INTL FCSTONE INC.
Form 10-K
December 14, 2017
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended September 30, 2017
o 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 incorporation or organization)	(I.R.S. Employer 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 o No x
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 o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
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. x
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 o Accelerated filer x

Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x
As of March 31, 2017, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $496.2 million.
As of December 12, 2017, there were 18,766,085 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 14, 2018 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, 2017
Table of Contents

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 1,600 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 customers located in more than 130 countries on five continents. Our customers include commercial customers, asset managers, regional, national and introducing broker-dealers, insurance companies, brokers, institutional and professional 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 2016 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 a valuable foothold in the growing independent wealth management industry.

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.

Available Information

Our internet address is 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.

Table of Contents

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 across the commodity complex, including energy commodities, grains, oil seeds, cotton, coffee, cocoa, edible oils and feed products. 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 Depository Receipts (“ADRs”) and Global Depository 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.

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

Table of Contents

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.

Additionally, as a member of the Society for Worldwide Interbank Financial Telecommunication ("SWIFT"), 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

5

Table of Contents

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 also 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.

In our Physical Ag & Energy commodity business, we act as a principal to facilitate financing, structured pricing and logistics services to clients across the commodity complex, including energy commodities, grains, oil seeds, cotton, coffee, cocoa, edible oils and feed products. We provide financing to commercial commodity-related companies against physical inventories. 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.

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, 2017, we held $2.2 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 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

Table of Contents

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, with approximately 50 correspondent clearing relationships with over $15 billion in assets under management or administration as of September 30, 2017.

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.

Following the October 1, 2016 acquisition of ICAP plc's London-based EMEA oil voice brokerage business, we employ over 30 employees providing brokerage services across the fuel, crude and middle distillates markets with over 200 well known commercial and institutional customers throughout Europe, the Middle East and Africa.

Acquisition and Internal Subsidiary Consolidation during Fiscal Year 2017

ICAP's EMEA Oils Broking Business

Effective October 1, 2016, our wholly owned subsidiary, INTL FCStone Ltd ("IFL"), acquired the London-based EMEA oils business of ICAP plc. The business included over 30 front office employees across the fuel, crude, middle distillates, futures and options desks that have relationships with over 200 commercial and institutional customers throughout Europe, the Middle East and Africa. The purchase price included cash consideration of $6.0 million paid directly to ICAP as well as incentive amounts payable to employees acquired based upon their continued employment.

Internal Subsidiary Consolidation

Effective July 1, 2017, we merged our wholly-owned regulated U.S. subsidiary, Sterne Agee & Leach, Inc., into our wholly owned regulated U.S. subsidiary, INTL FCStone Financial Inc. ("INTL FCStone Financial"), which is registered as both a broker-dealer and a FCM. As such, the assets, liabilities and equity of Sterne Agee & Leach, Inc. were transferred into INTL FCStone Financial.

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 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 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.

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. 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.

Table of Contents

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 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 is a self-clearing broker-dealer which holds 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”). In addition, it clears a portion of its securities transactions through Broadcort, a division of Merrill Lynch, Pierce, Fenner & Smith, Inc and Pershing LLC, a subsidiary of The Bank of New York Mellon Corporation.

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.

Table of Contents

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 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 record keeping 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 Banking Authority ("EBA") and Markets Authority ("ESMA"). 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.

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 came into force during 2017. Contractual and operational changes have been implemented to accommodate the new requirements. ESMA is continuing to evaluate and set clearing obligations for certain OTC derivatives. These obligations are due to be rolled out with some complementary MiFID provisions in 2018. We comply 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") and the Markets in Financial Instruments Regulation ("MIFIR"), for which implementation is scheduled for 2018,. Principal areas of impact related to these regulatory texts will involve emergence and 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, transparency obligations and extended transaction reporting requirements. We will continue to monitor all applicable developments in the ongoing implementation of MIFID II.

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

Table of Contents

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 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.

INTL Custody & Clearing Solutions Inc. (formerly Sterne Agee Clearing, Inc.) and SA Stone Wealth Management Inc. (formerly 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, 2017. Additional information on these net capital and minimum net capital requirements can be found in Note 13 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, 2017, INTL FCStone Financial maintained $52.3 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.

In addition, INTL FCStone Financial 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 and proprietary accounts of broker-dealers. As of September 30, 2017, INTL

Table of Contents

FCStone Financial maintained $20.7 million in a special reserve bank account for the exclusive benefit of its customers and proprietary accounts of broker-dealers.

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, 2017, 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 commodity exchanges or boards of trade, which are designated as secured customers' accounts. As of September 30, 2017, 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, 2017, we employed 1,607 people globally: 1,047 in the U.S., 260 in the United Kingdom, 123 in Brazil, 75 in Argentina, 54 in Singapore, 11 in Dubai, 10 in Australia, 9 in Paraguay, 10 in China, 4 in Hong Kong and 4 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, 2017 we recorded net income of $6.4 million, compared to net income of $54.7 million in fiscal 2016 and $55.7 million in fiscal 2015.

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

Table of Contents

- 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.

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, 2017, our total consolidated indebtedness was $230.2 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 $532.0 million, consisting of:

- a $262.0 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 5, 2018.
- a $170.0 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 November 7, 2018.

During fiscal 2018, $245 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.

Table of Contents

Our failure to successfully integrate the operations of businesses acquired could have a material adverse effect on our business, financial condition and operating results. We have a history of making acquisitions to expand our product offerings and /or geographic presence and may continue to do so in the future. We will need to meet challenges to realize the expected benefits and synergies of these acquisitions, 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.

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 acquisitions.

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

Table of Contents

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.

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.

Proposed changes to the U.S. corporate tax system may have a significant effect on the carrying value of our net deferred tax assets and could result in additional U.S. corporate tax liabilities on unremitted earnings of our foreign subsidiaries. The current administration and members of the U.S. Congress are currently pursuing reform of the U.S. tax system and have proposed sweeping changes to the U.S. tax system. These reforms may include changes to corporate tax rates, limitations on deductibility of interest and other expenses, changes in the taxation of income earned outside the United States and taxing previously unremitted foreign earnings at concessional tax rates.

A decrease in the U.S. corporate tax rate could have a material adverse effect on earnings in the quarter in which the legislation is enacted due to our net deferred tax asset position. It also remains uncertain as to the level of conformity and consistency to the U.S. federal income tax changes that shall be applied by the state and local income tax jurisdictions. Given the number of uncertainties relating to the ultimate form any corporate tax reform may take, it is not possible to quantify the potential negative impact to the carrying value of our deferred tax assets or future tax liabilities.

We may have difficulty managing our growth. We have experienced significant growth in our business. Our operating revenues grew from $468.2 million in fiscal 2013 to $784.0 million in fiscal 2017.

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.

Lapses in disclosure controls and procedures or internal control over financial reporting could materially and adversely affect our operations, profitability or reputation. We are committed to maintaining high standards of internal control over financial reporting and disclosure controls and procedures. Nevertheless, lapses or deficiencies in disclosure controls and procedures or in our internal control over financial reporting may occur from time to time. We reported management’s conclusion that material weaknesses existed in our internal control over financial reporting at

September 30, 2017.
This determination related to one of our physical trading businesses based in Singapore which we subsequently closed and exited. As a result of the material weaknesses, management also concluded that our disclosure controls and procedures were not effective at September 30, 2017. Management is taking steps to remediate the internal control deficiency, including enhancing controls and monitoring of new businesses.

Table of Contents

There can be no assurance that our disclosure controls and procedures will be effective in the future or that a material weakness in internal control over financial reporting will not again exist. Any such lapses or deficiencies may materially and adversely affect our business and results of operations or financial condition, require us to expend significant resources to correct the lapses or deficiencies, expose us to regulatory or legal proceedings, subject us to fines, penalties, judgments or losses not covered by insurance, harm our reputation, or otherwise cause a decline in investor confidence.

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 the majority of our principal securities transactions through unaffiliated clearing brokers. The majority 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 customer's obligation to us. In the 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 customers 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.

Table of Contents

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.

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.

Table of Contents

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, 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 FCA, 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.

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

Table of Contents

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 EBA and ESMA. 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. 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 came into force during 2017. ESMA is continuing to evaluate and set clearing obligations for certain OTC derivatives, and these obligations are due expected to be rolled with some complementary MiFID provisions in 2018. 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 and MIFIR for which implementation is scheduled for 2018. Principal areas of impact related to these regulatory texts will involve oversight and emergence of OTFs for trading OTC non-equity products, customer type re-assessment, investor protection, enhanced conflict of interest and execution policies, transparency obligations 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.

Table of Contents

INTL Custody & Clearing Solutions Inc. (formerly Sterne Agee Clearing, Inc.) and SA Stone Wealth Management Inc. (formerly 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, 2017, 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 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 12 - 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 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.

Table of Contents

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.

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.

FCA will be enforcing additional European Union issued regulations such as MIFID II and MIFIR for which implementation is scheduled for 2018. Principal areas of impact related to these regulatory texts will involve emergence and oversight of OTF's for trading OTC non-equity products, customer type re-assessment, investor protection, enhanced conflict of interest and

Table of Contents

execution policies, transparency obligations and extended transaction reporting requirements. We will continue to monitor all applicable developments in the ongoing implementation of MIFID II.

In accordance with these regulations we have applied for a license to operate an OTF to continue arranging OTC trades for energy contracts, and we are updating trading interfaces adding additional information to ensure continuity of trading on all trading venues we are a member of, enhancing the content of databases to comply with new transaction reporting, trade publication and position reporting obligations, liaising with clients to communicate upcoming changes and modifying policies and procedures to adjust/align them with the new upcoming regulatory environment.

The U.K.'s proposed withdrawal from the European Union could have an adverse effect on our business and financial results. On March 29, 2017, the U.K. government triggered the article 50 of the E.U. Treaty of Lisbon. This officially confirmed the U.K. intention withdraw its membership to the E.U. and the start for a two years negotiation process where the U.K. and the E.U. need to agree the terms of the withdrawal and potentially give consideration to the future of the relationship between the parties. 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 2017 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; Champaign, 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; Atlanta, Georgia; Houston, Texas; 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 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.

Table of Contents

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. Oral argument was heard in the Seventh Circuit on June 7, 2017. On August 14, 2017, the Seventh Circuit ruled in favor of all of INTL FCStone Financial's arguments. The trustee petitioned the Seventh Circuit for a rehearing on September 11, 2017, seeking reconsideration of the court's prior ruling. On October 2, 2017 that petition was denied. With the Seventh Circuit having issued a mandate requiring the U.S. District Court for the Northern District of Illinois to enter a judgment in favor of INTL FCStone Financial on all counts on the issue of liability, INTL FCStone Financial filed a motion in the District Court on October 13, 2017 for an order directing the distribution of reserve funds in the approximate amount of $2.0 million. This motion was argued in the District Court on October 19, 2017, and the District Court directed the parties to file proposed orders relating to the distribution of the reserve funds.

On October 24, 2017, INTL FCStone Financial Inc. submitted a judgment order and an order directing the trustee to carry out the requirements of the judgment. On October 24, 2017, the trustee filed an objection to INTL FCStone Financial's motion, and on November 8, 2017, INTL FCStone Financial filed its reply. The parties appeared before the District Court on November 28, 2017 to address all pending motions. INTL FCStone Financial requested immediate payment of funds due based on the August 14, 2017 ruling in its favor, however the trustee requested that the distribution of those reserve funds be held in abeyance pending his final appeal to the United States Supreme Court.

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, 2017, there were approximately 334 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 2017 and 2016 were as follows:

	Price Range	
	High	Low
2017:		
Fourth Quarter	$39.71	$33.11
Third Quarter	$39.37	$33.45
Second Quarter	$41.10	$35.75
First Quarter	$44.71	$34.61
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

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 17, 2017, our Board of Directors authorized for fiscal 2018, 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, 2017 and ending on September 30, 2018, 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, 2017 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
July 1, 2017 to July 31, 2017	—	$ —	—	1,000,000
August 1, 2017 to August 31, 2017	—	—	—	1,000,000
September 1, 2017 to September 30, 2017	—	—	—	1,000,000
Total	—	$ —	—	

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

	Year Ended September 30,				
(in millions, except share and per share amounts)	2017	2016	2015	2014	2013
Revenues:					
Sales of physical commodities	$28,673.3	$14,112.0	$34,089.9	$33,546.4	$42,031.2
Trading gains, net	332.2	321.2	328.6	244.5	244.0
Commission and clearing fees	283.4	224.3	192.5	180.7	173.3
Consulting and management fees	64.8	42.0	42.5	42.1	35.1
Interest income	69.7	55.2	39.4	8.0	8.9
Other income	0.2	0.2	0.3	0.7	0.9
Total revenues	29,423.6	14,754.9	34,693.2	34,022.4	42,493.4
Cost of sales of physical commodities	28,639.6	14,083.9	34,068.9	33,531.5	42,025.2
Operating revenues	784.0	671.0	624.3	490.9	468.2
Transaction-based clearing expenses	136.3	129.9	122.7	108.5	110.1
Introducing broker commissions	113.0	68.9	52.7	49.9	40.5
Interest expense	42.1	28.3	17.1	10.5	7.9
Net operating revenues	492.6	443.9	431.8	322.0	309.7
Compensation and other expenses:					
Compensation and benefits	295.7	263.9	251.1	201.9	198.7
Communication and data services	39.4	32.7	28.1	25.8	23.1
Occupancy and equipment rental	15.2	13.3	13.5	12.3	12.0
Professional fees	15.2	14.0	12.5	14.9	12.4
Travel and business development	13.3	11.5	10.5	9.9	10.4
Depreciation and amortization	9.8	8.2	7.2	7.3	8.0
Bad debts and impairments	4.3	4.4	7.3	5.5	0.8
Bad debt on physical coal	47.0	—	—	—	—
Other	37.5	29.4	23.5	18.4	23.1
Total compensation and other expenses	477.4	377.4	353.7	296.0	288.5
Gain on acquisition	—	6.2	—	—	—
Income from continuing operations, before tax	15.2	72.7	78.1	26.0	21.2
Income tax expense	8.8	18.0	22.4	6.4	2.6
Net income from continuing operations	6.4	54.7	55.7	19.6	18.6
(Loss) income from discontinued operations, net of tax	—	—	—	(0.3)	0.7
Net income	$6.4	$54.7	$55.7	$19.3	$19.3
Earnings per share:					
Basic	$0.32	$2.94	$2.94	$1.01	$1.01
Diluted	$0.31	$2.90	$2.87	$0.98	$0.97
Number of shares:					
Basic	18,395,987	18,410,561	18,525,374	18,528,302	18,443,233
Diluted	18,687,354	18,625,372	18,932,235	19,132,302	19,068,497
Selected Balance Sheet Information:					
Total assets	$6,243.4	$5,950.3	$5,070.0	$3,039.7	$2,848.0
Lenders under loans	$230.2	$182.8	$41.6	$22.5	$61.0
Senior unsecured notes	$—	$44.5	$45.5	$45.5	$45.5
Stockholders' equity	$449.9	$433.8	$397.1	$345.4	$335.4

Table of Contents

	Year Ended September 30,				
	2017	2016	2015	2014	2013
Other Data:					
Return on average stockholders' equity (from continuing operations)[(a)]	1.5 %	13.2 %	15.0 %	5.8 %	5.7 %
EBITDA[(b)] (in millions)	$67.1	$109.2	$102.4	$43.8	$37.1
Employees, end of period	1,607	1,464	1,231	1,141	1,094
Compensation and benefits as a percentage of operating revenues	37.7 %	39.3 %	40.2 %	41.1 %	42.4 %

(a) For all periods presented, the return on average stockholders' equity (from continuing operations) excludes the effects of discontinued operations, 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)	2017	2016	2015	2014	2013
Net income from continuing operations	$6.4	$54.7	$55.7	$19.6	$18.6
Plus: interest expense	42.1	28.3	17.1	10.5	7.9
Plus: depreciation and amortization	9.8	8.2	7.2	7.3	8.0
Plus: income taxes	8.8	18.0	22.4	6.4	2.6
EBITDA	$67.1	$109.2	$102.4	$43.8	$37.1

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-loo 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 1,600 employees. We currently serve more than 20,000 customers, located in more than 130 countries on five continents. 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 over-the-counter (“OTC”) and listed derivatives markets. Most of the rules related to this regime have came 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 Banking Authority (“EBA”) and Markets Authority (“ESMA”). 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.

