

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

ANNUAL REPORTS  
FORM X-17A-5  
PART III

OMB APPROVAL
OMB Number: 3235-0123 Expires: Oct. 31, 2023 Estimated average burden hours per response: 12
SEC FILE NUMBER
8-69739

FACING PAGE

Information Required Pursuant to Rules 17a-5, 17a-12, and 18a-7 under the Securities Exchange Act of 1934

FILING FOR THE PERIOD BEGINNING 01/01/2021 AND ENDING 12/31/2021  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF FIRM: FUTU INC.

TYPE OF REGISTRANT (check all applicable boxes):

- Broker-dealer     Security-based swap dealer     Major security-based swap participant  
 Check here if respondent is also an OTC derivatives dealer

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use a P.O. box no.)

720 UNIVERSITY AVE SUITE 100

(No. and Street)

PALO ALTO

CA

94301

(City)

(State)

(Zip Code)

PERSON TO CONTACT WITH REGARD TO THIS FILING

Nicolette Denney                      (760) 815-1817                      ndenney@fututrade.com  
(Name)                                      (Area Code - Telephone Number)                      (Email Address)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose reports are contained in this filing\*

BAKER TILLY US, LLP

(Name - if individual, state last, first, and middle name)

ONE PENN PLAZA, SUITE 3000 NEW YORK CITY

NY

10119

(Address)

(City)

(State)

(Zip Code)

10/22/2003

23

(Date of Registration with PCAOB)(if applicable)

(PCAOB Registration Number, if applicable)

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\* Claims for exemption from the requirement that the annual reports be covered by the reports of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis of the exemption. See 17 CFR 240.17a-5(e)(1)(ii), if applicable.

Persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

### OATH OR AFFIRMATION

I, Wing Kei Chan, swear (or affirm) that, to the best of my knowledge and belief, the financial report pertaining to the firm of FUTU INC., as of December 31, 2021, is true and correct. I further swear (or affirm) that neither the company nor any partner, officer, director, or equivalent person, as the case may be, has any proprietary interest in any account classified solely as that of a customer.

Signature: \_\_\_\_\_



Title: \_\_\_\_\_

Chief Executive Officer



Notary Public

PLEASE SEE  
NOTARY ATTACHMENT

**This filing\*\* contains (check all applicable boxes):**

- (a) Statement of financial condition.
- (b) Notes to consolidated statement of financial condition.
- (c) Statement of income (loss) or, if there is other comprehensive income in the period(s) presented, a statement of comprehensive income (as defined in § 210.1-02 of Regulation S-X).
- (d) Statement of cash flows.
- (e) Statement of changes in stockholders' or partners' or sole proprietor's equity.
- (f) Statement of changes in liabilities subordinated to claims of creditors.
- (g) Notes to consolidated financial statements.
- (h) Computation of net capital under 17 CFR 240.15c3-1 or 17 CFR 240.18a-1, as applicable.
- (i) Computation of tangible net worth under 17 CFR 240.18a-2.
- (j) Computation for determination of customer reserve requirements pursuant to Exhibit A to 17 CFR 240.15c3-3.
- (k) Computation for determination of security-based swap reserve requirements pursuant to Exhibit B to 17 CFR 240.15c3-3 or Exhibit A to 17 CFR 240.18a-4, as applicable.
- (l) Computation for Determination of PAB Requirements under Exhibit A to § 240.15c3-3.
- (m) Information relating to possession or control requirements for customers under 17 CFR 240.15c3-3.
- (n) Information relating to possession or control requirements for security-based swap customers under 17 CFR 240.15c3-3(p)(2) or 17 CFR 240.18a-4, as applicable.
- (o) Reconciliations, including appropriate explanations, of the FOCUS Report with computation of net capital or tangible net worth under 17 CFR 240.15c3-1, 17 CFR 240.18a-1, or 17 CFR 240.18a-2, as applicable, and the reserve requirements under 17 CFR 240.15c3-3 or 17 CFR 240.18a-4, as applicable, if material differences exist, or a statement that no material differences exist.
- (p) Summary of financial data for subsidiaries not consolidated in the statement of financial condition.
- (q) Oath or affirmation in accordance with 17 CFR 240.17a-5, 17 CFR 240.17a-12, or 17 CFR 240.18a-7, as applicable.
- (r) Compliance report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (s) Exemption report in accordance with 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (t) Independent public accountant's report based on an examination of the statement of financial condition.
- (u) Independent public accountant's report based on an examination of the financial report or financial statements under 17 CFR 240.17a-5, 17 CFR 240.18a-7, or 17 CFR 240.17a-12, as applicable.
- (v) Independent public accountant's report based on an examination of certain statements in the compliance report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (w) Independent public accountant's report based on a review of the exemption report under 17 CFR 240.17a-5 or 17 CFR 240.18a-7, as applicable.
- (x) Supplemental reports on applying agreed-upon procedures, in accordance with 17 CFR 240.15c3-1e or 17 CFR 240.17a-12, as applicable.
- (y) Report describing any material inadequacies found to exist or found to have existed since the date of the previous audit, or a statement that no material inadequacies exist, under 17 CFR 240.17a-12(k).
- (z) Other: \_\_\_\_\_

