millions)	Year Ended September 30,					
	2016	% Change	2015	% Change	2014	
Revenues:						
Sales of physical commodities	\$14,112.0	(59 )%	\$34,089.9	2	%	\$33,546.4
Trading gains, net	321.2	(2 )%	328.6	34	%	244.5
Commission and clearing fees	224.3	17	% 192.5	7	%	180.7
Consulting and management fees	42.0	(1 )%	42.5	1	%	42.1
Interest income	55.2	40	% 39.4	393	%	8.0
Other income	0.2	(33 )%	0.3	(57 )%	0.7	
Total revenues	14,754.9	(57 )%	34,693.2	2	%	34,022.4
Cost of sales of physical commodities	14,083.9	(59 )%	34,068.9	2	%	33,531.5
Operating revenues	671.0	7	% 624.3	27	%	490.9
Transaction-based clearing expenses	129.9	6	% 122.7	13	%	108.5
Introducing broker commissions	68.9	31	% 52.7	6	%	49.9
Interest expense	28.3	65	% 17.1	63	%	10.5
Net operating revenues	443.9	3	% 431.8	34	%	322.0
Compensation and other expenses	377.4	7	% 353.7	19	%	296.0
Gain on acquisition	6.2	n/m	—	—	%	—
Income from continuing operations, before tax	\$72.7	(7 )%	\$78.1	200	%	\$26.0

The selected data table below reflects key operating metrics used by management in evaluating our product lines, for the periods indicated:

	Year Ended September 30,					
	2016	% Change	2015	% Change	2014	
Volumes and Other Data:						
Exchange-traded - futures and options (contracts, 000's)	99,667.4	—	% 99,879.2	7	%	93,566.6
OTC (contracts, 000's)	1,380.8	(17 )%	1,670.0	24	%	1,342.1
Global Payments (# of payments, 000's)	444.9	37	% 325.4	70	%	191.5
Gold equivalent ounces traded (000's)	92,073.7	(27 )%	126,365.5	60	%	79,127.1
Equity Market-Making (gross dollar volume, millions)	\$88,518.8	(10 )%	\$98,604.3	42	%	\$69,435.1
Debt Trading (gross dollar volume, millions)	\$107,747.4	70	% \$63,502.6	1,243	%	\$4,727.8
FX Prime Brokerage volume (U.S. notional, millions)	\$580,426.9	29	% \$449,344.1	45	%	\$310,297.5
Average assets under management in Argentina (U.S. dollar, millions)	\$562.4	(2 )%	\$572.1	8	%	\$530.9
Average customer equity - futures and options (millions)	\$1,878.7	5	% \$1,788.2	—	%	\$1,789.9

Table of Contents

## Operating Revenues

## Year Ended September 30, 2016 Compared to Year Ended September 30, 2015

Operating revenues for fiscal 2016 and fiscal 2015 were \$671.0 million and \$624.3 million, respectively. Operating revenue growth was driven by strong growth in our Securities segment, which added \$45.4 million over the prior year, while the CES segment added \$27.7 million in operating revenue, driven by the acquisition of the Sterne Agee businesses which added an incremental \$24.1 million. In addition, the Physical Commodities segment added \$13.5 million over the prior year. This growth was partially offset by \$26.3 million and \$3.9 million declines in operating revenues in our Commercial Hedging and Global Payments segments, respectively.

Operating revenues in our Commercial Hedging segment decreased 10% in fiscal 2016 to \$236.1 million with a \$2.2 million increase in exchange-traded revenues to \$131.6 million being more than offset by a \$28.8 million decline in OTC revenues to \$82.2 million in fiscal 2016. Growth in the domestic grain markets and in our London operations drove a 10% increase in exchange-traded volumes. Lower OTC revenues were a result of a 17% decline in volumes, primarily as a result of lower customer volumes in the domestic and Latin American agricultural markets as well as the effect of lower energy prices and volatility.

Operating revenues in our Securities segment increased 35% in fiscal 2016 to \$175.2 million, primarily as a result of a \$42.3 million increase in our Debt Trading product line, primarily as a result of the acquisition of G.X. Clarke which was effective January 1, 2015 and thus only contributed operating revenues beginning in the second quarter of fiscal 2015. In addition, the business acquired showed strong growth in fiscal 2016, outperforming the similar period in the prior year. Strong performance in our Argentine operations also contributed to growth in debt trading operating revenues as well as in asset management. Investment banking operating revenues declined \$5.8 million following management's decision to exit the domestic investment banking business.