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 came into force this year. Contractual and operational changes have been implemented to accommodate the new requirements. ESMA is continuing to evaluate and set clearing obligations for certain OTC derivatives. These obligations are due to be rolled out with some complementary Markets in Financial Instruments Directive (“MIFID”) provisions in 2018 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 Financial Conduct Authority ("FCA") will be enforcing additional European Union issued regulations such as the MIFID II, and the Markets in Financial Instruments Regulation ("MIFIR") for which implementation is scheduled for 2018. Principal areas of impact related to these regulatory texts will involve emergence and 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, transparency obligations and extended transaction reporting requirements. We will continue to monitor all applicable developments in the ongoing implementation of MIFID II.

Table of Contents

Fiscal 2017 Highlights

- Record annual operating revenues, grew 17% to $784.0 million.
- Acquired the ICAP plc Europe, Middle East and Africa ("EMEA") oil voice brokerage business in the first quarter.
- Expanded our parent company syndicated committed loan facility to $262.0 million.
- Redeemed our 8.5% Senior Notes on October 15, 2016.
- Introduced Automated Clearing House (ACH) connectivity in our Global Payments to enhance our solutions for high-volume, low-value cross-border payments.
- Precious Metals business became a Direct Participant to the London Bullion Market Association (LBMA) Gold Auction and launched its web-based Gold trading platform, PMXecute+.
- On August 1, 2017, we implemented the first phase of a new trade system related to our OTC commodities business.

Executive Summary

We achieved operating revenues growth of 17%, or $113.0 million, in fiscal 2017 compared to the prior year, with increases in our Clearing and Execution Services ("CES"), Global Payments, Commercial Hedging and Physical Commodities segments, partially offset by lower operating revenues in our Securities segment. Our CES segment increased operating revenues by $108.7 million, primarily related to contributions from our recent acquisitions of the correspondent securities clearing and independent wealth management businesses of Sterne Agee and ICAP plc's London-based EMEA oil voice brokerage business of $75.3 million and $26.7 million, respectively.

Overall segment income decreased 18%, as Physical Commodities decreased $44.7 million and Securities decreased $22.8 million, partially offset by increases in CES, Global Payments and Commercial Hedging adding $15.6 million, $10.8 million, and $4.1 million, respectively.

The decline in Physical Commodities segment income was primarily the result of the charge to earnings related to a bad debt in our physical coal business discussed further below, which resulted in a $45.3 million decrease in Physical Ag & Energy segment income partially offset by the $0.6 million increase in Precious Metals.

The decline in Securities segment income was primarily driven by weaker operating revenues in our Debt Trading and Asset Management businesses compared to prior year's strong results in Argentina in those businesses. In addition, Equity Market-Making segment income declined as well, driven by lower market volatility which led to spread compression in these businesses.

CES segment income increased, primarily as a result of the acquisition of the correspondent securities clearing and independent wealth management businesses of Sterne Agee in the fourth quarter of fiscal 2016 as well as the acquisition of ICAP plc's London-based EMEA oil voice brokerage business at the beginning of our current year first quarter. The Sterne Agee businesses contributed $13.9 million in segment income in fiscal 2017 while the Derivative Voice Brokerage business contributed $4.6 million.

Global Payment segment income increased 27% as a result of a 46% increase in the number of payments made. That increase was partially offset by higher non-variable direct expenses. Commercial Hedging segment income increased primarily as a result of higher interest income as exchange-traded and OTC transactional revenues increased modestly.

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 53% of total expenses in the current period compared to 58% in the prior year. Non-variable expenses increased 41%, or $98.7 million year-over-year, primarily as a result of the bad debt on physical coal discussed further below and $37.8 million in incremental expenses, including non-variable compensation, trade system costs, equipment and office space rental, professional fees and market information, from the acquisition of the Sterne Agee and ICAP businesses.

Net income decreased 88% to $6.4 million in fiscal 2017 compared to fiscal 2016, primarily related to the bad debt on physical coal and a decline in our Securities segment, as well the increase in non-variable Corporate unallocated expenses. While the acquired correspondent securities clearing and independent wealth management business added $12.4 million in incremental segment income, the additional Corporate unallocated expenses in these acquired businesses, resulted in a $1.0 million pre-tax net loss in the current year. The acquired oil voice brokerage business, recognized segment income of $4.6 million in fiscal 2017 with $1.2 million of acquired Corporate unallocated expenses.

30

Table of Contents

Bad Debt on Physical Coal

During the fourth quarter of fiscal 2017, we recorded a charge to earnings of $47.0 million, to record an allowance for doubtful accounts related to a bad debt incurred in our physical coal business, conducted solely in our Singapore subsidiary, INTL Asia Pte. Ltd., with a coal supplier. Components of the bad debt on physical coal include allowances on amounts due to us from our supplier related to: coal paid for but not delivered to customers; reimbursement of demurrage claims, dead freight and other charges paid by INTL Asia Pte. Ltd. to its customers; reimbursement due for deficiencies in the quality of coal delivered to customers; and losses incurred related to the cancellation of open sales contracts.

We purchased coal delivered onto barges and paid 80% of the value against bills of lading and purchase invoices, with the remaining 20% payable following inspection upon delivery to customers' vessels. We took title of the coal when it was loaded onto barges and maintained title until it was offloaded onto customers' vessels. The logistics related to the delivery of coal to the customers' vessels was out-sourced to our coal supplier, and we determined that certain purchased coal was not delivered to our customers' vessels during the fourth quarter ended September 30, 2017. Furthermore, we determined that our supplier was unable to deliver such purchased coal to our customers. Demurrage claims, dead freight, and other penalty charges paid by INTL Asia Pte. Ltd. to its customers were due to be reimbursed by our supplier based on transaction agreements with our supplier. Subsequent to the end of the fourth quarter ended September 30, 2017, we determined our supplier was unable to make this reimbursement.

We received an acknowledgment of debt and a note from the supplier in our first quarter ending December 31, 2017. However, there is substantial uncertainty as to whether the supplier will be able to meet its financial obligations to us and as to the timing of any recovery. We are continuing our investigation into this matter and will pursue all legal avenues available to us. We have presented the bad debt on physical coal separately as a component of income from operations in our consolidated income statements.

We have exited the physical coal business. All remaining open sales contracts have been canceled. In our first quarter ending December 31, 2017, we expect to record an additional bad debt expense of $1.0 million related to reimbursement due to us from the supplier for demurrage and other charges related to contracts with delivery dates subsequent to September 30, 2017. We do not anticipate any additional bad debt expense in connection with the physical coal business. We have no long-lived or intangible assets related to the physical coal business, and accordingly have recorded no impairment charges. We do not believe that the loss will adversely affect our on-going profitability as the physical coal business had not contributed significantly to income from operations. We believe any additional exit costs will not be material to our consolidated financial statements. INTL Asia Pte. Ltd. has been recapitalized following the bad debt in order for its other businesses to operate in normal course.

Table of Contents

Selected Summary Financial Information

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, 2017, 2016, and 2015.

Financial Overview

The following table shows an overview of our financial results:

Financial Overview (Unaudited)

	Year Ended September 30,				
(in millions)	2017	% Change	2016	% Change	2015
Revenues:					
Sales of physical commodities	$28,673.3	103 %	$14,112.0	(59)%	$34,089.9
Trading gains, net	332.2	3 %	321.2	(2)%	328.6
Commission and clearing fees	283.4	26 %	224.3	17 %	192.5
Consulting and management fees	64.8	54 %	42.0	(1)%	42.5
Interest income	69.7	26 %	55.2	40 %	39.4
Other income	0.2	— %	0.2	(33)%	0.3
Total revenues	29,423.6	99 %	14,754.9	(57)%	34,693.2
Cost of sales of physical commodities	28,639.6	103 %	14,083.9	(59)%	34,068.9
Operating revenues	784.0	17 %	671.0	7 %	624.3
Transaction-based clearing expenses	136.3	5 %	129.9	6 %	122.7
Introducing broker commissions	113.0	64 %	68.9	31 %	52.7
Interest expense	42.1	49 %	28.3	65 %	17.1
Net operating revenues	492.6	11 %	443.9	3 %	431.8
Compensation and other expenses	295.7	12 %	263.9	5 %	251.1
Bad debts	4.3	(2)%	4.4	(40)%	7.3
Bad debt on physical coal	47.0	n/m	—	n/m	—
Other expenses	130.4	20 %	109.1	14 %	95.3
Total compensation and other expenses	477.4	26 %	377.4	7 %	353.7
Gain on acquisition	—	(100)%	6.2	n/m	—
Income from operations, before tax	$15.2	(79)%	$72.7	(7)%	$78.1

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,				
	2017	% Change	2016	% Change	2015
Volumes and Other Data:					
Exchange-traded - futures and options (contracts, 000's)	99,148.4	(1)%	99,667.4	— %	99,879.2
OTC (contracts, 000's)	1,410.0	2 %	1,380.8	(17)%	1,670.0
Global Payments (# of payments, 000's)	648.9	46 %	444.9	37 %	325.4
Gold equivalent ounces traded (000's)	137,235.3	49 %	92,073.7	(27)%	126,365.5
Equity Market-Making (gross dollar volume, millions)	$87,789.8	(1)%	$88,518.8	(10)%	$98,604.3
Debt Trading (gross dollar volume, millions)	$133,352.3	24 %	$107,747.4	70 %	$63,502.6
FX Prime Brokerage volume (U.S. notional, millions)	$620,917.8	7 %	$580,426.9	29 %	$449,344.1
Average assets under management in Argentina (U.S. dollar, millions)	$564.9	— %	$562.4	(2)%	$572.1
Average customer equity - futures and options (millions)	$2,015.9	7 %	$1,878.7	5 %	$1,788.2

Table of Contents

Operating Revenues

Year Ended September 30, 2017 Compared to Year Ended September 30, 2016

Operating revenues increased approximately 17% to $784.0 million in fiscal 2017 compared to $671.0 million in the prior year. Operating revenue growth was driven by a $108.7 million increase in our CES segment, primarily as a result of incremental operating revenues from our recent acquisitions. In addition, Global Payments and Commercial Hedging operating revenues increased $16.0 million and $8.5 million, respectively. Physical Commodities segment operating revenues increased $8.2 million versus the prior year. Offsetting this revenue growth was a $23.5 million decline in operating revenues within our Securities segment.

Operating revenues for fiscal 2017 include a $5.9 million pre-tax unrealized loss on interest rate swaps and U.S. Treasury notes held as part of our interest rate management strategy. The prior year period included a $0.7 million pre-tax unrealized loss on interest rate swaps and U.S. Treasury notes held as part of our interest rate management strategy. On a segment basis, these unrealized losses are reported in the Corporate unallocated segment, while the amortized earnings on these investments are included in the Commercial Hedging and CES segments. During fiscal 2017, we liquidated our interest rate swap and U.S. Treasury note positions, held as part of the strategy, due to scheduled maturities as well as the close-outs of profitable positions as we determined there was no longer a sufficient interest rate spread between short-term and medium term rates.

Operating revenues in our CES segment increased 72% to $259.8 million in fiscal 2017, primarily as a result of the acquisition of the Sterne Agee Correspondent Clearing and Independent Wealth Management businesses at the beginning of the fourth quarter of fiscal 2016, which added an incremental $75.3 million in operating revenues in fiscal 2017. Also contributing to the revenue growth was the acquisition of ICAP plc's London-based EMEA oil voice brokerage business, at the beginning of the first quarter of fiscal 2017, which contributed $26.7 million to fiscal 2017 operating revenues. The Exchange-traded Futures & Options business added $8.8 million in operating revenues primarily as a result of an increase in the average rate per contract, while the FX Prime Brokerage business declined $2.3 million, despite a 7% increase in customer volumes as spreads narrowed in this business.

Operating revenues in our Global Payments segment increased 22% in fiscal 2017 to $89.2 million, as a result of a 46% increase in the number of global payments made which was partially offset by a narrowing of spreads in this business due to an increase in volume of smaller transactions from financial institutions.

Operating revenues in Commercial Hedging increased 4% in fiscal 2017 to $244.6 million, primarily driven by a $4.8 million increase in interest income. In addition exchange-traded revenues increased $4.3 million, while OTC revenues declined $1.5 million. An increase in agricultural and energy and renewable fuels revenues drove the increase in exchange-traded revenues.

Our Physical Commodity segment operating revenues increased 22% to $44.8 million, as a result of a $6.0 million increase in Physical Ag & Energy operating revenues, while Precious Metals added $2.2 million in operating revenues.