\*\*To request confidential treatment of certain portions of this filing, see 17 CFR 240.17a-5(e)(3) or 17 CFR 240.18a-7(d)(2), as applicable.

**CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT**

**CIVIL CODE § 1189**

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California )  
County of Santa Clara )

On MAR 14, 2022 before me, Peggy Yeung , Notary Public  
*Date Here Insert Name and Title of the Officer*

personally appeared Wing Kei Chan  
*Name(s) of Signer(s)*

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.



Signature [Signature]  
*Signature of Notary Public*

Place Notary Seal Above

**OPTIONAL**

Though this section is optional, completing this information can deter alteration of the document or fraudulent reattachment of this form to an unintended document.

**Description of Attached Document**

Title or Type of Document: Annual Reports  
Document Date: \_\_\_\_\_ Number of Pages: \_\_\_\_\_  
Signer(s) Other Than Named Above: \_\_\_\_\_

**Capacity(ies) Claimed by Signer(s)**

Signer's Name: \_\_\_\_\_  
 Corporate Officer — Title(s): \_\_\_\_\_  
 Partner —  Limited  General  
 Individual  Attorney in Fact  
 Trustee  Guardian or Conservator  
 Other: \_\_\_\_\_  
Signer Is Representing: \_\_\_\_\_

Signer's Name: \_\_\_\_\_  
 Corporate Officer — Title(s): \_\_\_\_\_  
 Partner —  Limited  General  
 Individual  Attorney in Fact  
 Trustee  Guardian or Conservator  
 Other: \_\_\_\_\_  
Signer Is Representing: \_\_\_\_\_

**FUTU Inc.**

**Statement of Financial Condition and  
Report of Independent Registered Public Accounting Firm**

**As of December 31, 2021**

This report is deemed PUBLIC in accordance with Rule 17a-5(e)(3) under the Securities  
Exchange Act of 1934.

**FUTU INC.**

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## Report of Independent Registered Public Accounting Firm

To the Shareholder and Those Charged With Governance of Futu Inc.

### Opinion on the Financial Statement

We have audited the accompanying statement of financial condition of Futu Inc. (the Company) as of December 31, 2021, and the related notes (collectively referred to as the financial statement). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

The financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

*Baker Tilly US, LLP*

We have served as the Company's auditor since 2019.

New York, New York  
March 11, 2022

## FUTU INC.

### STATEMENT OF FINANCIAL CONDITION

December 31, 2021

#### ASSETS

Cash and cash equivalents	\$ 7,185,013
Cash segregated for regulatory purposes	8,500,000
Deposit with clearing organization	846,458
Restricted cash	301,410
Marketable securities, at fair value	682,895
Customer receivables	
less allowance for credit losses of \$410,121	144,277,155
Receivables from affiliates	266,331
Property, software and equipment, net	243,186
Prepaid expenses and other assets	255,967
Right of use asset	179,348
<b>Total Assets</b>	<b><u>\$ 162,737,763</u></b>