Operating revenues in our Global Payments segment declined 5% in fiscal 2016 to \$73.2 million compared to the prior year, as a 37% increase in the number of global payments made was more than offset by a narrowing of spreads as a result of a continuing increase in lower dollar value per payment transaction volume from financial institutions. Physical Commodity segment operating revenues increased 58% to \$36.6 million in fiscal 2016 as a result of a \$9.7 million increase in Precious Metals operating revenues, as well as a \$3.6 million increase in Physical Ag & Energy operating revenues.

Operating revenues in our CES segment increased 22% in fiscal 2016 to \$151.1 million. Exchange-traded Futures & Options operating revenues increased \$4.2 million to \$106.1 million, while Foreign Exchange Prime Brokerage operating revenues declined \$0.6 million to \$20.9 million. The addition of the Sterne Agee correspondent securities clearing and independent wealth management businesses added \$24.1 million in incremental operating revenues. Interest income increased \$15.8 million to \$55.2 million in fiscal 2016 compared to fiscal 2015, primarily driven by a \$14.9 million increase in our Debt Trading business. In addition, average customer equity in the exchange traded futures and options portions of our Commercial Hedging and CES segments increased 5% to \$1.9 billion in fiscal 2016 compared to fiscal 2015, which combined with an increase in short term interest rates and the continued implementation of our interest rate management program, resulted in an aggregate \$2.9 million increase in interest income in the exchange traded futures and options portions of these segments.

The July 1, 2015 transfer of securities from available-for-sale investments, at fair value, to the trading category resulted in a \$5.4 million of pre-tax unrealized gains not previously recognized in earnings being included in operating revenues during the fourth quarter of fiscal 2015. See the discussion of operating revenues for the Year Ended September 30, 2015 Compared to Year Ended September 30, 2014 for details of this transfer. In addition, operating revenues for fiscal 2015 included a \$1.2 million pre-tax gain on the sale of common stock held in the Intercontinental Exchange, Inc.

See Segment Information below for additional information on activity in each of the segments.

## Year Ended September 30, 2015 Compared to Year Ended September 30, 2014

Operating revenues for fiscal 2015 and fiscal 2014 were \$624.3 million and \$490.9 million, respectively. All of our business segments experienced operating revenue growth compared to the prior year, led by our Securities and Commercial Hedging segments which increased \$49.5 million and \$38.4 million, respectively. In addition, operating revenues in our Global Payments segment increased \$21.6 million, while our CES and Physical Commodities

segments increased \$9.7 million and \$2.6 million, respectively.

Operating revenues in our Commercial Hedging segment increased 17% in fiscal 2015 to \$262.4 million, as exchange-traded revenues increased \$20.1 million to \$129.4 million and OTC revenues increased \$16.1 million to \$111.0 million in fiscal 2015. Strong growth in our LME Metals business combined with improved market conditions in the domestic agricultural markets, drove a 16% increase in exchange-traded volumes. OTC revenues increased as a result of a 24% increase in volumes while the

31

---

Table of Contents

average rate per contract declined 6% compared to the prior year. Growth in agricultural commodity OTC revenues and the addition of interest rate OTC derivatives to our customer offering helped to drive the growth in OTC revenues. Operating revenues in our Securities segment increased 62% in fiscal 2015 to \$129.8 million, primarily as a result of a \$17.5 million increase in our equity market-making product line, as well as the acquisition of G.X. Clarke which added \$31.4 million in incremental revenues to our Debt Trading product line.

Operating revenues in our Global Payments segment increased 39% in fiscal 2015 to a record \$77.0 million compared to the prior year, driven by a 70% increase in the number of global payments made, however spreads have narrowed in this business due to a continuing increase in lower dollar value per payment transaction volume from financial institutions.

Physical Commodity segment operating revenues increased 13% to \$23.2 million in fiscal 2015 as a result of a 60% increase in the number of ounces traded in precious metals, which was partially offset by a decrease of customer activity in the Physical Ag & Energy commodity product line.

Operating revenues in our CES segment increased 9% in fiscal 2015 to \$123.4 million. Exchange-traded Futures & Options operating revenues increased 2% to \$101.9 million, while operating revenues in our Foreign Exchange Prime Brokerage product line increased \$7.4 million to \$21.5 million in fiscal 2015 as a result of increased market volatility in foreign exchange markets.