Operating revenues in our Securities segment declined 13% to $151.7 million in fiscal 2017 compared to the prior year. The Debt Trading and Asset Management businesses declined $10.2 and $6.3 million, respectively, as the prior year period reflected strong performance in our Argentina operations in these businesses following the devaluation of the Argentine Peso in December 2015. In addition, Equity Market-Making operating revenues declined $5.7 million as a result of a narrowing of spreads due to lower market volatility. Investment Banking operating revenues declined $1.0 million due both to weaker results in Argentina and management's decision to exit our domestic investment banking business.

Interest income increased $14.5 million to $69.7 million in fiscal 2017 compared to prior year, primarily driven a $6.4 million increase in Debt Trading interest income. In addition, average customer equity in the Financial Ag & Energy and Exchange-traded Futures & Options components of our Commercial Hedging and CES segments increased 7% to $2.0 billion in fiscal 2017 compared to the prior year, which combined with an increase in short term interest rates resulted in an aggregate $8.1 million increase in interest income in these businesses. In addition, the acquisition of the Sterne Agee Correspondent Clearing business added an incremental $3.9 million in interest income. These increases in interest income were partially offset by a $5.5 million decline in the mark-to-market valuation on U.S. Treasury notes.

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

Table of Contents

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 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.

On July 1, 2015, we merged three of our wholly owned U.S. subsidiaries into our wholly owned subsidiary, INTL FCStone Financial Inc. In connection with the merger, we transferred our 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.

Table of Contents

Interest and Transactional Expenses

Year Ended September 30, 2017 Compared to Year Ended September 30, 2016

Transaction-based clearing expenses: Transaction-based clearing expenses increased 5% to $136.3 million in fiscal 2017 compared to $129.9 million in fiscal 2016, and were 17% of operating revenues in fiscal 2017 compared to 19% in fiscal 2016. The increase in expense is primarily related to the activity of the Sterne Agee correspondent clearing and independent wealth management businesses, acquired during the fourth quarter of fiscal 2016 and thus only three months of expenses were included in fiscal 2016, resulting in higher expense of $4.7 million. Additionally, increased activity across our Exchange-traded Futures & Options and Financial Ag & Energy components contributed to the higher costs, partially offset by lower ADR conversion fees in our Equity Market-Making component and lower Debt Trading transactional fees. The decrease in transaction-based clearing expenses as a percentage of operating revenue is primarily related to the impact of the incremental revenues from these acquired businesses, as well as the acquired oil voice brokerage business.

Introducing broker commissions: Introducing broker commissions increased 64% to $113.0 million in fiscal 2017 compared to $68.9 million in fiscal 2016, and were 14% of operating revenues in fiscal 2017 compared to 10% in fiscal 2016. The increase in expense is primarily related to the activity of the Sterne Agee independent wealth management business, acquired during the fourth quarter of fiscal 2016 and thus only three months of expenses were included in fiscal 2016, resulting in higher expense of $42.1 million. Also, we experienced an increase in introducing broker commissions in our Exchange-traded Futures & Options and Financial Ag & Energy components, partially offset by decreased in our Debt Trading business in Argentina, and lower broker commissions in our Investment Banking component as we exited the domestic investment banking business during fiscal 2016.

Interest expense: Interest expense increased 49% to $42.1 million in fiscal 2017 compared to $28.3 million in fiscal 2016. The increase in interest expense is primarily related to the trading activities of our institutional dealer in fixed income securities, which resulted in higher interest expense of $8.0 million. Additionally, increased credit line capacity and higher average borrowings outstanding on our corporate credit facility, available for working capital needs, and our physical commodity financing facility resulted in increased expense. Also, an increase in short-term rates resulted in higher costs in our Exchange-Traded Futures & Options component, as well as incremental interest related to our stock lending business started up during fiscal 2017 in our Equity Market-Making component.

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 institutional dealer in fixed income securities, 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.

Table of Contents

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, 2017 Compared to Year Ended September 30, 2016
Net operating revenues increased $48.7 million, or 11%, to $492.6 million in fiscal 2017 compared to $443.9 million in fiscal 2016.
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.
Compensation and Other Expenses
The following table shows a summary of expenses, other than interest and transactional expenses.

	Year Ended September 30,						
(in millions)	2017	% Change		2016	% Change		2015
Compensation and benefits:							
Fixed compensation and benefits	$157.0	24	%	$126.5	10	%	$115.3
Variable compensation and benefits	138.7	1	%	137.4	1	%	135.8
	295.7	12	%	263.9	5	%	251.1
Other non-compensation expenses:							
Communication and data services	39.4	20	%	32.7	16	%	28.1
Occupancy and equipment rental	15.2	14	%	13.3	(1	)%	13.5
Professional fees	15.2	9	%	14.0	12	%	12.5
Travel and business development	13.3	16	%	11.5	10	%	10.5
Depreciation and amortization	9.8	20	%	8.2	14	%	7.2
Bad debts	4.3	(2	)%	4.4	(40	)%	7.3
Bad debt on physical coal	47.0	n/m		—	n/m		—
Other expense	37.5	28	%	29.4	25	%	23.5
	181.7	60	%	113.5	11	%	102.6
Total compensation and other expenses	$477.4	26	%	$377.4	7	%	$353.7

Year Ended September 30, 2017 Compared to Year Ended September 30, 2016
Compensation and Other Expenses: Compensation and other expenses increased $100.0 million, or 26%, to $477.4 million in fiscal 2017 compared to $377.4 million in fiscal 2016.
Compensation and Benefits: Total compensation and benefits expenses increased 12% to $295.7 million in fiscal 2017 compared to $263.9 million in fiscal 2016. Total compensation and benefits were 38% of operating revenues in fiscal 2017 compared to 39% of operating revenues in fiscal 2016. The variable portion of compensation and benefits increased 1% to $138.7 million in fiscal 2017 compared to $137.4 million in fiscal 2016. Variable compensation and benefits were 28% of net operating revenues in fiscal 2017 compared to 31% in fiscal 2016. Administrative, centralized operations and executive incentive compensation was $16.7 million in fiscal 2017 compared to $28.7 million in fiscal 2016, primarily due to the lower current year performance impacting executive incentive compensation, as well as declines among certain business lines.
The fixed portion of compensation and benefits increased 24% to $157.0 million in fiscal 2017 compared to $126.5 million in fiscal 2016. Non-variable salaries increased $20.2 million, or 22%, primarily due to the activity of the Sterne Agee correspondent clearing and independent wealth management businesses, acquired during the fourth

quarter of fiscal 2016 and thus only three months of expenses were included in fiscal 2016, and our acquisition of ICAP plc’s London-based EMEA oil voice brokerage business, resulting in an aggregate addition of $12.5 million. Additionally, we increased headcount across

Table of Contents

several growing business lines as well as across several administrative departments. Employee benefits, excluding share-based compensation, increased $8.0 million in fiscal 2017, 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 $6.3 million in fiscal 2017 compared to $5.1 million in fiscal 2016. The number of employees increased 10% to 1,607 at the end of fiscal 2017 compared to 1,464 at the end of fiscal 2016.

Other Non-Compensation Expenses: Other non-compensation expenses increased by 60% to $181.7 million in fiscal 2017 compared to $113.5 million in fiscal 2016. Communication and data services expenses increased $6.7 million, primarily related to incremental trade systems and market information costs associated with the acquired businesses discussed above. Occupancy and equipment rental increased $1.9 million, primarily as a result of the incremental costs from the leased office space of the acquired Sterne Agee correspondent clearing and independent wealth management businesses. Travel and business development fees increased $1.8 million, primarily related to incremental costs from the acquired businesses, as well as higher costs across certain administrative departments. Depreciation and amortization increased $1.6 million, primarily related to the increase in the amortization of intangible assets identified as part of our recent acquisition of ICAP plc’s London-based EMEA oil voice brokerage business. Other expense increased $8.1 million, primarily due to incremental costs from our acquisitions discussed above, including non-trading hardware and software licensing costs, insurance, and office expenses. Additionally, we experienced greater losses from trade errors in fiscal 2017 compared to fiscal 2016.

Excluding the bad debt on physical coal discussed below, bad debts decreased $0.1 million year-over-year. During fiscal 2017, bad debts were $4.3 million, primarily related to $3.9 million in LME Metals customer deficits in our Commercial Hedging segment and $0.2 million of uncollectible customer receivables in our Physical Ag & Energy and Derivative Voice Brokerage components. 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 and $0.4 million of uncollectible service fees and notes in our Securities segment.

Bad Debt on Physical Coal: During the fourth quarter of fiscal 2017, we recorded a charge to earnings of $47.0 million, to record an allowance for doubtful accounts related to a bad debt incurred in our physical coal business, conducted solely in our Singapore subsidiary, INTL Asia Pte. Ltd., with a coal supplier. Components of the bad debt on physical coal include allowances on amounts due to us from our supplier related to: coal paid for but not delivered to customers; reimbursement of demurrage claims, dead freight and other charges paid by INTL Asia Pte. Ltd. to its customers; reimbursement due for deficiencies in the quality of coal delivered to customers; and losses incurred related to the cancellation of open sales contracts.

We purchased coal delivered onto barges and paid 80% of the value against bills of lading and purchase invoices, with the remaining 20% payable following inspection upon delivery to customers’ vessels. We took title of the coal when it was loaded onto barges and maintained title until it was offloaded onto customers’ vessels. The logistics related to the delivery of coal to the customers’ vessels was out-sourced to our coal supplier, and we determined that certain purchased coal was not delivered to our customers’ vessels during the fourth quarter ended September 30, 2017. Furthermore, we determined that our supplier was unable to deliver such purchased coal to our customers. Demurrage claims, dead freight, and other penalty charges paid by INTL Asia Pte. Ltd. to its customers were due to be reimbursed by our supplier based on transaction agreements with our supplier. Subsequent to the end of the fourth quarter ended September 30, 2017, we determined our supplier was unable to make this reimbursement.

We received an acknowledgment of debt and a note from the supplier in our first quarter ending December 31, 2017. However, there is substantial uncertainty as to whether the supplier will be able to meet its financial obligations to us and as to the timing of any recovery. We are continuing our investigation into this matter and will pursue all legal avenues available to us. We have presented the bad debt on physical coal separately as a component of income from operations in our consolidated income statements.

We have exited the physical coal business. All remaining open sales contracts have been canceled. In our first quarter ending December 31, 2017, we expect to record an additional bad debt expense of $1.0 million related to reimbursement due to us from the supplier for demurrage and other charges related to contracts with delivery dates

subsequent to September 30, 2017. We do not anticipate any additional bad debt expense in connection with the physical coal business. We have no long-lived or intangible assets related to the physical coal business, and accordingly have recorded no impairment charges. We do not believe that the loss will adversely affect our on-going profitability as the physical coal business had not contributed significantly to income from operations. We believe any additional exit costs will not be material to our consolidated financial statements. INTL Asia Pte. Ltd. has been recapitalized following the bad debt in order for its other businesses to operate in normal course.
Gain on Acquisition: See the discussion of Gain on Acquisition for the Year Ended September 30, 2016 Compared to Year Ended September 30, 2016 for details of the amount recorded during fiscal 2016.
Provision for Taxes: The effective income tax rate on income from operations was 58% in fiscal 2017 compared to 25% in fiscal 2016. Our effective income tax rate during fiscal 2017 was significantly higher than the U.S. federal statutory rate

Table of Contents

primarily due to the bad debt on our physical coal business in Singapore being taxed at a lower rate resulting in less of a benefit to offset taxable earnings in other jurisdictions. Excluding the impact of the bad debt on physical coal, our effective tax rates was 20.7% in fiscal 2017. Our effective income tax rate in fiscal 2016 was lower than the U.S federal statutory rate primarily due to a higher mix of earnings taxed at lower rates in foreign jurisdictions as well as the impact of the bargain purchase gain on the acquired businesses from Sterne Agee. 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.

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 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, we acquired the correspondent securities clearing and independent wealth management businesses of Sterne Agee. The purchase price of $45.0 million represented 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 was 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 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

Table of Contents

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.

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.

	Year Ended September 30,				
(in millions)	2017	% Change	2016	% Change	2015
Compensation and benefits:					
Fixed compensation and benefits	$59.7	31 %	$45.4	24 %	$36.7
Variable compensation and benefits	14.8	(44)%	26.5	15 %	23.1
	74.5	4 %	71.9	20 %	59.8
Other non-compensation expenses:					
Communication and data services	7.1	18 %	6.0	33 %	4.5
Occupancy and equipment rental	15.1	14 %	13.2	(1)%	13.4
Professional fees	8.4	8 %	7.8	3 %	7.6
Travel and business development	3.2	33 %	2.4	4 %	2.3
Depreciation and amortization	8.2	22 %	6.7	16 %	5.8
Bad debts and impairments	—	— %	—	n/m	1.1
Other expense	20.8	6 %	19.7	11 %	17.8
	62.8	13 %	55.8	6 %	52.5
Total compensation and other expenses	$137.3	8 %	$127.7	14 %	$112.3

Year Ended September 30, 2017 Compared to Year Ended September 30, 2016

Total unallocated costs and other expenses increased $9.6 million to $137.3 million in fiscal 2017 compared to $127.7 million in fiscal 2016. Compensation and benefits increased $2.6 million, or 4% to $74.5 million in fiscal 2017 compared to $71.9 million in fiscal 2016.

During fiscal 2017, the increase in fixed compensation and benefits is primarily related to the incremental unallocated costs from the acquisition of the Sterne Agee correspondent clearing and independent wealth management businesses and increases in several administrative departments, most notably our information technology department. The decrease in variable compensation and benefits is primarily related to lower current year performance impacting executive incentive compensation. The increase in communication and data services is primarily due to increased market information costs.

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.

Table of Contents

Variable vs. Fixed Expenses

	Year Ended September 30,					
(in millions)	2017	% of Total	2016	% of Total	2015	% of Total
Variable compensation and benefits	$138.7	19 %	$137.4	24 %	$135.8	26 %
Transaction-based clearing expenses	136.3	19 %	129.9	23 %	122.7	23 %
Introducing broker commissions	113.0	15 %	68.9	11 %	52.7	10 %
Total variable expenses	388.0	53 %	336.2	58 %	311.2	59 %
Fixed compensation and benefits	157.0	22 %	126.5	22 %	115.3	22 %
Other fixed expenses	130.4	18 %	109.1	19 %	95.3	18 %
Bad debts	4.3	1 %	4.4	1 %	7.3	1 %
Bad debt on physical coal	47.0	6 %	—	— %	—	— %
Total non-variable expenses	338.7	47 %	240.0	42 %	217.9	41 %
Total non-interest expenses	$726.7	100%	$576.2	100%	$529.1	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, 2017, 2016, and 2015.