#### LIABILITIES AND SHAREHODER'S EQUITY

##### Liabilities

Customer payables	\$ 139,974,419
Accounts payable, accrued expenses and other liabilities	1,734,863
Lease liability	236,096
<b>Total Liabilities</b>	<b><u>141,945,378</u></b>

##### Shareholder's Equity

Capital stock, \$.0001 par value; 2,000 shares authorized, 1,900 shares issued and outstanding	2
Additional paid in capital	28,209,998
Accumulated deficit	(7,417,615)
<b>Total Shareholder's Equity</b>	<b><u>20,792,385</u></b>

**Total Liabilities and Shareholder's equity** **\$ 162,737,763**

The accompanying notes are an integral part of this Statement of Financial Condition.

**FUTU INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**For the Year Ended December 31, 2021**

**1. Organization and Nature of Business**

Futu Inc. (the “Company”) is a Delaware corporation incorporated on December 17, 2015. The Company is a wholly-owned subsidiary of Futu US Inc. (the “Parent”). The Company is a registered broker under the Securities Exchange Act of 1934 and is a member of the Financial Industry Regulatory Authority (“FINRA”) and Securities Investor Protection Corporation (“SIPC”). The Company’s broker license was approved by FINRA on January 19, 2018.

Acting as agent, the Company facilitates the purchase and sale of equities and options through a phone-based trading application. The Company also provides retail investors the ability to participate in initial offerings of securities (“IPO”). The Company also offers a cash sweep program which allows customers’ uninvested cash balances to earn interest with program banks insured by the Federal Deposit Insurance Corporation (“FDIC”).

The Company’s headquarter office is located in Palo Alto, CA.

**2. Summary of Significant Accounting Policies**

***Basis of Presentation*** – The accompanying financial statements have been prepared in accordance with generally accepted accounting principles in the United States (“U. S. GAAP”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for financial reporting.

***Use of Estimates*** – The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and accompanying notes. These estimates and assumptions are based on judgment and the best available information at the time. Accordingly, actual results could differ from those estimates. Such estimates include the allowance for credit losses, valuation of certain investments, compensation accruals, and deferred tax asset valuation allowance.

***Cash and Cash Equivalents*** – Cash and cash equivalents consist of deposits with banks and all highly liquid investments, with maturities of three months or less, that are not segregated and deposited for regulatory purposes or to meet margin requirements at clearing houses and clearing banks. At December 31, 2021, the Company maintained its cash balances at various financial institutions. These balances are insured by the FDIC up to \$250,000 per institution. The Company is subject to credit risk to the extent that the financial institution with which it conducts business is unable to fulfill its contractual obligations and deposits exceeding the FDIC limits.



**FUTU INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**For the Year Ended December 31, 2021**

**2. Summary of Significant Accounting Policies (continued)**

***Cash Segregated for Regulatory Purposes*** – The Company is subject to Rule 15c3-3 under the Securities Exchange Act of 1934, which requires it to maintain cash or qualified securities in a segregated reserve account for the exclusive benefits of its customers. In accordance with Rule 15c3-3, at December 31, 2021, the Company had \$8,500,000 of its cash segregated for the exclusive benefits of its customers.

***Restricted Cash*** – Restricted cash included cash on deposit with the Company’s bank and clearing organization

***Marketable Securities*** – Marketable securities consist of financial instruments carried at fair value with related unrealized gains or losses recognized in the statement of operations. Marketable securities are those that can readily be sold, either through a stock exchange or through a direct sales arrangement. Profit and loss arising from all securities and commodities transactions entered into for the account and risk of the Company are recorded on a trade date basis.

***Fair Value of Financial Instruments*** – Substantially all of the Company’s financial instruments are recorded at fair value or contract amounts that approximate fair value. The carrying amounts of the Company’s financial instruments, which include cash and cash equivalents, cash segregated for regulatory purposes, and restricted cash, approximate their fair values.

***Fair Value Measurement—Definition and Hierarchy*** – The Company follows the provisions of Accounting Standards Codification (“ASC”) 820, *Fair Value Measurement and Disclosures*, for its financial assets and liabilities. Under ASC 820, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (*i.e.*, the “exit price”) in an orderly transaction between market participants at the measurement date.