Interest income increased \$31.4 million to \$39.4 million in fiscal 2015 compared to fiscal 2014, and was significantly impacted by the acquisition of G.X. Clarke, which added \$19.6 million in interest income during the nine months following the acquisition effective January 1, 2015. In addition, while average customer equity was relatively flat with the prior year, the continued implementation of our interest rate management program, resulted in an aggregate \$5.2 million increase in interest income in our Commercial Hedging and CES segments.

On July 1, 2015, the Company merged three of its wholly owned U.S. subsidiaries (FCStone, LLC, INTL FCStone Partners L.P., and FCC Investments, Inc.) into its wholly owned subsidiary, INTL FCStone Securities Inc., and renamed the surviving subsidiary INTL FCStone Financial Inc. INTL FCStone Financial is registered as a broker-dealer with FINRA and is registered as a futures commission merchant with the CFTC and NFA.

In connection with the merger of wholly owned subsidiaries, the Company transferred its remaining available-for-sale investments, at fair value, to the trading category in accordance with the accounting requirements for broker-dealers. The July 1, 2015 transfer of securities resulted in \$5.4 million of pre-tax unrealized gains not previously recognized in earnings being included in operating revenues during the fourth quarter of fiscal 2015. In addition, operating revenues for fiscal 2015 included a \$1.2 million pre-tax gain on the sale of common stock held in the Intercontinental Exchange, Inc.

#### Interest and Transactional Expenses

Year Ended September 30, 2016 Compared to Year Ended September 30, 2015

Transaction-based clearing expenses: Transaction-based clearing expenses increased 6% to \$129.9 million in fiscal 2016 compared to \$122.7 million in fiscal 2015, and were 19% of operating revenues in fiscal 2016 compared to 20% in fiscal 2015. The increase in expense is primarily related to increased activity across our Exchange-traded Futures & Options, Debt Trading, LME Metals and Global Payments components, as well as higher operational costs associated with required regulatory transactional reporting.

Introducing broker commissions: Introducing broker commissions increased 31% to \$68.9 million in fiscal 2016 compared to \$52.7 million in fiscal 2015, and were 10% of operating revenues in fiscal 2016 compared to 8% in fiscal 2015. The increase in expense is primarily related to our acquisition of the independent wealth management business of Sterne Agee at the beginning of our fourth fiscal quarter, which added an incremental \$14.7 million. Also, introducing broker commissions increased in our Debt Trading business in Argentina, and we had higher broker commissions in our Investment Banking component as we completed our exit of the domestic investment banking business. These increases were partially offset by lower costs in our Global Payments segment activity.

Interest expense: Interest expense increased 65% to \$28.3 million in fiscal 2016 compared to \$17.1 million in fiscal 2015. The increase in interest expense is primarily related to the fixed income trading activities from our Rates Division, acquired on January 1, 2015, which resulted in higher interest expense of \$7.4 million. Additionally, higher average borrowings outstanding on the credit facilities available for working capital needs and financing of physical

commodities resulted in increased expense.

32

---

Table of Contents

## Year Ended September 30, 2015 Compared to Year Ended September 30, 2014

Transaction-based clearing expenses: Transaction-based clearing expenses increased 13% to \$122.7 million in fiscal 2015 compared to \$108.5 million in fiscal 2014, and were 20% of operating revenues in fiscal 2015 compared to 22% in fiscal 2014. The increase in expense is primarily related to higher exchange clearing costs in our CES and LME Metals activities resulting from increased contract volumes. Additionally, increases in our Global Payments and Equity Market-Making operating revenues resulted in higher transactional charges.

Introducing broker commissions: Introducing broker commissions increased 6% to \$52.7 million in fiscal 2015 compared to \$49.9 million in fiscal 2014, and were 8% of operating revenues in fiscal 2015 compared to 10% in fiscal 2014. The increase in expense is primarily due to increased activity in our Financial Ag & Energy and Global Payments components, while the decrease in the percentage of introducing broker commissions to operating revenues is a result of increased non-introducing broker sourced revenues, including interest income.

Interest expense: Interest expense increased to \$17.1 million in fiscal 2015 compared to \$10.5 million in fiscal 2014. The increase in interest expense is primarily related to \$5.8 million of incremental expense from the acquisition of G.X. Clarke. Additionally, higher average borrowings outstanding on the corporate credit facility available for working capital needs resulted in increased expense.