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 53% in fiscal 2017, 58% in fiscal 2016 and 59% in fiscal 2015.

See the discussion of Bad Debt on Physical Coal in the Executive Summary previously discussed for additional information.

Segment Information

Our business activities are managed as operating segments and organized into reportable segments as follows:

INTL FCStone Inc.

Commercial Hedging	Global Payments	Securities	Physical Commodities	Clearing and Execution Services (“CES”)
Components:	Component:	Components:	Components:	Components:
- Financial Ag & Energy	- Global Payments	- Equity Market-Making	- Precious Metals	- Exchange-traded Futures & Options
- LME Metals		- Debt Trading	- Physical Ag & Energy	- FX Prime Brokerage
		- Investment Banking		- Correspondent Clearing
		- Asset Management		- Independent Wealth Management
				- Derivative Voice Brokerage

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, transaction-based clearing expenses, introducing broker commissions, interest expense 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 generated less transaction-based clearing expense and related charges, base salaries and an overhead allocation.

Table of Contents

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 charges, communication and data services, business development, professional fees, bad debt expense, trade errors and direct marketing expenses.

Total Segment Results

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

	Year Ended September 30,					
(in millions)	2017	% of Operating Revenues	2016	% of Operating Revenues	2015	% of Operating Revenues
Revenues:						
Sales of physical commodities	$28,673.3		$14,112.0		$34,089.9	
Trading gains, net	329.4		318.7		322.3	
Commission and clearing fees	282.9		224.2		192.5	
Consulting and management fees	63.7		41.0		42.5	
Interest income	80.3		60.2		37.5	
Other	0.1		—		—	
Total revenues	29,429.7		14,756.1		34,684.7	
Cost of sales of physical commodities	28,639.6		14,083.9		34,068.9	
Operating revenues	790.1	100%	672.2	100%	615.8	100%
Transaction-based clearing expenses	133.9	17%	126.8	19%	121.0	20%
Introducing broker commissions	112.9	14%	68.9	10%	52.7	9%
Interest expense	34.3	4%	20.8	3%	10.8	2%
Net operating revenues	509.0		455.7		431.3	
Variable direct compensation and benefits	122.0	15%	108.7	16%	110.7	18%
Net contribution	387.0		347.0		320.6	
Non-variable direct expenses	218.0	28%	141.0	21%	132.5	22%
Segment income	$169.0		$206.0		$188.1	

Year Ended September 30, 2017 Compared to Year Ended September 30, 2016

The net contribution of all our business segments increased 12% to $387.0 million in fiscal 2017 compared to $347.0 million in fiscal 2016. Segment income decreased (18)% to $169.0 million in fiscal 2017 compared to $206.0 million in fiscal 2016.

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.

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, 2017	% Change	2016	% Change	2015
Revenues:					
Sales of physical commodities	$—	—	$—	—	$—
Trading gains, net	114.8	(3)%	118.7	(22)%	152.3
Commission and clearing fees	101.8	7 %	95.1	8 %	88.0
Consulting and management fees	14.6	6 %	13.8	(9)%	15.1
Interest income	13.3	56 %	8.5	21 %	7.0
Other	0.1	—	—	—	—
Total revenues	244.6	4 %	236.1	(10)%	262.4
Cost of sales of physical commodities	—	—	—	—	—
Operating revenues	244.6	4 %	236.1	(10)%	262.4
Transaction-based clearing expenses	29.8	7 %	27.9	1 %	27.6
Introducing broker commissions	19.9	2 %	19.6	(2)%	19.9
Interest expense	0.6	50 %	0.4	100 %	0.2
Net operating revenues	194.3	3 %	188.2	(12)%	214.7
Variable direct compensation and benefits	52.5	(2)%	53.8	(15)%	63.0
Net contribution	141.8	6 %	134.4	(11)%	151.7
Non-variable direct expenses	69.0	5 %	65.7	(1)%	66.1
Segment income	$72.8	6 %	$68.7	(20)%	$85.6

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

	Exchange-traded Year Ended September 30, 2017	% Change	2016	% Change	2015
Transactional revenues (in millions):					
Agricultural	$71.8	3%	$ 69.6	12%	$ 62.0
Energy and renewable fuels	6.7	18%	5.7	(16)%	6.8
LME metals	50.1	1%	49.5	(6)%	52.8
Other	7.3	7%	6.8	(13)%	7.8
	$135.9	3%	$ 131.6	2%	$ 129.4
Selected data:					
Futures and options (contracts, 000's)	23,785.7	4%	22,810.2	10%	20,686.1
Average rate per contract	$5.61	(1)%	$ 5.66	(8)%	$ 6.16
Average customer equity - futures and options (millions)	$938.1	2%	$ 923.6	9%	$ 844.8

	OTC Year Ended September 30, 2017	% Change	2016	% Change	2015
Transactional revenues (in millions):					
Agricultural	$53.4	1%	$52.9	(23)%	$68.3
Energy and renewable fuels	18.4	(5)%	19.4	(42)%	33.3
Other	8.9	(10)%	9.9	5%	9.4
	$80.7	(2)%	$82.2	(26)%	$111.0
Selected data:					
Volume (contracts, 000's)	1,410.0	2%	1,380.8	(17)%	1,670.0
Average rate per contract	$54.61	(5)%	$57.50	(10)%	$64.19

For information about the assets of this segment, see Note 21 to the Consolidated Financial Statements.

Year Ended September 30, 2017 Compared to Year Ended September 30, 2016
Operating revenues increased 4% to $244.6 million in fiscal 2017 compared to $236.1 million in fiscal 2016. Exchange-traded revenues increased 3% to $135.9 million in fiscal 2017, resulting primarily from higher agricultural and energy and renewable fuels revenues. Those increases were partially offset by a modest decline in LME metals. Overall exchange-traded contract volume increased 4%, while the average rate per contract declined to $5.61.

Table of Contents

OTC revenues decreased marginally to $80.7 million in fiscal 2017 while OTC volumes increased 2% to 1.41 million contracts in fiscal 2017 compared to 1.38 million in fiscal 2016. OTC revenues were relatively flat with the prior year, as modest OTC volume growth was offset by lower spreads across virtually all commodity sectors leading to a 5% decline in the average rate per contract.

Consulting and management fees increased 6% to $14.6 million in fiscal 2017 compared to $13.8 million in fiscal 2016 while interest income, increased 56%, to $13.3 million in fiscal 2017 compared to $8.5 million in fiscal 2016. The increase in interest income is driven by an increase in short term interest rates as well as a 2% increase in average customer equity.

Segment income increased 6% to $72.8 million in fiscal 2017 compared to $68.7 million in fiscal 2016, driven by the growth in operating revenues, partially offset by a $3.3 million increase in non-variable direct expenses. The increase in non-variable direct expenses was primarily related to an increase in operations charges and non-variable clearing expenses. Variable expenses, excluding interest, expressed as a percentage of operating revenues decreased to 42% in fiscal 2017 compared to 43% in fiscal 2016.

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

Operating revenues decreased 10% to $236.1 million in fiscal 2016 compared to $262.4 million in fiscal 2015.

Exchange-traded revenues increased 2% to $131.6 million in fiscal 2016, resulting primarily from growth in the domestic grain markets as well as growth in our London operations. Those increases were tempered by declines in LME metals and energy markets. Overall exchange-traded contract volume increased 10%, while the average rate per contract decreased to $5.66.

OTC revenues decreased 26% to $82.2 million in fiscal 2016 as OTC volumes decreased 17% to 1.4 million contracts in fiscal 2016 compared to 1.7 million in fiscal 2015. The OTC volume decline was primarily driven by lower customer volumes in the domestic and Latin American agricultural markets. In addition, the effect of lower energy prices and volatility resulted in a decline in energy and renewable fuels OTC revenues. In addition, we experienced lower spreads across virtually all commodity sectors leading to a 10% decline in the average rate per contract.

Consulting and management fees decreased 9% to $13.8 million in fiscal 2016 compared to $15.1 million in fiscal 2015 while interest income, which remains constrained by low short-term interest rates, increased 21%, to $8.5 million in fiscal 2016 compared to $7.0 million in fiscal 2015. The increase in interest income is driven by a 9% increase in average customer equity as well as an increase in short term interest rates.

Segment income decreased 20% to $68.7 million in fiscal 2016 compared to $85.6 million in fiscal 2015, driven by the decline in operating revenues. Variable expenses, excluding interest, expressed as a percentage of operating revenues increased to 43% in fiscal 2016 compared to 42% in fiscal 2015.

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.

Additionally, as a member of the Society for Worldwide Interbank Financial Telecommunication (“SWIFT”), 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.

Table of Contents

The following table provides the financial performance and selected data for Global Payments for the periods indicated.

	Year Ended September 30,				
(in millions)	2017	% Change	2016	% Change	2015
Revenues:					
Sales of physical commodities	$—	—	$—	—	$—
Trading gains, net	86.7	22 %	71.1	(6)%	75.4
Commission and clearing fees	2.5	19 %	2.1	31 %	1.6
Consulting and management fees	—	—	—	—	—
Interest income	—	—	—	(100)%	0.1
Other	—	—	—	—	—
Total revenues	89.2	22 %	73.2	(5)%	77.1
Cost of sales of physical commodities	—	—	—	—	—
Operating revenues	89.2	22 %	73.2	(5)%	77.1
Transaction-based clearing expenses	4.6	7 %	4.3	23 %	3.5
Introducing broker commissions	3.8	9 %	3.5	(30)%	5.0
Interest expense	0.2	100 %	0.1	— %	0.1
Net operating revenues	80.6	23 %	65.3	(5)%	68.5
Variable direct compensation and benefits	16.2	24 %	13.1	(6)%	14.0
Net contribution	64.4	23 %	52.2	(4)%	54.5
Non-variable direct expenses	13.8	11 %	12.4	11 %	11.2
Segment income	$50.6	27 %	$39.8	(8)%	$43.3
Selected data:					
Global Payments (# of payments, 000's)	648.9	46 %	444.9	37 %	325.4
Average revenue per trade	$137.46	(16)%	$164.53	(31)%	$236.94

For information about the assets of this segment, see Note 21 to the Consolidated Financial Statements.

Year Ended September 30, 2017 Compared to Year Ended September 30, 2016

Operating revenues increased 22% to $89.2 million in fiscal 2017 compared to $73.2 million in fiscal 2016. The volume of payments made increased by 46%, as we continue to benefit from an increase in financial institutions and other customers utilizing our electronic transaction order system, however this was partially offset by a 16% decrease in the average revenue per trade.

Segment income increased 27% to $50.6 million in fiscal 2017 compared to $39.8 million in fiscal 2016. The increase primarily resulted from the increase in operating revenues, partially offset by an increase in non-variable direct expenses, primarily in compensation and benefits, trade system costs, and operations charges. Variable expenses, excluding interest, expressed as a percentage of operating revenues was 28% in fiscal 2017 compared to 29% in fiscal 2016.

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

Operating revenues decreased 5% to $73.2 million in fiscal 2016 compared to $77.1 million in fiscal 2015. The volume of payments made increased by 37%, as we continued to benefit from an increase in financial institutions and other customers utilizing our electronic transaction order system, however this was more than offset by a 31% decrease in the average revenue per trade.

Segment income decreased 8% to $39.8 million in fiscal 2016 compared to $43.3 million in fiscal 2015. The decrease primarily resulted from the lower operating revenues as well as a $1.2 million increase in non-variable expenses including compensation and related benefits as well as trade system costs. Variable expenses, excluding interest, expressed as a percentage of operating revenues was 29% in fiscal 2016 which was flat with fiscal 2015.

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 also a broker-dealer in Argentina where we are active in providing institutional executions in the local capital markets.

Table of Contents

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.

The following table provides the financial performance for Securities for the periods indicated.

	Year Ended September 30,				
(in millions)	2017	% Change	2016	% Change	2015
Revenues:					
Sales of physical commodities	$—	—	$—	—	$—
Trading gains, net	81.7	(25)%	108.6	43 %	76.1
Commission and clearing fees	10.4	(3)%	10.7	81 %	5.9
Consulting and management fees	13.6	(22)%	17.5	(27)%	24.0
Interest income	46.0	20 %	38.4	61 %	23.8
Other	—	—	—	— %	—
Total revenues	151.7	(13)%	175.2	35 %	129.8
Cost of sales of physical commodities	—	—	—	—	—
Operating revenues	151.7	(13)%	175.2	35 %	129.8
Transaction-based clearing expenses	24.5	(6)%	26.1	10 %	23.7
Introducing broker commissions	8.0	(32)%	11.8	39 %	8.5
Interest expense	24.6	60 %	15.4	71 %	9.0
Net operating revenues	94.6	(22)%	121.9	38 %	88.6
Variable direct compensation and benefits	19.0	(22)%	24.4	15 %	21.2
Net contribution	75.6	(22)%	97.5	45 %	67.4
Non-variable direct expenses	29.0	3 %	28.1	4 %	26.9
Segment income	$46.6	(33)%	$69.4	71 %	$40.5

The following table sets forth operating revenues by product line and selected data for Securities for the periods indicated.

	Year Ended September 30,				
	2017	% Change	2016	% Change	2015
Operating revenues by product line (in millions):					
Equity Market-Making	$56.7	(9)%	$62.4	8%	$57.7
Debt Trading	80.4	(12)%	90.9	87%	48.6
Investment Banking	2.7	(27)%	3.7	(61)%	9.5
Asset Management	11.9	(35)%	18.2	30%	14.0
	$151.7	(13)%	$175.2	35%	$129.8
Selected data:					
Equity Market-Making (gross dollar volume, millions)	$87,789.8	(1)%	$88,518.8	(10)%	$98,604.3
Equity Market-Making revenue per $1,000 traded	$0.65	(7)%	$0.70	19%	$0.59
Debt Trading (principal dollar volume, millions)	$133,352.3	24%	$107,747.4	70%	$63,502.6
Debt Trading revenue per $1,000 traded	$0.60	(29)%	$0.84	9%	$0.77
Average assets under management in Argentina (millions)	$564.9	—%	$562.4	(2)%	$572.1

For information about the assets of this segment, see Note 21 to the Consolidated Financial Statements.