Where available, fair value is based on observable market prices or parameters, or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models are applied. These valuation techniques involve some level of management estimation and judgment, the degree of which is dependent on the price transparency for the instruments or market and the instruments’ complexity. Assets and liabilities recorded at fair value in the statement of financial condition are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, defined by ASC 820 and directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities, are as follows:

Level 1 — Unadjusted, quoted prices are available in active markets for identical assets or liabilities at the measurement date. The types of assets and liabilities carried at Level 1 fair value generally are G-7 government and agency securities, equities listed in active markets, investments in publicly traded mutual funds with quoted market prices and listed derivatives.

**FUTU INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**For the Year Ended December 31, 2021**

**2. Summary of Significant Accounting Policies (continued)**

***Fair Value Measurement—Definition and Hierarchy (continued) –***

Level 2 — Pricing inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life. Fair valued assets generally included in this category are stock warrants for which market-based implied volatilities are available, and unregistered common stock.

Level 3 — Pricing inputs are both significant to the fair value measurement and unobservable. These inputs generally reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to the model. Fair valued assets generally included in this category are stock warrants for which market-based implied volatilities are not available.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

**Credit Risk** – The Company is exposed to the risk of loss if a customer, counterparty or issuer fails to perform its obligations under contractual terms (“default risk”). The Company has established policies and procedures for mitigating credit risk, including reviewing and establishing limits for credit exposure, maintaining collateral and continually assessing the creditworthiness of counterparties.

In the normal course of business, the Company executes, settles and finances various customer securities transactions. Execution of these transactions includes the purchase and sale of securities which exposes the Company to default risk arising from the potential that customers or counterparties may fail to satisfy their obligations. In these situations, the Company may be required to purchase or sell financial instruments at unfavorable market prices to satisfy obligations to customers or counterparties.

**Concentration of Credit Risk** – The Company’s exposure to credit risk associated with its trading and other activities is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. Concentrations of credit risk can be affected by changes in political, industry, or economic factors. To reduce the potential for risk concentration, credit limits are established, and exposure is monitored in light of changing counterparty and market conditions.

**FUTU INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**For the Year Ended December 31, 2021**

**2. Summary of Significant Accounting Policies (continued)**

*Concentration of Credit Risk (continued) –*

As of December 31, 2021, the Company did not have any material concentration of credit risk outside the ordinary course of business.

*Customer Receivables and Payables* – Receivables from and payable to customers include amounts due and owed on cash and margin transactions. Securities owned by customers are held as collateral for receivables. Receivables from customers are reported at their outstanding principal balance, adjusted for any allowance for doubtful accounts. An allowance is established when collectability is not reasonably assured.

Receivables from and payables to customers include amounts due on cash and margin transactions. Securities owned by customers, including those that collateralize margin loans or other similar transactions, are not reported in the statement of financial condition. Amounts receivable from customers that are determined by management to be uncollectible are recorded as customer bad debt expense in the statements of operations.

When the receivable from a brokerage client is considered to be impaired, the amount of impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources such as listed market prices or broker-dealer price quotations. Securities beneficially owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the statement of financial condition. A valuation allowance for doubtful accounts was recorded at December 31, 2021.

*Expected Credit Losses* – The Company follows FASB ASC Topic 326 – “Financial Instruments – Credit Losses” (“ASC Topic 326”) which applies to financial assets measured at amortized cost, held-to-maturity debt securities and off-balance sheet credit exposures. For on-balance sheet assets, an allowance must be recognized at the origination or purchase of in-scope assets and represents the expected credit losses over the contractual life of those assets. Expected credit losses on off-balance sheet credit exposures must be estimated over the contractual period the Company is exposed to credit risk as a result of a present obligation to extend credit. The impact to the current period is not material since the Company’s in-scope assets are primarily subject to collateral maintenance provisions for which the Company elected to apply the practical expedient of reporting the difference between the fair value of the collateral and the amortized cost for the in-scope assets as the allowance for current expected credit losses.