## Net Operating Revenues

Net operating revenues is one of the key measures used by management to assess the performance of our operating segments. Net operating revenue is calculated as operating revenue less transaction-based clearing expenses, introducing broker commissions and interest expense. Transaction-based clearing expenses represent variable expenses paid to executing brokers, exchanges, clearing organizations and banks in relation to our transactional volumes. Introducing broker commissions include commission paid to non-employee third parties that have introduced customers to us. Net operating revenues represent revenues available to pay variable compensation to risk management consultants and traders and direct non-variable expenses, as well as variable and non-variable expenses of operational and administrative employees.

## Year Ended September 30, 2016 Compared to Year Ended September 30, 2015

Net operating revenues increased \$12.1 million, or 3%, to \$443.9 million in fiscal 2016 compared to \$431.8 million in fiscal 2015.

## Year Ended September 30, 2015 Compared to Year Ended September 30, 2014

Net operating revenues increased \$109.8 million, or 34%, to \$431.8 million in fiscal 2015 compared to \$322.0 million in fiscal 2014.

## Compensation and Other Expenses

The following table shows a summary of expenses, other than interest and transactional expenses.

(in millions)	Year Ended September 30,					
	2016	% Change	2015	% Change	2014	
Compensation and benefits:						
Fixed compensation and benefits	\$126.5	10 %	\$115.3	7 %	\$108.0	
Variable compensation and benefits	137.4	1 %	135.8	45 %	93.9	
	263.9	5 %	251.1	24 %	201.9	
Other non-compensation expenses:						
Communication and data services	32.7	16 %	28.1	9 %	25.8	
Occupancy and equipment rental	13.3	(1 )%	13.5	10 %	12.3	
Professional fees	14.0	12 %	12.5	(16 )%	14.9	
Travel and business development	11.5	10 %	10.5	6 %	9.9	
Depreciation and amortization	8.2	14 %	7.2	(1 )%	7.3	
Bad debts and impairments	4.4	(40 )%	7.3	33 %	5.5	
Other expense	29.4	25 %	23.5	28 %	18.4	
	113.5	11 %	102.6	9 %	94.1	
Total compensation and other expenses	\$377.4	7 %	\$353.7	19 %	\$296.0	



Table of Contents

## Year Ended September 30, 2016 Compared to Year Ended September 30, 2015

Compensation and Other Expenses: Compensation and other expenses increased \$23.7 million, or 7%, to \$377.4 million in fiscal 2016 compared to \$353.7 million in fiscal 2015.

Compensation and Benefits: Total compensation and benefits expenses increased 5% to \$263.9 million in fiscal 2016 compared to \$251.1 million in fiscal 2015. Total compensation and benefits were 39% of operating revenues in fiscal 2016 compared to 40% of operating revenues in fiscal 2015. The variable portion of compensation and benefits increased 1% to \$137.4 million in fiscal 2016 compared to \$135.8 million in fiscal 2015. Variable compensation and benefits were 31% of net operating revenues in fiscal 2016 compared to 31% in fiscal 2015. Administrative, centralized operations and executive incentive compensation was \$28.7 million in fiscal 2016 compared to \$25.1 million in fiscal 2015, primarily related to incremental expense from a full year of cost in regard to the acquisition of the Rates Division in January 2015 and one quarter of cost related to the acquired correspondent clearing and independent wealth management businesses of Sterne Agee in July 2016.

The fixed portion of compensation and benefits increased 10% to \$126.5 million in fiscal 2016 compared to \$115.3 million in fiscal 2015. Non-variable salaries increased \$6.4 million, or 7%, primarily due to incremental costs from the acquisitions of the Rates Division and businesses of Sterne Agee, and additional headcount increases across certain front office and administrative departments. Employee benefits, excluding share-based compensation, increased \$3.2 million in fiscal 2016, primarily due to higher employer payroll, health care and retirement costs, as well as higher temporary personnel costs. Share-based compensation is a component of the fixed portion, and includes stock option and restricted stock expense. Share-based compensation was \$5.1 million in fiscal 2016 compared to \$3.6 million in fiscal 2015. The number of employees increased 19% to 1,464 at the end of fiscal 2016 compared to 1,231 at the end of fiscal 2015.

Other Non-Compensation Expenses: Other non-compensation expenses increased by 11% to \$113.5 million in fiscal 2016 compared to \$102.6 million in fiscal 2015. Communication and data services expenses increased \$4.6 million, primarily due to increases in market information and trade system expenses across various business activities, as well as incremental costs from the acquisition of the Sterne businesses. Professional fees increased \$1.5 million, primarily due to higher consultancy costs related to direct business, operational and administrative activities, partially offset by lower legal service costs. Travel and business development fees increased \$1.0 million, primarily within our Commercial Hedging and Securities segments as well as incremental costs from the acquired businesses. Depreciation and amortization increased \$1.0 million, primarily related to higher software depreciation. Other expense increased \$5.9 million, primarily as a result of the costs of holding our internal bi-annual global sales meeting in fiscal 2016 as well as higher non-trading hardware costs, hosted customer conference costs, recruiting costs and incremental costs from the acquired businesses.