Year Ended September 30, 2017 Compared to Year Ended September 30, 2016

Operating revenues decreased 13% to $151.7 million in fiscal 2017 compared to $175.2 million in fiscal 2016. Operating revenues in Equity Market-Making decreased 9%, to $56.7 million in fiscal 2017 compared to fiscal 2016, as a result of a 7% decline in the average revenue per $1,000 traded as a result of lower market volatility as well as a 1% decline in the gross dollar volume traded. Equity Market-Making operating revenues include the trading profits we earn before the related expense deduction for ADR conversion fees. These ADR fees are included in the consolidated income statements as ‘transaction-based clearing expenses’.

Table of Contents

Operating revenues in Debt Trading decreased 12% to $80.4 million in fiscal 2017 compared to fiscal 2016, primarily as a result of a decline in operating revenue in our Argentina operations compared to the prior year. Our Argentine operations had a strong performance in the prior year as a result of the effect of the devaluation of the Argentine Peso. These declines in Argentina were partially offset by operating revenue growth in our domestic institutional fixed income business. Investment Banking operating revenues declined 27% in fiscal 2017 compared to fiscal 2016, resulting primarily as a result of management's decision to exit our domestic investment banking business. Asset Management operating revenues in fiscal 2017 decreased 35% to $11.9 million in fiscal 2017 versus $18.2 million in fiscal 2016. Similar to Debt Trading, Asset Management operating revenues had a strong performance in the prior year as a result of the devaluation of the Argentine Peso. Average assets under management were $564.9 million in fiscal 2017 compared to $562.4 million in fiscal 2016.

Segment income decreased 33% to $46.6 million in fiscal 2017 compared to $69.4 million in fiscal 2016 primarily as a result of the decrease in operating revenues as well as a $7.9 million increase in interest expense in our domestic institutional fixed income business. Variable expenses, excluding interest, expressed as a percentage of operating revenues decreased to 34% in fiscal 2017 compared to 36% in fiscal 2016.

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

Operating revenues increased 35% to $175.2 million in fiscal 2016 compared to $129.8 million in fiscal 2015.

Operating revenues from Equity Market-Making increased 8%, to $62.4 million in fiscal 2016 compared to fiscal 2015, despite a 10% decline in the gross dollar volume traded, as favorable market conditions drove an increase in the average revenue per $1,000 traded.

Operating revenues in Debt Trading increased 87% to $90.9 million in fiscal 2016 compared to fiscal 2015. The increase in operating revenues was a result of the acquisition of G.X. Clarke, which was effective on January 1, 2015 and thus only contributed operating revenues beginning in the second quarter of fiscal 2015, as well as strong performance in Argentina as the result of the market conditions following the devaluation of the Argentine peso. Investment Banking operating revenues declined 61% in fiscal 2016 compared to fiscal 2015, resulting primarily from management's decision to exit the domestic investment banking business. Asset Management revenues in fiscal 2016 increased 30% to $18.2 million in fiscal 2016 versus $14.0 million in fiscal 2015. Average assets under management were $562.4 million in fiscal 2016 compared to $572.1 million in fiscal 2015.

Segment income increased 71% to $69.4 million in fiscal 2016 compared to $40.5 million in fiscal 2015 primarily as a result of the increase in operating revenues. Variable expenses, excluding interest, expressed as a percentage of operating revenues decreased to 36% in fiscal 2016 compared to 41% in fiscal 2015, as the G.X. Clarke business has a relatively low level of transaction-based clearing expenses.

Physical Commodities

This segment consists of our physical Precious Metals trading and Physical Ag & 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.

Precious metals inventory held by INTL FCStone Ltd, a United Kingdom based broker-dealer subsidiary, is measured at fair value, with changes in fair value included as a component of 'trading gains, net' in the consolidated income statements. INTL FCStone Ltd precious metals sales and cost of sales are presented on a net basis and included as a component of 'trading gains, net' in the consolidated income statements, in accordance with U.S GAAP accounting requirements for broker-dealers. Precious metals inventory held by our subsidiaries that are not broker-dealers continues to be valued at the lower of cost or market value. Precious metals sales and cost of sales for subsidiaries that are not broker-dealers continue to be recorded on a gross basis. Operating revenues and losses from our Precious Metals commodities derivatives activities are included in 'trading gains, net' in the consolidated income statements.

In our Physical Ag & Energy commodity business, we act as a principal to facilitate financing, structured pricing and logistics services to clients across the commodity complex, including energy commodities, grains, oil seeds, cotton, coffee, cocoa, edible oils and feed products. We provide financing to commercial commodity-related companies against physical inventories. 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 at execution do not meet all the criteria to be accounted for as product financing arrangements, and therefore are recorded as commodity inventory, purchases and sales.

Table of Contents

In our Physical Ag and Energy commodity business, inventories of certain of our agricultural commodities are carried at net realizable value, which approximates fair value less disposal costs. The agricultural inventories have reliable, readily determinable and realizable market prices, have relatively insignificant costs of disposal and are available for immediate delivery. Changes in the fair values of these agricultural commodities inventories are included as a component of 'cost of physical commodities sold' in the consolidated income statements. Inventories of energy, including coal, kerosene, and propane are valued at the lower of cost or market ("LCM"). Revenues generated from our Physical Ag and Energy commodity business are recorded on a gross basis. Operating revenues and losses from our Physical Ag and Energy commodity business are included in 'cost of sales of physical commodities' in the consolidated income statements.

We generally mitigate the price risk associated with commodities held in inventory through the use of derivatives. We do not elect hedge accounting under U.S. GAAP in accounting for this price risk mitigation. Management continues to evaluate performance and allocate resources on an operating revenue basis.

The following table provides the financial performance for Physical Commodities for the periods indicated.

	Year Ended September 30,				
(in millions)	2017	% Change	2016	% Change	2015
Revenues:					
Sales of physical commodities	$28,673.3	103 %	$14,112.0	(59)%	$34,089.9
Trading gains, net	2.0	(386)%	(0.7)	(77)%	(3.0)
Commission and clearing fees	1.0	— %	1.0	100 %	0.5
Consulting and management fees	1.2	— %	1.2	(33)%	1.8
Interest income	6.9	(1)%	7.0	150 %	2.8
Other	—	—	—	—	—
Total revenues	28,684.4	103 %	14,120.5	(59)%	34,092.0
Cost of sales of physical commodities	28,639.6	103 %	14,083.9	(59)%	34,068.9
Operating revenues	44.8	22 %	36.6	58 %	23.1
Transaction-based clearing expenses	0.8	14 %	0.7	75 %	0.4
Introducing broker commissions	0.4	(20)%	0.5	67 %	0.3
Interest expense	6.3	62 %	3.9	225 %	1.2
Net operating revenues	37.3	18 %	31.5	49 %	21.2
Variable direct compensation and benefits	10.1	25 %	8.1	88 %	4.3
Net contribution	27.2	16 %	23.4	38 %	16.9
Non-variable direct expenses	11.6	15 %	10.1	(9)%	11.1
Bad debt on physical coal	47.0	n/m	—	n/m	—
Segment (loss) income	$(31.4)	(336)%	$13.3	129 %	$5.8

The following tables set forth operating revenue by product line and selected data for Physical Commodities for the periods indicated.

	Precious Metals				
	Year Ended September 30,				
	2017	% Change	2016	% Change	2015
Total revenues	$27,958.9	104%	$13,674.2	(60)%	$33,816.4
Cost of sales of physical commodities	27,932.8	105%	13,650.3	(60)%	33,802.2
Operating revenues	$26.1	9%	$23.9	68%	$14.2
Selected data:					
Gold equivalent ounces traded (000's)	137,235.3	49%	92,073.7	(27)%	126,365.5
Average revenue per ounce traded	$0.19	(27)%	$0.26	136%	$0.11

	Physical Ag & Energy				
	Year Ended September 30,				
	2017	% Change	2016	% Change	2015

Total revenues	$725.6	63%	$446.3	62%	$275.6
Cost of sales of physical commodities	706.9	63%	433.6	63%	266.6
Operating revenues	$18.7	47%	$12.7	41%	$9.0

For information about the assets of this segment, see Note 21 to the Consolidated Financial Statements.

Table of Contents

Year Ended September 30, 2017 Compared to Year Ended September 30, 2016

Operating revenues increased 22% to $44.8 million in fiscal 2017 compared to $36.6 million in fiscal 2016.

Precious metals operating revenues increased 9% to $26.1 million in fiscal 2017 compared to $23.9 million in fiscal 2016. Operating revenues increased as a result of a 49% increase in the number of ounces traded, while the average revenue per ounce traded decreased 27% as market volatility decreased, resulting in a narrowing of spreads.

Operating revenues in Physical Ag & Energy increased 47% to $18.7 million in fiscal 2017 compared to $12.7 million in fiscal 2016. The increase in operating revenues is primarily due to business expansion in our U.S. subsidiary, FCStone Merchant Services, LLC, which had an increase in operating revenues of $6.5 million, or 57%, following an internal restructuring of the business, resulting in increased operating revenues from both existing and new customer relationships.

Segment loss was $31.4 million in fiscal 2017 compared to segment income of $13.3 million in fiscal 2016, resulting in a decrease of 336%. The segment loss was primarily due to a charge to earnings of $47.0 million to record an allowance for doubtful accounts for a bad debt incurred in our physical coal business, which was conducted solely in our Singapore subsidiary, INTL Asia Pte. Ltd. See Executive Summary for additional information related to the Bad Debt on Physical Coal.

Partially offsetting the segment loss within Physical Ag & Energy, segment income generated by FCStone Merchant Services, LLC increased $2.3 million, or 153%, over the prior year due to increased operating revenues reduced by higher interest expense and non-variable direct expenses. Precious metals segment income increased $0.6 million over the prior year. Variable expenses, excluding interest expense, expressed as a percentage of operating revenues remained unchanged at 25% in fiscal 2017 and fiscal 2016.

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

Operating revenues increased 58% to $36.6 million in fiscal 2016 compared to $23.1 million in fiscal 2015.

Precious metals operating revenues increased 68% to $23.9 million in fiscal 2016 compared to $14.2 million in fiscal 2015. Operating revenues increased despite a 27% decline in the number of ounces traded, as market volatility increased, partially as a result of the Brexit vote, drove a widening of spreads.

Operating revenues in Physical Ag & Energy increased 41% to $12.7 million in fiscal 2016 compared to $9.0 million in fiscal 2015. The increase in operating revenues is primarily due an increase in volumes in our physical fats & oils, energy and coal activities.

Segment income increased 129% to $13.3 million in fiscal 2016 compared to $5.8 million in fiscal 2015, primarily as a result of the increase in operating revenues as well a $1.0 million decline in non-variable direct expenses which includes both fixed expenses and bad debt expense. Bad debt expense declined $2.4 million in fiscal 2016 as compared to fiscal 2015, which was partially offset by a $0.8 million increase in operational expenses. Variable expenses expressed as a percentage of operating revenues increased to 25% in fiscal 2016 compared to 22% in fiscal 2015, primarily drive by higher variable compensation.

Clearing and Execution Services

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 customer 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, 2017, we held $2.2 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 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 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, with approximately 50 correspondent clearing relationships with over $15 billion in assets under management or administration as of September 30, 2017.

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-

Table of Contents

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.

Following the October 1, 2016 acquisition of ICAP plc’s London-based EMEA oil voice brokerage business, we employ over 30 employees providing brokerage services across the fuel, crude and middle distillates markets with over 200 well known commercial and institutional customers throughout Europe, the Middle East and Africa.

The following table provides the financial performance and selected data for Clearing and Execution Services for the periods indicated.

	Year Ended September 30,				
(in millions)	2017	% Change	2016	% Change	2015
Sales of physical commodities	$—	—	$—	—	$—
Trading gains, net	44.2	110 %	21.0	(2)%	21.5
Commission and clearing fees	167.2	45 %	115.3	19 %	96.5
Consulting and management fees	34.3	304 %	8.5	431 %	1.6
Interest income	14.1	124 %	6.3	66 %	3.8
Other	—	—	—	—	—
Total revenues	259.8	72 %	151.1	22 %	123.4
Cost of sales of physical commodities	—	—	—	—	—
Operating revenues	259.8	72 %	151.1	22 %	123.4
Transaction-based clearing expenses	74.2	9 %	67.8	3 %	65.8
Introducing broker commissions	80.8	141 %	33.5	76 %	19.0
Interest expense	2.6	160 %	1.0	233 %	0.3
Net operating revenues	102.2	109 %	48.8	27 %	38.3
Variable direct compensation and benefits	24.2	160 %	9.3	13 %	8.2
Net contribution	78.0	97 %	39.5	31 %	30.1
Non-variable direct expenses	47.6	93 %	24.7	44 %	17.2
Segment income	$30.4	105 %	$14.8	15 %	$12.9

The following table sets forth operating revenues by product line and selected data for Clearing and Execution Services for the periods indicated.

	Year Ended September 30,				
	2017	% Change	2016	% Change	2015
Operating revenues by product line (in millions):					
Exchange-traded Futures and Options	$114.9	8%	$106.1	4%	$101.9
FX Prime Brokerage	18.7	(11)%	20.9	(3)%	21.5
Correspondent Clearing	27.2	386%	5.6	n/m	—
Independent Wealth Management	72.3	291%	18.5	n/m	—
Derivative Voice Brokerage	26.7	n/m	—	n/m	—
	$259.8	72%	$151.1	22%	$123.4
Selected data:					
Exchange-traded futures and options (contracts, 000’s)	75.4	(2)%	76.9	(3)%	79.2
Exchange-traded futures and options average rate per contract	$1.31	8 %	$1.21	5 %	$1.15
Average customer equity - futures and options (millions)	$1,077.8	13 %	$955.1	1 %	$943.4
FX Prime Brokerage volume (U.S. notional, millions)	$620,917.8	7 %	$580,426.9	29 %	$449,344.1

For information about the assets of this segment, see Note 21 to the Consolidated Financial Statements.

Year Ended September 30, 2017 Compared to Year Ended September 30, 2016

Operating revenues increased 72% to $259.8 million in fiscal 2017 compared to $151.1 million in fiscal 2016.

Operating revenues in our Exchange-traded Futures and Options business increased 8% to $114.9 million in fiscal 2017 compared to $106.1 million in fiscal 2016, despite a 2% decline in exchange-traded volumes as the average rate per contract increased 8%. Interest income in the Exchange-traded Futures & Options business increased $3.3 million to $8.4 million in fiscal 2017 primarily as a result of an increase in short-term rates and a 13% increase in average customer equity to $1,077.8 million in fiscal 2017 compared to $955.1 million in fiscal 2016.