**FUTU INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**For the Year Ended December 31, 2021**

**2. Summary of Significant Accounting Policies (continued)**

***Contingent Liabilities*** – Certain conditions may exist as of the date the financial statements are issued, which may result in a loss to the Company, but which will only be resolved when one or more future events occur or fail to occur. The Company assesses such contingent liabilities, and such assessment inherently involves an exercise of judgment. In assessing loss contingencies related to legal proceedings that are pending against the Company, or un-asserted claims that may result in such proceedings, the Company evaluates the perceived merits of any legal proceedings or un-asserted claims, as well as the perceived merits of the amount of relief sought or expected to be sought therein.

If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability would be accrued in the Company's financial statements. If the assessment indicates that a potentially material loss contingency is not probable, but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability and an estimate of the range of possible losses, if determinable and material, would be disclosed.

Loss contingencies considered remote are generally not disclosed, unless they involve guarantees, in which case the guarantees would be disclosed. There can be no assurance that such matters will not materially and adversely affect the Company's business, financial position, and results of operations or cash flows.

***Property, Software and Equipment*** – Property, software and equipment are recorded at historical cost, less accumulated depreciation and amortization. Additions and improvements that extend the lives of assets are capitalized, while expenditures for repairs and maintenance are expensed as incurred. Depreciation and amortization are computed using the straight-line method. Computer equipment is depreciated over two to five years. Upon retirement or disposition of property and equipment, the cost and related accumulated depreciation are removed from the statement of financial condition and any resulting gain or loss is recorded in other income in the statement of operations.

***Income Taxes*** – The Company accounts for its income taxes in accordance with FASB ASC 740, Income Taxes. This standard requires the establishment of a deferred tax asset or liability to recognize the future tax effects of transactions that have not been recognized for tax purposes, including taxable and deductible temporary differences as well as net operating loss and tax credit carryforwards. Deferred tax expenses or benefits are recognized as a result of changes in the tax basis of an asset or liability when measured against its reported amount in the financial statements.

**FUTU INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**For the Year Ended December 31, 2021**

**2. Summary of Significant Accounting Policies (continued)**

*Income Taxes (continued)* – The Company recognizes the benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained upon examination by the taxing authorities, based on the technical merits of the tax position. The evaluation of an uncertain tax position is based on factors that include, but are not limited to, changes in the tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, and changes in facts or circumstances related to a tax position. Any changes to these estimates, based on the actual results obtained and/or a change in assumptions, could impact our tax provision in future periods. Interest and penalty charges, if any, related to the unrecognized tax benefits would be classified as a provision for income tax in the statement of income.

**3. Marketable Securities, at Fair Value**

Marketable securities held by the Company are classified as trading securities and stated at their fair market value based on quoted market prices. At December 31, 2021, these securities are carried at their fair market value of \$682,895.

The following table presents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Assets - Marketable Securities				
Corporate equities	<u>\$ 682,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 682,895</u>
	<u>\$ 682,895</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 682,895</u>

**FUTU INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**For the Year Ended December 31, 2021**

**4. Property, Software and Equipment**

Property, software and equipment are recorded net of accumulated depreciation and amortization and summarized by major classification as follows:

	<u>31-Dec-21</u>	<u>Useful Life</u>	<u>Method</u>
Cloud Service	\$ 155,528	5 Years	Straight-line
Computer Equipment	168,466	5 Years	Straight-line
Company Automobile	<u>57,398</u>	5 Years	Straight-line
	381,392		
Accumulated Depreciation and Amortization	<u>(138,206)</u>		
Property, software and equipment, net	<u><u>\$ 243,186</u></u>		

**5. Income Taxes**

The Company has available at December 31, 2021, unused operating loss carry-forwards, which may be applied against future taxable income, resulting in a net deferred tax asset of approximately \$2,075,176, that expires in years beginning in 2039. As of December 31, 2021 the Company recognized a full valuation allowance in the amount of \$2,075,176 due to the uncertainty of its ultimate utilization.