Bad debts and impairments decreased \$2.9 million year-over-year. During fiscal 2016, bad debts were \$4.4 million, primarily related to \$3.6 million of customer deficits in our Commercial Hedging segment, \$0.4 million of uncollectible customer receivables in our Physical Ag & Energy component of our Physical Commodities segment and \$0.4 million of uncollectible service fees and notes in our Securities segment. During fiscal 2015, bad debts were \$7.3 million, primarily related to \$2.8 million of customer receivables in our Physical Ag & Energy component, \$2.3 million of OTC customer deficits and \$0.6 million of LME Metals customer deficits in our Commercial Hedging segment, \$0.5 million of uncollectible service fees and notes in our Securities segment, and \$1.1 million of notes receivable related to loans pertaining to a former acquisition.

Gain on Acquisition: In the fiscal fourth quarter of 2016, the Company completed its acquisition of the correspondent securities clearing and independent wealth management businesses of Sterne Agee. The purchase price of \$45.0 million represents a discount to the preliminary allocation of fair value to the net assets of the Sterne entities. The \$6.2 million discount in the purchase price as compared to the preliminary allocation of fair value to the net assets at closing has been reflected as a gain on acquisition in the Consolidated Income Statement for fiscal 2016.

Provision for Taxes: The effective income tax rate on income from continuing operations was 25% in fiscal 2016 compared to 29% in fiscal 2015, and was impacted by the bargain purchase gain on the acquired businesses from Sterne Agee during fiscal 2016. The effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings. Generally, when the percentage of pretax earnings



generated from the U.S. increases, our effective income tax rate increases. Our effective income tax rate during both periods was lower than the U.S. federal statutory rate primarily due to a higher mix of earnings taxed at lower rates in foreign jurisdictions.

Year Ended September 30, 2015 Compared to Year Ended September 30, 2014

Compensation and Other Expenses: Compensation and other expenses increased \$57.7 million, or 19%, to \$353.7 million in fiscal 2015 compared to \$296.0 million in fiscal 2014.

Compensation and Benefits: Total compensation and benefits expenses increased 24% to \$251.1 million in fiscal 2015 compared to \$201.9 million in fiscal 2014. Total compensation and benefits were 40% of operating revenues in fiscal 2015

Table of Contents

compared to 41% of operating revenues in fiscal 2014. The variable portion of compensation and benefits increased 45% to \$135.8 million in fiscal 2015 compared to \$93.9 million in fiscal 2014. Variable compensation and benefits were 31% of net operating revenues in fiscal 2015 compared to 29% in fiscal 2014, as the front office compensation, as a percentage of net operating revenues, increased modestly and also due to higher administrative and executive incentive compensation. Administrative and executive incentive compensation was \$25.1 million in fiscal 2015 compared to \$12.2 million in fiscal 2014, primarily related to incremental expense from the acquisition of G.X. Clarke, as well as our significantly improved financial performance.

The fixed portion of compensation and benefits increased 7% to \$115.3 million in fiscal 2015 compared to \$108.0 million in fiscal 2014. Non-variable salaries increased \$8.0 million, or 10%, primarily due to incremental costs from the acquisition of G.X. Clarke, and additional headcount increases across certain front office and administrative departments. Employee benefits, excluding share-based compensation, increased \$2.3 million in fiscal 2015, primarily due to higher employer health care and retirement costs. Share-based compensation is a component of the fixed portion, and includes stock option and restricted stock expense. Stock option expense was \$1.6 million in fiscal 2015 compared to \$1.4 million in fiscal 2014. Restricted stock expense was \$2.0 million in fiscal 2015 compared to \$2.9 million in fiscal 2014. The number of employees increased 8% to 1,231 at the end of fiscal 2015 compared to 1,141 at the end of fiscal 2014.

**Other Non-Compensation Expenses:** Other non-compensation expenses increased by 9% to \$102.6 million in fiscal 2015 compared to \$94.1 million in fiscal 2014. Communication and data services expenses increased \$2.3 million, primarily due to increases in market information expenses related to incremental costs from the acquisition of G.X. Clarke and expansion of our Financial Ag & Energy business activities. Professional fees decreased \$2.4 million, primarily due to lower legal, consultancy, and service costs.