Operating revenues in our FX Prime Brokerage declined 11% to $18.7 million in fiscal 2017 compared to $20.9 million in fiscal 2016, despite a 7% increase in foreign exchange volumes resulting from a narrowing of margins compared to fiscal 2016.

Table of Contents

During the fourth fiscal quarter of 2016, we acquired the correspondent clearing and independent wealth management businesses of Sterne Agee. During fiscal 2017, the Correspondent Clearing and Independent Wealth Management businesses generated operating revenues of $27.2 million and $72.3 million, respectively. Included within these operating revenues, Correspondent Clearing and Independent Wealth Management businesses had interest income of $4.9 million and $0.5 million, respectively.

On October 1, 2016, we acquired ICAP plc's London-based EMEA oil voice brokerage business. During fiscal 2017, the Derivative Voice Brokerage business contributed $26.7 million in operating revenues.

Segment income increased 105% to $30.4 million in fiscal 2017 compared to $14.8 million in fiscal 2016, primarily as a result of the acquisition of the Correspondent Clearing, Independent Wealth Management and Derivative Voice Brokerage businesses and growth in our Exchange-traded Futures & Options business, which were partially offset by a decline in segment income in our FX Prime Brokerage business. Segment income in fiscal 2017 includes a $0.9 million quarterly charge to compensation and benefits per the terms of the acquisition of the oil voice brokerage business that aggregated to $3.6 million in fiscal 2017. The quarterly charge will continue to be expensed through the end of fiscal 2018 based upon the employees continued employment. Variable expenses, excluding interest, as a percentage of operating revenues were 69% in fiscal 2017 compared to 73% in fiscal 2016. The increase in introducing broker commissions expense was primarily driven by the activity of the Sterne Agee independent wealth management business, acquired during the fourth quarter of fiscal 2016 and thus only three months of expenses were included in fiscal 2016, resulting in higher expense of $42.1 million, as well as a $5.0 million increase in introducing broker commissions expense in the Exchange-traded Futures & Options business. Non-variable direct expenses increased $22.9 million versus the prior year as the result of the acquisitions discussed above, which collectively added $21.8 million in non-variable expenses in fiscal 2017.

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

Operating revenues increased 22% to $151.1 million in fiscal 2016 compared to $123.4 million in fiscal 2015.

Operating revenues in our Exchange-traded Futures and Options business increased 4% to $106.1 million in fiscal 2016 compared to $101.9 million in fiscal 2015, despite a 3% decline in exchange-traded volumes as the average rate per contract increased 5% and interest income increased $1.3 million compared to fiscal 2015. The average level of customer equity increased 1% to $955.1 million in fiscal 2016 compared to $943.4 million in fiscal 2015.

Operating revenues in our FX Prime Brokerage declined 3% to $20.9 million in fiscal 2016 compared to $21.5 million in fiscal 2015, despite a 29% increase in foreign exchange volumes driven by a narrowing of margins compared to the prior year period.

During the fourth fiscal quarter of 2016, we acquired the correspondent clearing and independent wealth management businesses of Sterne Agee. During the fourth fiscal quarter, the correspondent clearing and independent wealth management businesses generated operating revenues of $5.6 million and $18.5 million, respectively.

Segment income increased 15% to $14.8 million in fiscal 2016 compared to $12.9 million in fiscal 2015, primarily as a result of the acquisition of the Sterne Agee businesses which added $1.5 million of incremental segment income. Variable expenses, excluding interest, as a percentage of operating revenues were 73% in fiscal 2016 compared to 75% in fiscal 2015.

Liquidity, Financial Condition and Capital Resources

Overview

Liquidity is defined as our ability to generate sufficient amounts of cash to meet all of our cash needs. Liquidity is of critical importance to us and imperative to maintaining our operations on a daily basis. Our senior management establishes liquidity and capital policies, and monitors liquidity on a daily basis. Senior management reviews business performance relative to these policies and monitors the availability of our internal and external sources of financing. Liquidity and capital matters are reported regularly to our board of directors.

INTL FCStone Financial is registered as a broker-dealer with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA") and the Municipal Securities Rulemaking Board ("MSRB"). In addition, INTL FCStone Financial is registered as a futures commission merchant with the CFTC and NFA, and a member of various commodities and futures exchanges in the U.S. and abroad. INTL FCStone Financial has a responsibility to meet margin calls at all exchanges on a daily basis and intra-day basis, if necessary. We require our customers to make any required margin deposits the next business day, and we require our largest customers to make intra-day margin payments during periods of significant price movement. Margin required to be posted to the exchanges is a function of the net open positions of our customers and the required margin per contract. INTL FCStone Financial 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 maintain in relatively liquid form, and are designed to measure general financial integrity and liquidity. INTL FCStone Financial is also subject to the Rule 15c3-3 of the Securities Exchange Act of 1934, as amended ("Customer Protection Rule").

INTL FCStone Ltd, our U.K. regulated subsidiary, is required to be compliant with the U.K.'s Individual Liquidity Adequacy Standards ("ILAS"). To comply with these standards, we have implemented daily liquidity procedures, conduct periodic reviews of liquidity by stressed scenarios, and have created liquidity buffers.

Our wholly owned subsidiaries, INTL Custody & Clearing Solutions Inc. (formerly Sterne Agee Clearing, Inc.) and SA Stone Wealth Management Inc. (formerly Sterne Agee Financial Services, Inc.) are subject to the SEC Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934.

In addition, in our physical commodities trading, commercial hedging OTC, securities and foreign exchange trading activities, we may be called upon to meet margin calls with our various trading counterparties based upon the underlying open transactions we have in place with those counterparties.

We continuously review our overall credit and capital needs to ensure that our capital base, both stockholders' equity and debt, as well as available credit facilities can appropriately support the anticipated financing needs of our operating subsidiaries.

As of September 30, 2017, we had total equity capital of $449.9 million and outstanding bank loans of $230.2 million. A substantial portion of our assets are liquid. As of September 30, 2017, approximately 95% of our assets consisted of cash; securities purchased under agreements to resell; securities borrowed; deposits with and receivables from exchange-clearing organizations, broker-dealers, clearing organizations and counterparties; customer receivables, marketable financial instruments and investments, and physical commodities inventory. All assets that are not customer and counterparty deposits are financed by our equity capital, bank loans, short-term borrowings from financial instruments sold, not yet purchased and under repurchase agreements, securities loaned and other payables.

As of September 30, 2017, we had deferred tax assets totaling $42.6 million. We are required to assess our deferred tax assets and the need for a valuation allowance at each reporting period. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that we will not realize some or all of the deferred tax assets. We are required to record a valuation allowance against deferred tax assets when it is considered more likely than not that all or a portion of our deferred tax assets will not be realized. The valuation allowance for deferred tax assets as of September 30, 2017 and September 30, 2016 was $4.0 million and $3.6 million, respectively. The valuation allowances as of September 30, 2017 and September 30, 2016 were primarily related to U.S. state and local and foreign net operating loss carryforwards that, in the judgment of management, are not more likely than not to be realized.

We incurred U.S. federal, state, and local taxable income/(losses) for the years ended September 30, 2017, 2016, and 2015 of $(24.7) million, $(9.7) million, and $16.5 million, respectively. The differences between actual levels of past taxable income (losses) and pre-tax book income (losses) are primarily attributable to temporary differences in these jurisdictions. When evaluating if U.S. federal, state, and local deferred taxes are realizable, we considered deferred tax liabilities of $4.9 million that are scheduled to reverse from 2018 to 2020 and $3.1 million of deferred tax liabilities associated with unrealized gains in securities which we could sell, if necessary. Furthermore, we considered our ability to implement business and tax planning strategies that would allow the remaining U.S. federal, state, and local deferred tax assets, net of valuation allowances, to be realized within approximately 11 years. Based on the tax planning strategies that are prudent and feasible, management believes that it is more likely than not that we will realize the tax benefit of the deferred tax assets, net of the existing valuation allowance, in the future. However, the realization of deferred income taxes is dependent on future events, and changes in estimate in future periods could result in adjustments to the valuation allowance.

Customer and Counterparty Credit and Liquidity Risk

Our operations expose us to credit risk of default of our customers and counterparties. The risk includes liquidity risk to the extent our customers or counterparties are unable to make timely payment of margin or other credit support. These risks expose us indirectly to the financing and liquidity risks of our customers and counterparties, including the risks that our customers and counterparties may not be able to finance their operations.

As a clearing broker, we act on behalf of our customers for all trades consummated on exchanges. We must pay initial and variation margin to the exchanges, on a net basis, before we receive the required payments from our customers. Accordingly, we are responsible for our customers' obligations with respect to these transactions, which exposes us to significant credit risk. Our customers are required to make any required margin deposits the next business day, and we require our largest customers to make intra-day margin payments during periods of significant price movement. Our customers are required to maintain initial margin requirements at the level set by the respective exchanges, but we have the ability to increase the margin requirements for customers based on their open positions, trading activity, or market conditions.

Table of Contents

With OTC derivative transactions, we act as a principal, which exposes us to the credit risk of both our customers and the counterparties with which we offset our customer positions. 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. OTC customers are required to post sufficient collateral to meet margin requirements based on Value-at-Risk models as well as variation margin requirement based on the price movement of the commodity or security in which they transact. Our customers are required to make any required margin deposits the next business day, and we may require our largest customers to make intra-day margin payments during periods of significant price movement. We have the ability to increase the margin requirements for customers based on their open positions, trading activity, or market conditions. On a limited basis, we provide credit thresholds to certain customers, based on internal evaluations and monitoring of customer creditworthiness.

In addition, with OTC transactions, we are at risk that a counterparty will fail to meet its obligations when due. We would then be exposed to the risk that the settlement of a transaction which is due a customer will not be collected from the respective counterparty with which the transaction was offset. We continuously monitor the credit quality of our respective counterparties and mark our positions held with each counterparty to market on a daily basis.

We enter into securities purchased under agreements to resell, securities sold under agreements to repurchase, securities borrowed and securities loaned transactions to, among other things, finance financial instruments, acquire securities to cover short positions, acquire securities for settlement, and to accommodate counterparties' needs. In connection with these agreements and transactions, it is our policy to receive or pledge cash or securities to adequately collateralize such agreements and transactions in accordance with general industry guidelines and practices. The value of the collateral is valued daily and we may require counterparties to deposit additional collateral or return collateral pledged, when appropriate.

Excluding the bad debt on physical coal discussed below, during the fiscal years ended September 30, 2017, 2016, and 2015, we recorded bad debts, net of recoveries of $4.3 million, $4.4 million, and $7.3 million, respectively. During the year ended September 30, 2017, our bad debts included $3.8 million of customer deficits in the Commercial Hedging segment, primarily related to account deficits from South Korean and Dubai commercial LME customers, $0.2 million of uncollectible customer receivables in our Physical Commodities segment, and $0.3 million of uncollectible customer receivables in the CES segment, primarily related to our derivative voice brokerage business. During the year ended September 30, 2016, our bad debts included $3.6 million of customer deficits in the Commercial Hedging segment, $0.4 million of uncollectible customer receivables in the Physical Commodities segment and $0.4 million of uncollectible service fees and notes in the Securities segment. During the year ended September 30, 2015, our bad debts 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. Additional information related to bad debts, net of recoveries, for the fiscal years ended September 30, 2017, 2016, and 2015 is set forth in Note 6 of the Consolidated Financial Statements.

Bad Debt on Physical Coal

During the fourth quarter of fiscal 2017, we recorded a charge to earnings of $47.0 million, to record an allowance for doubtful accounts related to a bad debt incurred in our physical coal business, conducted solely in our Singapore subsidiary, INTL Asia Pte. Ltd., with a coal supplier. Components of the bad debt on physical coal include allowances on amounts due to us from our supplier related to: coal paid for but not delivered to customers; reimbursement of demurrage claims, dead freight and other charges paid by INTL Asia Pte. Ltd. to its customers; reimbursement due for deficiencies in the quality of coal delivered to customers; and losses incurred related to the cancellation of open sales contracts. INTL Asia Pte. Ltd. has been recapitalized following the bad debt in order for its other businesses to operate in normal course. See Executive Summary for additional information related to the Bad Debt on Physical Coal.

Primary Sources and Uses of Cash

Our assets and liabilities may vary significantly from period to period due to changing customer requirements, economic and market conditions and our growth. Our total assets as of September 30, 2017 and September 30, 2016, were $6.2 billion and $6.0 billion, respectively. Our operating activities generate or utilize cash as a result of net income or loss earned or incurred during each period and fluctuations in our assets and liabilities. The most significant fluctuations arise from changes in the level of customer activity, commodities prices and changes in the balances of financial instruments and commodities inventory. INTL FCStone Financial and INTL FCStone Ltd occasionally use their margin line credit facilities, on a short-term basis, to meet intraday settlements with the commodity exchanges prior to collecting margin funds from their customers.

The majority of the assets of INTL FCStone Financial are restricted from being transferred to its parent or other affiliates due to specific regulatory requirements. These restrictions have no impact on our ability to meet our cash obligations, and no impact is expected in the future.

Table of Contents

We have liquidity and funding policies and processes in place that are intended to maintain significant flexibility to address both company-specific and industry liquidity needs. The majority of our excess funds are held with high-quality institutions, under highly-liquid reverse repurchase agreements, U.S. government obligations and AA-rated money market investments. We do not hold any direct investments in the general obligations of any sovereign nations.

As of September 30, 2017, $275.1 million of cash and cash equivalents was held by our foreign subsidiaries. If these funds are needed for operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds, up to the amount of undistributed earnings of $321.3 million. However, our intent is to indefinitely reinvest these funds outside of the U.S., and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

As of September 30, 2017, approximately $10.4 million of our financial instruments owned and $10.5 million of financial instruments sold, not yet purchased, are exchangeable foreign equities, ADRs, and GDRs.

In October 2016, we redeemed $45.5 million in aggregate principal amount of our 8.5% Senior Notes due 2020 (the "Notes") plus accrued and unpaid interest to, but not including, the redemption date of October 15, 2017. The notes were issued in July 2013, and bore interest at a rate of 8.5% per year.

We have a loan from a commercial bank, secured by equipment purchased with the proceeds. The note is payable in monthly installments, ending in March 2020. As of September 30, 2017, the current outstanding amount on the loan is $2.0 million.