The Company is required to file income tax returns in both federal and state tax jurisdictions. The Company's tax returns are subject to examination by taxing authorities in the jurisdictions in which it operates in accordance with the normal statutes of limitations in the applicable jurisdiction. For federal purposes, the statute of limitations is three years. Accordingly, the company is no longer subject to examination of federal returns filed more than three years prior to the date of these financial statements. The statute of limitations for state purposes is generally three years, but may exceed this limitation depending upon the jurisdiction involved. Tax returns since 2018 that were filed within the applicable statute remain subject to examination.

**FUTU INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**For the Year Ended December 31, 2021**

**6. Related Party Transactions**

The Company receives services and technology from other companies which are controlled by common ownership (“the Affiliate(s)”). The common ownership in the related party transactions is the sole shareholder of the Company.

The Company has expense sharing agreements with various Affiliates which stipulate that expenses paid on behalf of the Affiliates, such as salaries, rent, technology data services and other operating expenses will be reimbursed to the Company at cost.

At December 31, 2021, receivables from affiliates in connection with the expense sharing agreements were \$266,331.

On September 23, 2020, the Company made an \$8,000,000 loan callable on demand to Futu Securities International. The demand note was a non-collateralized, interest-bearing note at 1% per annum rate. The loan was fully paid off on July 29, 2021. At December 31, 2021, interest receivable on the demand note was \$833 and included in Receivables from Affiliates in the statement of financial condition.

**7. Regulatory Capital Requirements**

The Company is subject to the SEC Uniform Net Capital Rule (SEC Rule 15c3-1), which requires the maintenance of minimum net capital. At December 31, 2021, the Company had net capital, as defined, of \$19,218,869 which was \$16,325,827 in excess of its required net capital of \$2,893,042.

The Company has elected to use the alternative method permitted by the rule, which requires that the Company maintain net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit items arising from customer transactions, as defined in the SEC Rule 15c3-3.

Advances to parent, dividend payments and other equity withdrawals by the Company are subject to certain notification and other provisions of the SEC and FINRA rules. In addition, the Company is subject to certain notification requirements related to withdrawals of excess net capital.

**FUTU INC.**  
**NOTES TO STATEMENT OF FINANCIAL CONDITION**  
**For the Year Ended December 31, 2021**

**8. Lease Accounting**

The Company follows ASC Topic 842, Leases ("ASC 842"). The guidance increases transparency requiring the recognition of right to use assets and lease liabilities represents a change from previous US GAAP requirements, which do not require lease assets and lease liabilities to be recognized for most leases. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee, have not significant changed from previous US GAAP requirements.

Based on ASC 842, existing leases of the Company were required to be recognized and measured. Additionally, any leases entered into during and after year 2020 were also required to be recognized and measured. In applying ASC 842, the Company continues to follow an accounting policy to not implement the right of use assets and lease liabilities relating to short term leases. Implementation of ASC 842 included an analysis of contracts, including real estate leases and service contracts to identify embedded leases, to determine the initial recognition of the right to use assets and lease liabilities, which required subjective assessment over the determination of the associated discount rates to apply in determining lease liabilities.

The Company leases office space under a non-cancelable operating lease, lease 1, which expired on August 31, 2020 and was extended to August 31, 2022. The Company entered into a lease in 2018 for additional space, lease 2, commencing in February 2019. Lease 2 expired on January 31, 2020 and was extended to August 31, 2022. The Company entered into a new lease in 2020 for additional space, lease 3, commencing in May 2020 and expires on August 2022. At December 31, 2021, the future minimum lease payments under the lease agreement were as follows:

	<u>Lease 1</u>	<u>Lease 2</u>	<u>Lease 3</u>	<u>Total</u>
2022	<u>\$ 67,120</u>	<u>\$ 64,136</u>	<u>\$ 75,440</u>	<u>\$ 206,696</u>
Total Minimum Lease Payments	<u><u>\$ 67,120</u></u>	<u><u>\$ 64,136</u></u>	<u><u>\$ 75,440</u></u>	<u><u>\$ 206,696</u></u>

The Company implemented ASC 842 using the modified retrospective approach. The Company elected to use a rate of 4.75% as its incremental borrowing rate in determining the present value of the right of use asset and lease liability. The following table represents the Company's lease right-of-use assets and lease liabilities in the statement of financial condition. The calculated amounts of the lease right-of-use assets and lease liabilities in the table below are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments.