Bad debts and impairments increased \$1.8 million year-over-year. During fiscal 2015, bad debts were \$7.3 million, primarily related to \$2.8 million of customer receivables in our Physical Ag & Energy component of our Physical Commodities segment, \$2.3 million of OTC customer deficits and \$0.6 million of LME customer deficits in our Commercial Hedging segment, \$0.5 million of uncollectible service fees and notes in our Securities segment, and \$1.1 million of notes receivable related to loans pertaining to a former acquisition. During fiscal 2014, bad debts were \$5.5 million, net of recoveries of \$0.2 million, including \$3.8 million in our Commercial Hedging segment, primarily related to account deficits from a Hong Kong commercial LME customer and Brazilian OTC Financial Ag & Energy customers. Additionally, we recorded bad debts of \$0.9 million in our Physical Commodities segment related to renewable fuels activity in our Physical Ag & Energy component, and \$0.7 million in our Securities segment primarily related to a charge-off of uncollectible service fees.

Other expense increased \$5.1 million, primarily as a result of the change in the revaluation of contingent liabilities related to certain business combinations. During fiscal 2015, we recorded \$1.8 million of additional consideration related to the acquisition of G.X. Clarke and Tradewire Securities. During fiscal 2014, we revised downward the additional consideration to be paid for the transfer of accounts from Tradewire Securities, partially offset by an increase in the additional consideration paid for the acquisition of Hencorp Futures, netting to an expense recovery of \$2.0 million - See Note 11 to the Consolidated Financial Statements.

**Provision for Taxes:** The effective income tax rate on income from continuing operations was 29% in fiscal 2015 compared to 25% in fiscal 2014. The effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings. Generally, when the percentage of pretax earnings generated from the U.S. increases, our effective income tax rate increases. Our effective income tax rate during both periods was lower than the U.S. federal statutory rate primarily due to a higher mix of earnings taxed at lower rates in foreign jurisdictions.

Table of Contents

## Unallocated Costs and Expenses

The following table is a breakout of our unallocated costs and expenses from the total costs and expenses shown above. The unallocated costs and expenses include certain shared services such as information technology, accounting and treasury, credit and risk, legal and compliance, and human resources and other activities.

(in millions)	Year Ended September 30,					
	2016	% Change	2015	% Change	2014	
Compensation and benefits:						
Fixed compensation and benefits	\$45.4	24 %	\$36.7	5 %	\$34.8	
Variable compensation and benefits	26.5	15 %	23.1	89 %	12.2	
	71.9	20 %	59.8	27 %	47.0	
Other non-compensation expenses:						
Communication and data services	6.0	33 %	4.5	5 %	4.3	
Occupancy and equipment rental	13.2	(1 )%	13.4	10 %	12.2	
Professional fees	7.8	3 %	7.6	(20 )%	9.5	
Travel and business development	2.4	4 %	2.3	5 %	2.2	
Depreciation and amortization	6.7	16 %	5.8	(6 )%	6.2	
Bad debts and impairments	—	(100)%	1.1	n/m	—	
Other expense	19.7	11 %	17.8	35 %	13.2	
	55.8	6 %	52.5	10 %	47.6	
Total compensation and other expenses	\$127.7	14 %	\$112.3	19 %	\$94.6	

## Year Ended September 30, 2016 Compared to Year Ended September 30, 2015

Total unallocated costs and other expenses increased \$15.4 million to \$127.7 million in fiscal 2016 compared to \$112.3 million in fiscal 2015. Compensation and benefits increased \$12.1 million, or 20% to \$71.9 million in fiscal 2016 compared to \$59.8 million in fiscal 2015.

During fiscal 2016, the increase in fixed and variable compensation and benefits is primarily related to the incremental costs from the acquisitions of G.X. Clarke and the correspondent clearing and independent wealth management businesses from Sterne Agee, higher management incentives earned in Argentina and expansion of our information technology department. The increase in communication and data services is primarily due to increased market information costs. The increase in other expense is primarily related to higher centralized operations costs and costs of holding our internal bi-annual global sales meeting during fiscal 2016. Excluding the incremental unallocated costs from the acquisitions of G.X. Clarke and the correspondent clearing and independent wealth management businesses from Sterne Agee, total compensation and other expenses increased 10% over the prior year.