As of September 30, 2017, we had four committed bank credit facilities, totaling $532.0 million, of which $194.2 million was outstanding. The credit facilities include:

- A three-year syndicated loan facility, committed until March 18, 2019, under which INTL FCStone, Inc. is entitled to borrow up to $262 million, subject to certain terms and conditions of the credit agreement. The loan proceeds are used to finance working capital needs of us and certain subsidiaries. The agreement contains financial covenants related to consolidated tangible net worth, consolidated funded debt to net worth ratio, consolidated fixed charge coverage ratio and consolidated net unencumbered liquid assets, as defined. The agreement also contains a non-financial covenant related to the allowable annual consolidated capital expenditures permitted under the agreement.

On November 30, 2017, we amended the loan facility, increasing the allowable annual consolidated capital expenditures from $15.0 million to $17.5 million. The agreement also amended the definition of consolidated EBITDA for the purposes of the consolidated fixed charge coverage ratio. This amendment allowed us to add back a portion of the bad debt on physical coal previously discussed in calculating consolidated EBITDA. Under the terms of the agreement, the amendment was deemed effective as of September 30, 2017. As a result of this amendment, we were in compliance with all covenants under this loan facility as of September 30, 2017.

- An unsecured syndicated loan facility, committed until April 5, 2018, under which our subsidiary, INTL FCStone Financial is entitled to borrow up to $75 million, subject to certain terms and conditions of the credit agreement. This line of credit is intended to provide short-term funding of margin to commodity exchanges as necessary.
- A syndicated borrowing facility, committed until May 1, 2018, under which our subsidiary, FCStone Merchant Services, LLC is entitled to borrow up to $170 million, subject to certain terms and conditions of the credit agreement. The loan proceeds are used to finance activities in our Physical Ag & Energy commodity business.
- An unsecured syndicated loan facility, committed until November 7, 2018, under which our subsidiary, INTL FCStone Ltd is entitled to borrow up to $25 million, subject to certain terms and conditions of the credit agreement. This facility is intended to provide short-term funding of margin to commodity exchanges as necessary.

Additional information regarding the committed bank credit facilities can be found in Note 11 of the Consolidated Financial Statements. As reflected above, $245 million of our committed credit facilities are scheduled to expire within twelve months of this filing. We intend to renew or replace these facilities as they expire, and based on our liquidity position and capital structure, we believe we will be able to do so.

As of September 30, 2017, we had four uncommitted bank credit facilities with an outstanding balance of $34.0 million. The credit facilities include:

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A secured uncommitted loan facility under which our subsidiary, INTL FCStone Financial may borrow up to $50.0 million, collateralized by commodity warehouse receipts, to facilitate U.S. commodity exchange deliveries of its customers, subject to certain terms and conditions of the credit agreement.

- A secured uncommitted loan facility under which our subsidiary, INTL FCStone Financial may borrow up to $100.0 million for short term funding of firm and customer margin requirements, subject to certain terms and conditions of the agreement. The borrowings are secured by first liens on firm owned marketable securities or customer owned securities which have been pledged to us under a clearing arrangement.

- A secured, uncommitted loan facility, under which our subsidiary, INTL FCStone Financial may borrow requested amounts for short term funding of firm and customer margin requirements. The uncommitted maximum amount available to be borrowed is not specified, and all requests for borrowing are subject to the sole discretion of the lender. The borrowing are secured by first liens on firm owned marketable securities or customer owned securities which have been pledged to us under a clearing arrangement.
- A secured uncommitted loan facility under which our subsidiary, INTL FCStone Ltd may borrow up to $25.0 million, collateralized by commodity warehouse receipts, to facilitate financing of commodities under repurchase agreement services to its customers, subject to certain terms and conditions of the credit agreement.

Our loan facility agreements contain certain financial covenants relating to financial measures on a consolidated basis, as well as on a certain stand-alone subsidiary basis, including minimum net worth, minimum regulatory capital, minimum net unencumbered liquid assets, maximum net loss, minimum fixed charge coverage ratio and maximum funded debt to net worth ratio. Failure to comply with any such covenants could result in the debt becoming payable on demand. We and our subsidiaries are in compliance with all of our financial covenants under the outstanding facilities.

We contributed $2.0 million to our defined benefit pension plans during the year ended September 30, 2017, and expect to contribute $1.3 million to the plans during fiscal 2018.

Cash Flows

Our cash and cash equivalents decreased from $316.2 million as of September 30, 2016 to $314.9 million as of September 30, 2017, a net decrease of $1.3 million. Net cash of $13.9 million was provided by operating activities, $22.3 million was used in investing activities and net cash of $5.7 million was provided by financing activities, of which $48.2 million was drawn on lines of credit and increased the amounts payable to lenders under loans, while $45.5 million was used to redeem the Notes. Fluctuations in exchange rates caused a reduction of $1.4 million to our cash and cash equivalents.

In the commodities industry, companies report trading activities in the operating section of the statement of cash flows. Due to the daily price volatility in the commodities market, as well as changes in margin requirements, fluctuations in the balances of deposits held at various exchanges, marketable securities and customer commodity accounts may occur from day-to-day. A use of cash, as calculated on the consolidated statement of cash flows, includes unrestricted cash transferred and pledged to the exchanges or guarantee funds. These funds are held in interest-bearing deposit accounts at the exchanges, and based on daily exchange requirements, may be withdrawn and returned to unrestricted cash. Additionally, within our unregulated OTC and foreign exchange operations, cash deposits received from customers are reflected as cash provided from operations. Subsequent transfer of these cash deposits to counterparties or exchanges to margin their open positions will be reflected as an operating use of cash to the extent the transfer occurs in a different period than the cash deposit was received.

Capital expenditures included in investing activities for property, plant and equipment totaled $16.1 million in fiscal 2017, increasing from $15.4 million in fiscal 2016. The increase in capital expenditures is primarily due to an ongoing back-office trade system conversion related to our OTC activities in our Commercial Hedging segment and FX Prime Brokerage activities in our Clearing and Execution Services segment. Additionally, the increase in capital expenditures is due to core information technology hardware acquisitions and leasehold improvements on office space.

Over the past two years, we have been undergoing a trade system conversion that is intended to replace an internally developed system as well as a current third-party provided system. We have capitalized $15.3 million of direct costs of materials and third-party services related to obtaining and developing the trade system over this two year period. On August 1, 2017, we implemented the first phase of the trade system related to our OTC commodities business. The next phase of the system related to our FX prime brokerage business is in the application development stage, and is expected to be placed into service during fiscal 2018. We estimate the useful life for the trade system to be ten years.

During fiscal 2017, we had no repurchases of our outstanding common stock. During fiscal 2016, we repurchased 750,204 shares of our outstanding common stock in open market transactions, for an aggregate purchase price of $19.5 million. During fiscal 2015, we have repurchased 224,509 shares of our outstanding common stock in open market transactions, for an aggregate purchase price of $4.5 million.

On August 17, 2017, our Board of Directors authorized for fiscal 2018, 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, 2017 and ending on September 30, 2018, 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.
Apart from what has been disclosed above, there are no known trends, events or uncertainties that have had or are likely to have a material impact on our liquidity, financial condition and capital resources.

Table of Contents

Other Capital Considerations

Our activities are subject to significant governmental regulations and capital adequacy requirements, both in the U.S. and overseas. Certain other of our non-U.S. subsidiaries are also subject to capital adequacy requirements promulgated by authorities of the countries in which they operate.

Our subsidiaries are in compliance with all of their capital regulatory requirements as of September 30, 2017. Additional information on these net capital and minimum net capital requirements can be found in Note 13 of the Consolidated Financial Statements.

The Dodd-Frank Act created 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.” Our subsidiary, INTL FCStone Markets, LLC, is a provisionally registered swap dealer. Some important rules, such as those setting capital and margin requirements, have not been finalized or fully implemented, and it is too early to predict with any degree of certainty how we will be affected.

Contractual Obligations

The following table summarizes our cash payment obligations as of September 30, 2017:

		Payments Due by Period			
(in millions)	Total	Less than 1 year	1 - 3 Years	3 - 5 Years	After 5 Years
Operating lease obligations	$46.4	$8.9	$16.0	$11.4	$10.1
Purchase obligations[1]	674.5	674.5	—	—	—
Senior unsecured notes	—	—	—	—	—
Contingent acquisition consideration	1.0	1.0	—	—	—
Other	6.8	1.2	1.8	2.1	1.7
	$728.7	$685.6	$17.8	$13.5	$11.8

(1) Represents an estimate of contractual purchase commitments in the ordinary course of business primarily for the purchase of precious metals and agricultural and energy commodities. Unpriced contract commitments have been estimated using September 30, 2017 fair values. The purchase commitments for less than one year will be partially offset by corresponding sales commitments of $583.5 million.

Total contractual obligations exclude defined benefit pension obligations. In fiscal 2018, we anticipate making contributions of $1.3 million to defined benefit plans. Additional information on the funded status of these plans can be found in Note 16 of the Consolidated Financial Statements.

Based upon our current operations, we believe that cash flow from operations, available cash and available borrowings under our credit facilities will be adequate to meet our future liquidity needs.

Off Balance Sheet Arrangements

We are party to certain financial instruments with off-balance sheet risk in the normal course of business as a registered securities broker-dealer, futures commission merchant, U.K. based Financial Services Firm, provisionally registered swap dealer and from our market-making and proprietary trading in the foreign exchange and commodities trading activities. These financial instruments include futures, forward and foreign exchange contracts, exchange-traded and OTC options, mortgage-backed TBAs, and interest rate swaps. Derivative financial instruments involve varying degrees of off-statement of financial condition market risk whereby changes in the fair values of underlying financial instruments may result in changes in the fair value of the financial instruments in excess of the amounts reflected in the statement of financial condition. Exposure to market risk is influenced by a number of factors, including the relationships between the financial instruments and our positions, as well as the volatility and liquidity in the markets in which the financial instruments are traded. The principal risk components of financial instruments include, among other things, interest rate volatility, the duration of the underlying instruments and changes in commodity pricing and foreign exchange rates. We attempt to manage our exposure to market risk through various techniques. Aggregate market limits have been established and market risk measures are routinely monitored against these limits. Derivative contracts are traded along with cash transactions because of the integrated nature of the markets for such products. We manage the risks associated with derivatives on an aggregate basis along with the risks associated with our proprietary trading and market-making activities in cash instruments as part of our firm-wide risk management policies.

A significant portion of these instruments are primarily the execution of orders for commodity futures and options on futures contracts on behalf of its customers, substantially all of which are transacted on a margin basis. Such transactions may expose us to significant credit risk in the event margin requirements are not sufficient to fully cover losses which customers may incur. We control the risks associated with these transactions by requiring customers to maintain margin deposits in compliance with individual exchange regulations and internal guidelines. We monitor required margin levels daily and, therefore, may require customers to deposit additional collateral or reduce positions when necessary. We also establish contract limits for customers, which are monitored daily. We evaluate each customer’s creditworthiness on a case-by-case basis. Clearing, financing, and settlement activities may require us to maintain funds with or pledge securities as collateral with other financial institutions. Generally, these exposures to exchanges are subject to netting of open positions and collateral, while exposures to customers are subject to netting, per the terms of the customer agreements, which reduce the exposure to us by permitting receivables and payables with such customers to be offset in the event of a customer default. Management believes that the margin deposits held are adequate to minimize the risk of material loss that could be created by positions held as of September 30, 2017. Additionally, we monitor collateral fair value on a daily basis and adjust collateral levels in the event of excess market exposure. Generally, these exposures to both counterparties and customers are subject to master netting agreements and the terms of the customer agreements, which reduce our exposure.

As a broker-dealer in U.S. Treasury obligations, U.S. government agency obligations, agency mortgage-backed obligations, and asset-backed obligations we are engaged in various securities trading, borrowing and lending activities servicing solely institutional counterparties. Our exposure to credit risk associated with the nonperformance of counterparties in fulfilling their contractual obligations pursuant to these securities transactions and market risk associated with the sale of securities not yet purchased can be directly impacted by volatile trading markets which may impair their ability to satisfy outstanding obligations to us. In the event of non-performance and unfavorable market price movements, we may be required to purchase or sell financial instruments, which may result in a loss to us.

We transact OTC and foreign exchange contracts with our customers, and our OTC and foreign exchange trade desks will generally offset the customer’s transaction simultaneously with one of our trading counterparties or will offset that transaction with a similar, but not identical, position on the exchange. These unmatched transactions are intended to be short-term in nature and are conducted to facilitate the most effective transaction for our customer.

Additionally, we hold options and futures on options contracts resulting from market-making and proprietary trading activities in these product lines. We assist customers in our commodities trading business to protect the value of their future production (precious or base metals) by selling them put options on an OTC basis. We also provide our commodities trading business customers with sophisticated option products, including combinations of buying and selling puts and calls. We mitigate our risk by effecting offsetting options with market counterparties or through the purchase or sale of exchange-traded commodities futures. The risk mitigation of offsetting options is not within the documented hedging designation requirements of the Derivatives and Hedging Topic of the ASC.

As part of the activities discussed above, we carry short positions. We sell financial instruments that we do not own and borrow the financial instruments to make good delivery, and therefore we are obliged to purchase such financial instruments at a future date in order to return the borrowed financial instruments. We record these obligations in the consolidated financial statements as of September 30, 2017 and September 30, 2016, at fair value of the related financial instruments, totaling $717.6 million and $839.4 million, respectively. These positions are held to offset the risks related to financial assets owned, and reported in our consolidated balance sheets in ‘financial instruments owned, at fair value’, and ‘physical commodities inventory’. We will incur losses if the fair value of the financial instruments sold, not yet purchased, increases subsequent to September 30, 2017, which might be partially or wholly offset by gains in the value of assets held as of September 30, 2017. The totals of $717.6 million and $839.4 million include a net liability of $317.0 million and $210.9 million for derivatives, based on their fair value as of September 30, 2017 and September 30, 2016, respectively.

We do not anticipate non-performance by counterparties in the above situations. We have a policy of reviewing the credit standing of each counterparty with which it conducts business. We have credit guidelines that limit our current and potential credit exposure to any one counterparty. We administer limits, monitor credit exposure, and periodically review the financial soundness of counterparties. We manage the credit exposure relating to our trading activities in various ways, including entering into collateral arrangements and limiting the duration of exposure. Risk is mitigated in certain cases by closing out transactions and entering into risk reducing transactions.

We are a member of various exchanges that trade and clear futures and option contracts. We are also a member of and provide guarantees to securities clearinghouses and exchanges in connection with customer trading activities. Associated with our memberships, we may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchanges. While the rules governing different exchange memberships vary, in general our guarantee obligations would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Our liability under these arrangements is not quantifiable and could exceed the cash and securities we have posted as collateral at the exchanges. However, management believes that the potential for us to be required to make payments under these arrangements is remote. Accordingly, no

Table of Contents

contingent liability for these arrangements has been recorded in the consolidated balance sheets as of September 30, 2017 and 2016.