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**8. Lease Accounting (continued)**

Assets		
Lease right-of-use assets	\$	179,348
Liabilities		
Lease liabilities	\$	236,096

**9. Employee Benefit Plan**

The Company has a 401(k) defined contribution plan. The 401(k) plan allows eligible employees to make contributions from their compensation subject to a statutory prescribed annual limit. The Company makes contribution of 3% of the compensation of eligible employees. Employee contributions and earnings thereon vest immediately.

**10. Financial Instruments, Off-Balance Sheet Arrangements and Indemnification**

***Financial Instruments*** – The Company trades securities that are traded on the United States, Hong Kong, Shanghai and Shenzhen stock exchanges. As of December 31, 2021, the Company had not entered into any transactions involving financial instruments that would expose the Company to significant related off-balance-sheet risk.

Market risk is primarily caused by movements in market prices of the Company’s trading and investment account securities. The Company’s trading securities and investments are also subject to interest rate volatility. The Company manages market risk through its internal risk management policy and procedures.

***Off-Balance Sheet Arrangements*** – The Company was not a party to any off-balance sheet arrangements during the year ended December 31, 2021.

***Indemnification*** – In the normal course of its business, the Company indemnifies and guarantees certain service providers against specified potential losses in connection with their acting as an agent of, or providing services to, the Company. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

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**10. Financial Instruments, Off-Balance Sheet Arrangements, and Indemnification (continued)**

The Company provides representations and warranties to counterparties in connection with a variety of commercial transactions and occasionally indemnifies them against potential losses caused by the breach of those representations and warranties. The Company may also provide standard indemnifications to some counterparties to protect them in the event additional taxes are owed or payments are withheld, due either to a change in or adverse application of certain tax laws. These indemnifications generally are standard contractual terms and are entered into in the normal course of business. The maximum potential amount of future payments that the Company could be required to make under these indemnifications cannot be estimated. However, the Company believes that it is unlikely it will have to make material payments under these arrangements and has not recorded any contingent liability in the financial statements for these indemnifications.

**11. Commitments, Contingencies and Guarantees**

*Legal and Regulatory Matters* – The Company is subject to certain pending and threatened legal and regulatory actions and proceedings that arise out of the normal course of business. Given the inherent difficulty of predicting the outcome of such matters, particularly in proceedings where claimants seek substantial or indeterminate damages, or which are in their early stages, the Company is generally not able to quantify the actual loss or range of loss related to such legal proceedings, the manner in which they will be resolved, the timing of their final resolution or the ultimate settlement. Management believes that the resolution of these matters will not have a material effect, if any, on the Company’s business or financial condition, but may have a material impact on the results of operations for a given period.

The Company accounts for potential losses related to litigation in accordance with FASB ASC Topic 450, “Contingencies.” As of December 31, 2021, accruals for potential losses related to legal and regulatory actions and proceedings matters were not material.

**12. Subsequent Events**

The Company has evaluated subsequent events that occurred after the balance sheet date but before the financial statements were issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Based on the evaluation, except for the following, the Company did not identify any other non-recognized subsequent events that would have required adjustment to the financial statements.

On February 1, 2022, the Company entered into a 5-year term lease agreement for its Palo Alto, CA headquarter, commencing on April 1, 2022 and expiring on March 31, 2027.

**FUTU INC.**  
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**13. COVID-19 Pandemic**

The Company continues to monitor the effects of the COVID-19 pandemic on a national level as well as regionally and locally, and responds accordingly. In addition, the Company provides frequent communication to the clients, employees, and regulators.

Since March 2020, the majority of the Company's employees has been working remotely with only "essential" employees reporting to the office. The Company accomplished this by significantly expanding the use of technology infrastructure that facilitates remote operations. The Company's ability to prevent significant business disruptions is reliant on the continued ability to have the majority of employees work remotely. To date, there have been no significant disruptions to the Company's business or control processes as a result of this change in the working environment. Recent outbreaks in various states indicate that the pandemic will continue to impact the economy and, by extension, the Company's business, well into 2022. The Company anticipates that a large number of employees will continue to work remotely for the foreseeable future.