## Year Ended September 30, 2015 Compared to Year Ended September 30, 2014

Total unallocated costs and other expenses increased \$17.7 million to \$112.3 million in fiscal 2015 compared to \$94.6 million in fiscal 2014. Compensation and benefits increased \$12.8 million, or 27% to \$59.8 million in fiscal 2015 compared to \$47.0 million in fiscal 2014.

During fiscal 2015, the increase in variable compensation and benefits was primarily related to our improved financial performance over the prior year and the incremental costs from the acquisition of G.X. Clarke. The decrease in professional fees was primarily due to lower legal and consultancy costs related to legal and regulatory matters over the prior year. The increase in other expense was primarily related to the previously discussed change in the revaluation of contingent liabilities related to certain business combinations. Excluding the impacts of the revaluation of contingent liabilities and the incremental unallocated costs from the acquisition of G.X. Clarke, total compensation and other expenses increased 7% over the prior year.

Table of Contents

Variable vs. Fixed Expenses

(in millions)	Year Ended September 30,					
	2016	% of Total	2015	% of Total	2014	% of Total
Variable compensation and benefits	\$ 137.4	24 %	\$ 135.8	26 %	\$ 93.9	21 %
Transaction-based clearing expenses	129.9	23 %	122.7	23 %	108.5	24 %
Introducing broker commissions	68.9	11 %	52.7	10 %	49.9	11 %
Total variable expenses	336.2	58 %	311.2	59 %	252.3	56 %
Fixed compensation and benefits	126.5	22 %	115.3	22 %	108.0	24 %
Other fixed expenses	109.1	19 %	95.3	18 %	88.6	19 %
Bad debts and impairments	4.4	1 %	7.3	1 %	5.5	1 %
Total non-variable expenses	240.0	42 %	217.9	41 %	202.1	44 %
Total non-interest expenses	\$576.2	100%	\$529.1	100%	\$454.4	100%

We seek to make our non-interest expenses variable to the greatest extent possible, and to keep our fixed costs as low as possible. The table above shows an analysis of our variable expenses and non-variable expenses as a percentage of total non-interest expenses for the years ended September 30, 2016, 2015, and 2014.

Our variable expenses consist of variable compensation paid to traders and risk management consultants, bonuses paid to operational, administrative and executive employees, transaction-based clearing expenses and introducing broker commissions. As a percentage of total non-interest expenses, variable expenses were 58% in fiscal 2016, 59% in fiscal 2015 and 56% in fiscal 2014.

Segment Information

Our business activities are managed as operating segments and organized into reportable segments as follows: INTL FCStone Inc.

Global Payments	Securities	Physical Commodities	Clearing and Execution Services
Components:	Components:	Components:	Components:
-	-	-	-
Financial - Global Ag & Energy	- Equity Market- Making	- Precious Metals	Exchange-traded Futures & Options
-	- Debt Trading	- Physical Ag & Energy	- FX Prime Brokerage
LME Metals	- Investment Banking		- Correspondent Clearing
	- Asset Management		- Independent Wealth Management

We report our operating segments based on services provided to customers. Net contribution is one of the key measures used by management to assess the performance of each segment and for decisions regarding the allocation of our resources. Net contribution is calculated as revenues less direct cost of sales, interest expense, transaction-based clearing expenses, introducing broker commissions and variable compensation. Variable compensation paid to risk management consultants and traders generally represents a fixed percentage of an amount equal to revenues generated, and in some cases, revenues produced less transaction-based clearing expense and related charges, base salaries and an overhead allocation.

Segment income is calculated as net contribution less non-variable direct expenses of the segment. These non-variable direct expenses include trader base compensation and benefits, operational employee compensation and benefits, communication and data services, business development, professional fees, bad debt expense, trade errors and direct marketing expenses.

Table of Contents

## Total Segment Results

The following table shows summary information concerning all of our business segments combined.

(in millions)	Year Ended September 30,					
	2016	% of Operating Revenues	2015	% of Operating Revenues	2014	% of Operating Revenues
Revenues:						
Sales of physical commodities	\$ 14,112.0		\$ 34,089.9		\$ 33,546.4	
Trading gains, net	318.7		322.3		244.7	
Commission and clearing fees	224.2		192.5		180.7	
Consulting and management fees	41.0		42.5		42.1	
Interest income	60.2		37.5		11.4	
Other	—		—		0.2	
Total revenues	14,756.1		34,684.7		34,025.5	
Cost of sales of physical commodities	14,083.9		34,068.9		33,531.5	
Operating revenues	672.2	100%	615.8	100%	494.0	100%
Transaction-based clearing expenses	126.8	19%	121.0	20%	107.8	22%
Introducing broker commissions	68.9	10%	52.7	9%	49.9	10%
Interest expense	20.8	3%	10.8	2%	5.4	1%
Net operating revenues	455.7		431.3		330.9	
Variable direct compensation and benefits	108.7	16%	110.7	18%	81.7	17%
Net contribution	347.0		320.6		249.2	
Non-variable direct expenses	141.0	21%	132.5	22%	120.4	24%
Segment income	\$ 206.0		\$ 188.1		\$ 128.8	