Effects of Inflation

Because our assets are, to a large extent, liquid in nature, they are not significantly affected by inflation. Increases in our expenses, such as compensation and benefits, transaction-based clearing expenses, occupancy and equipment rental, due to inflation, may not be readily recoverable from increasing the prices of our services. While rising interest rates are generally favorable for us, to the extent that inflation has other adverse effects on the financial markets and on the value of the financial instruments held in inventory, it may adversely affect our financial position and results of operations.

Critical Accounting Policies

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period. The accounting estimates and assumptions discussed in this section are those that we consider the most critical to the financial statements. We believe these estimates and assumptions can involve a high degree of judgment and complexity. Due to their nature, estimates involve judgment based upon available information. Actual results or amounts could differ from estimates and the difference could have a material impact on the financial statements. Therefore, understanding these policies is important in understanding our reported and potential future results of operations and financial position.

Valuation of Financial Instruments and Foreign Currencies. Substantially all financial instruments are reflected in the consolidated financial statements at fair value or amounts that approximate fair value. These financial instruments include: cash and cash equivalents; cash, securities and other assets segregated under federal and other regulations; financial instruments purchased under agreements to resell; deposits with clearing organizations; financial instruments owned; and financial instruments sold but not yet purchased. Unrealized gains and losses related to these financial instruments, which are not customer owned positions, are reflected in earnings. Where available, we use prices from independent sources such as listed market prices, or broker or dealer price quotations. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions. In some cases, even though the value of a security is derived from an independent market price or broker or dealer quote, certain assumptions may be required to determine the fair value. However, these assumptions may be incorrect and the actual value realized upon disposition could be different from the current carrying value. The value of foreign currencies, including foreign currencies sold, not yet purchased, are converted into its U.S. dollar equivalents at the foreign exchange rates in effect at the close of business at the end of the accounting period. For foreign currency transactions completed during each reporting period, the foreign exchange rate in effect at the time of the transaction is used.

The application of the valuation process for financial instruments and foreign currencies is critical because these items represent a significant portion of our total assets. Valuations for substantially all of the financial instruments held are available from independent publishers of market information. The valuation process may involve estimates and judgments in the case of certain financial instruments with limited liquidity and OTC derivatives. Given the wide availability of pricing information, the high degree of liquidity of the majority of our assets, and the relatively short periods for which they are typically held in inventory, there is insignificant sensitivity to changes in estimates and insignificant risk of changes in estimates having a material effect on our financial statements. The basis for estimating the valuation of any financial instruments has not undergone any change.

Revenue Recognition. A significant portion of our revenues are derived principally from realized and unrealized trading income in securities, derivative instruments, commodities and foreign currencies purchased or sold for our account. We record realized and unrealized trading income on a trade date basis. We state securities owned and securities sold, not yet purchased and foreign currencies sold, not yet purchased, at fair value with related changes in unrealized appreciation or depreciation reflected in ‘trading gains, net’ in the consolidated income statements. We record fee and interest income on the accrual basis and dividend income is recognized on the ex-dividend date.

Revenue on commodities that are purchased for physical delivery to customers and that are not readily convertible into cash is recognized at the point in time when the commodity has been shipped, title and risk of loss has been transferred to the customer, and the following conditions have been met: persuasive evidence of an arrangement exists, the price is fixed and determinable, and collectability of the resulting receivable is reasonably assured.

The critical aspect of revenue recognition is recording all known transactions as of the trade date of each transaction for the financial period. We have developed systems for each of our businesses to capture all known transactions. Recording all known transactions involves reviewing trades that occur after the financial period that relate to the financial period. The accuracy of

Table of Contents

capturing this information is dependent upon the completeness and accuracy of data capture of the operations systems and our clearing firms.

Income Taxes. We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in determining the consolidated provision for income taxes and in evaluating tax positions, including evaluating uncertainties. As a result, the company recognizes tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognized when despite our belief that our tax return positions are supportable, we believe that certain positions may not be fully sustained upon review by the relevant tax authorities.

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Significant judgment is also required in determining any valuation allowance recorded against deferred tax assets. In assessing the need for a valuation allowance, management considers all available evidence for each jurisdiction including past operating results, estimates of future taxable income, and the feasibility of ongoing tax planning strategies. In the event that we change our determination as to the amount of deferred tax assets that can be realized, we will adjust our valuation allowance with a corresponding impact to income tax expense in the period in which such determination is made.

We believe that our accruals for tax liabilities are adequate for all open audit years based on our assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that new information becomes available which causes us to change our judgment regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact income tax expense in the period in which such determination is made. The consolidated provision for income taxes will change period to period based on non-recurring events, such as the settlement of income tax audits and changes in tax law, as well as recurring factors including the geographic mix of income before taxes, state and local taxes, and the effects of various global income tax strategies.

Accounting Standards Update

In October 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory. This ASU requires entities to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. The adoption of this standard should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Company expects to adopt this guidance starting with the first quarter of fiscal year 2019. The adoption of this standard is not expected to have a material impact on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. This ASU requires companies to include cash and cash equivalents that have restrictions on withdrawal or use in total cash and cash equivalents on the statement of cash flows. This ASU is effective for public business entities for annual and interim periods in fiscal years beginning after December 15, 2017. The adoption of this standard should be applied using a retrospective transition method to each period presented. The Company expects to adopt this guidance starting with the first quarter of fiscal year 2019. The Company has not yet determined the impact of this ASU on our consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles - Goodwill and Other: Simplifying the Test for Goodwill Impairment, which eliminates Step 2 of the goodwill impairment test. Companies will now perform their goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity will recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. This ASU is effective for public business entities for its annual or any interim goodwill impairment tests beginning in periods after December 15, 2019. The Company expects to adopt this guidance starting with the first quarter of fiscal year 2021.

The Company does not expect this ASU to have a significant impact on our consolidated financial statements.
In February 2017, the FASB issued ASU 2017-05 addressing the derecognition of nonfinancial assets. The guidance defines in substance nonfinancial assets, and states that the derecognition of business activities should be evaluated under the consolidation guidance. The standard eliminates the previous exclusion for businesses that are in-substance real estate, and eliminates some differences based on whether a transferred set is that of assets or a business and whether the transfer is to a joint venture. The standard must be implemented in conjunction with the implementation date of the revenue recognition accounting standard update, which we will adopt on October 1, 2018. The Company plans to adopt the new standard using the

Table of Contents

modified retrospective method and are in the process of determining the impact of the guidance on its consolidated financial statements together with our evaluation of the new revenue recognition standard, as described further below.
In March 2017, the FASB issued ASU 2017-07 requiring that the service cost component of pension and postretirement benefit costs be presented in the same line item as other current employee compensation costs and other components of those benefit costs be presented separately from the service cost component and outside a subtotal of income from operations, if presented. The update also requires that only the service cost component of pension and postretirement benefit cost is eligible for capitalization. The update is effective for annual periods beginning after December 15, 2017 and interim periods within that annual period. The Company expects to adopt this guidance starting with the first quarter of fiscal year 2019. Application is retrospective for the presentation of the components of these benefit costs and prospective for the capitalization of only service costs. Early adoption is permitted. The Company does not expect application of this guidance to have a material impact on its consolidated financial statements.
In May 2017, the FASB issued ASU 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies the changes to terms or conditions of a share-based payment award that require an entity to apply modification accounting. The amendments of this ASU are effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. Early application is permitted and prospective application is required. The Company expects to adopt this guidance starting with the first quarter of fiscal year 2019. The Company does not expect the adoption of this guidance to have a significant impact on its consolidated financial statements.
In August 2017, the FASB issued accounting guidance to improve and simplify existing guidance to allow companies to better reflect its risk management activities in the financial statements. The guidance expands the ability to hedge non-financial and financial risk components, eliminates the requirement to separately measure and recognize hedge ineffectiveness and eases requirements of an entity’s assessment of hedge effectiveness. This guidance is effective for periods beginning after December 15, 2018 and early adoption is permitted. The Company currently does not account for its derivative contracts under hedge accounting. However, the Company is in the process of evaluating the potential impacts this guidance may have on its consolidated financial statements if it decides to account for these contracts under the new hedge accounting rules.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board (IASB) to improve financial reporting by creating common revenue recognition guidance for GAAP and International Financial Reporting Standards (IFRS). In March 2016, the FASB issued ASU 2016-08, “Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net).” ASU 2016-08 clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU 2016-10, “Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing.” ASU 2016-10 clarifies the implementation guidance on identifying performance obligations. These ASUs apply to all companies that enter into contracts with customers to transfer goods or services. These ASUs are effective for public entities for interim and annual reporting periods beginning after December 15, 2017. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. The Company expects to adopt this guidance starting with the first quarter of fiscal year 2019. Entities have the choice to apply these ASUs either retrospectively to each reporting period presented or by recognizing the cumulative effect of applying these standards at the date of initial application and not adjusting comparative information. The Company plans to adopt the new standard using the modified retrospective method which will result in a cumulative effect adjustment as of the date of adoption. By selecting this adoption method, the Company will disclose the amount, if any, by which each financial statement line item is affected by the standard in the current reporting period as compared with the guidance that was in effect before adoption. Our implementation efforts include identifying revenues and costs within the scope of the ASU, reviewing contracts, and analyzing any changes to its existing revenue recognition policies. As a result of the initial evaluation performed, the Company does not expect that there will be material changes to the timing of revenue, but do anticipate certain changes to the classification of revenue in the consolidated income statements. The Company also expects additional disclosures to be provided in our consolidated financial statements after adoption of the new standard. The Company is continuing to assess the impact of the new standard as we progress through the implementation process and as industry interpretations are resolved.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes ASC 840, Leases. The Company will adopt this guidance starting with the first quarter of fiscal year 2020 using a modified retrospective transition approach. This accounting update will require the Company as a lessee to recognize on the consolidated balance sheet all leases with terms exceeding one year, which results in the recognition of a right of use asset and corresponding lease liability, including for those leases that we currently classify as operating leases. The right of use asset and lease liability will initially be measured using the present value of the remaining rental payments.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

See also Note 5 to the Consolidated Financial Statements, ‘Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk’.

Market Risk

We conduct our market-making and trading activities predominantly as a principal, which subjects our capital to significant risks. These risks include, but are not limited to, absolute and relative price movements, price volatility and changes in liquidity, over which we have virtually no control. Our exposure to market risk varies in accordance with the volume of customer-driven market-making transactions, the size of the proprietary positions and the volatility of the financial instruments traded.

We seek to mitigate exposure to market risk by utilizing a variety of qualitative and quantitative techniques:

- Diversification of business activities and instruments;
- Limitations on positions;
- Allocation of capital and limits based on estimated weighted risks; and
- Daily monitoring of positions and mark-to-market profitability.

We utilize derivative products in a trading capacity as a dealer to satisfy customer needs and mitigate risk. We manage risks from both derivatives and non-derivative cash instruments on a consolidated basis. The risks of derivatives should not be viewed in isolation, but in aggregate with our other trading activities.

Management believes that the volatility of revenues is a key indicator of the effectiveness of its risk management techniques.

The graph below summarizes volatility of our daily revenue, determined on a marked-to-market basis, during the year ended September 30, 2017.

In our Securities market-making and trading activities, we maintain inventories of equity and debt securities. In our Physical Commodities segment, our positions include physical inventories, forwards, futures and options on futures, and OTC derivatives. Our commodity trading activities are managed as one consolidated book for each commodity encompassing both cash positions and derivative instruments. We monitor the aggregate position for each commodity in equivalent physical ounces, metric tons, or other relevant unit.

Interest Rate Risk

In the ordinary course of our operations, we have interest rate risk from the possibility that changes in interest rates will affect the values of financial instruments and impact interest income earned. Within our domestic institutional fixed income business, we maintain a significant amount of trading assets and liabilities which are sensitive to changes in interest rates. These trading

Table of Contents

activities consist primarily of securities trading in connection with U.S. Treasury, U.S. government agency, agency mortgage-backed and agency asset-backed obligations. Derivative instruments, which consist of futures, mortgage-backed "to be announced" (TBA) securities and forward settling transactions, are used to manage risk exposures in the trading inventory. We enter into TBA securities transactions for the sole purpose of managing risk associated with the purchase of mortgage pass-through securities.

In addition, we generate interest income from the positive spread earned on customer deposits. We typically invest in U.S. Treasury bills, notes, and obligations issued by government sponsored entities, reverse repurchase agreements involving U.S. Treasury bills and government obligations or AA-rated money market funds. In some instances, we maintain interest earning cash deposits with banks, clearing organizations and counterparties. We have an investment policy which establishes acceptable standards of credit quality and limits the amount of funds that can be invested within a particular fund and institution.

We employ an interest rate management strategy, where we use derivative financial instruments in the form of interest rate swaps and/or outright purchases of medium-term U.S. Treasury notes to manage a portion of our aggregate interest rate position. On a quarterly basis, we evaluate our overall level of short term investable balances, net of our of variable rate debt, and either invest a portion of these investable balances in medium-term U.S. Treasury notes or enter into interest rate swaps, when a sufficient interest rate spread between short-term and medium term rates exists. Under this strategy, we do not actively trade in such instruments and generally intend to hold these investment to their maturity date. Under this strategy, excluding cash deposits and our investments in AA-rated money market funds, the weighted average time to maturity of our portfolio is not to exceed 24 months in duration.

As of September 30, 2017, we held no medium-term U.S. Treasury notes and no interest rate swap derivative contracts as part of this strategy. Currently our short term investment balances are held in short term U.S. Treasury bills, interest earning cash deposits and AA-rated money market fund investments. During the fiscal year ended September 30, 2017, 2016 and 2015, operating revenues include unrealized (losses) gains of ($5.8) million, ($0.7) million and $7.0 million, respectively, related to the change in fair value of these U.S. Treasury notes and interest rate swaps. The U.S. Treasury notes and interest rate swaps are not designated for hedge accounting treatment, and changes in their fair values, which are volatile and can fluctuate from period to period, are included in operating revenues in the current period.

We manage interest expense using a combination of variable and fixed rate debt as well as including the average outstanding borrowings in our calculations of the notional value of interest rate swaps to be entered into as part of our interest rate management strategy discussed above. Refer to Note 5 to the Consolidated Financial Statements for information on the interest rate swap transactions. The debt instruments are carried at their unpaid principal balance which approximates fair value. As of