## Year Ended September 30, 2016 Compared to Year Ended September 30, 2015

The net contribution of all our business segments increased 8% to \$347.0 million in fiscal 2016 compared to \$320.6 million in fiscal 2015. Segment income increased 10% to \$206.0 million in fiscal 2016 compared to \$188.1 million in fiscal 2015.

## Year Ended September 30, 2015 Compared to Year Ended September 30, 2014

The net contribution of all our business segments increased 29% to \$320.6 million in fiscal 2015 compared to \$249.2 million in fiscal 2014. Segment income increased 46% to \$188.1 million in fiscal 2015 compared to \$128.8 million in fiscal 2014.

## Commercial Hedging

We serve our commercial customers through our team of risk management consultants, providing a high-value-added service that we believe differentiates us from our competitors and maximizes the opportunity to retain our customers. Our risk management consulting services are designed to quantify and monitor commercial entities' exposure to commodity and financial risk. Upon assessing this exposure, we develop a plan to control and hedge these risks with post-trade reporting against specific customer objectives. Our customers are assisted in the execution of their hedging strategies through a wide range of products from listed exchange-traded futures and options, to basic OTC instruments that offer greater flexibility, to structured OTC products designed for customized solutions.

Our services span virtually all traded commodity markets, with the largest concentrations in agricultural and energy commodities (consisting primarily of grains, energy and renewable fuels, coffee, sugar, cotton, and food service) and base metals products listed on the LME. Our base metals business includes a position as a Category One ring dealing member of the LME, providing execution, clearing and advisory services in exchange-traded futures and OTC products. We also provide execution of foreign currency forwards and options and interest rate swaps as well as a wide range of structured product solutions to our commercial customers who are seeking cost-effective hedging strategies. Generally, our customers direct their own trading activity, and our risk management consultants do not have discretionary authority to transact trades on behalf of our customers.



Table of Contents

The following table provides the financial performance for Commercial Hedging for the periods indicated.

(in millions)	Year Ended September 30,				
	2016	% Change	2015	% Change	2014
Revenues:					
Sales of physical commodities	\$—	—	\$—	—	\$—
Trading gains, net	118.7	(22 )%	152.3	23 %	124.3
Commission and clearing fees	95.1	8 %	88.0	10 %	79.9
Consulting and management fees	13.8	(9 )%	15.1	(4 )%	15.7
Interest income	8.5	21 %	7.0	71 %	4.1
Other	—	—	—	—	—
Total revenues	236.1	(10 )%	262.4	17 %	224.0
Cost of sales of physical commodities	—	—	—	—	—
Operating revenues	236.1	(10 )%	262.4	17 %	224.0
Transaction-based clearing expenses	27.9	1 %	27.6	10 %	25.0
Introducing broker commissions	19.6	(2 )%	19.9	9 %	18.2
Interest expense	0.4	100 %	0.2	(33 )%	0.3
Net operating revenues	188.2	(12 )%	214.7	19 %	180.5
Variable direct compensation and benefits	53.8	(15 )%	63.0	32 %	47.9
Net contribution	134.4	(11 )%	151.7	14 %	132.6
Non-variable direct expenses	65.7	(1 )%	66.1	1 %	65.3
Segment income	\$68.7	(20 )%	\$85.6	27 %	\$67.3

The following tables set forth transactional revenues and selected data for Commercial Hedging for the periods indicated.

	Exchange-traded				
	Year Ended September 30,				
	2016	% Change	2015	% Change	2014
Transactional revenues (in millions):					
Agricultural	\$69.6	12%	\$62.0	7%	\$57.9
Energy and renewable fuels	5.7	(16)%	6.8	19%	5.7
LME metals	49.5	(6)%	52.8	37%	38.6
Other	6.8	(13)%	7.8	10%	7.1
	\$131.6	2%	\$129.4	18%	\$109.3
Selected data:					
Futures and options (contracts, 000's)	22,810.2	10%	20,686.1	16%	17,827.2