RAYMOND JAMES FINANCIAL INC
Form 10-Q
May 10, 2017

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

FORM 10-Q
(Mark one)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2017
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number: 1-9109
RAYMOND JAMES FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

Florida	No. 59-1517485
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

880 Carillon Parkway, St. Petersburg, Florida 33716
(Address of principal executive offices) (Zip Code)
(727) 567-1000
(Registrant's telephone number, including area code)
None
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
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 such shorter period that the registrant was required to submit and post such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

144,021,101 shares of common stock as of May 8, 2017

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES

INDEX

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)

	March 31, 2017	September 30, 2016
	(in thousands)	
Assets:		
Cash and cash equivalents	$2,636,326	$1,650,452
Assets segregated pursuant to regulations and other segregated assets	3,829,607	4,884,487
Securities purchased under agreements to resell and other collateralized financings	535,224	470,222
Financial instruments, at fair value:		
Trading instruments	736,782	766,805
Available for sale securities	1,714,114	859,398
Private equity investments	201,761	194,634
Other investments	222,585	296,844
Derivative instruments associated with offsetting matched book positions	285,898	422,196
Receivables:		
Brokerage clients, net	2,716,741	2,714,782
Stock borrowed	132,049	170,860
Bank loans, net	15,994,689	15,210,735
Brokers-dealers and clearing organizations	97,807	164,908
Loans to financial advisors, net	861,346	838,721
Other	645,845	610,417
Deposits with clearing organizations	199,096	245,364
Prepaid expenses and other assets	787,588	777,224
Investments in real estate partnerships held by consolidated variable interest entities	59,639	61,004
Property and equipment, net	409,543	321,457
Deferred income taxes, net	365,869	322,024
Goodwill and identifiable intangible assets, net	496,222	504,442
Total assets	$32,928,731	$31,486,976

(continued on next page)

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(Unaudited)
(continued from previous page)

	March 31, 2017	September 30, 2016
	($ in thousands)	
Liabilities and equity:		
Trading instruments sold but not yet purchased, at fair value	$471,704	$328,938
Securities sold under agreements to repurchase	222,476	193,229
Derivative instruments associated with offsetting matched book positions, at fair value	285,898	422,196
Payables:		
Brokerage clients	6,073,591	6,444,671
Stock loaned	403,542	677,761
Bank deposits	16,377,544	14,262,547
Brokers-dealers and clearing organizations	228,661	306,119
Trade and other	629,598	583,340
Other borrowings	756,367	608,658
Accrued compensation, commissions and benefits	811,551	915,954
Senior notes payable	1,339,582	1,680,587
Total liabilities	27,600,514	26,424,000
Commitments and contingencies (see Note 17)		
Equity		
Preferred stock; $.10 par value; 10,000,000 shares authorized; -0- shares issued and outstanding	—	—
Common stock; $.01 par value; 350,000,000 shares authorized; 153,716,695 and 151,424,947 shares issued as of March 31, 2017 and September 30, 2016, respectively, and 143,542,965 and 141,544,511 shares outstanding as of March 31, 2017 and September 30, 2016, respectively	1,536	1,513
Additional paid-in capital	1,595,314	1,498,921
Retained earnings	4,027,927	3,834,781
Treasury stock, at cost; 10,101,753 and 9,766,846 common shares as of March 31, 2017 and September 30, 2016, respectively	(389,595)	(362,937)
Accumulated other comprehensive loss	(27,434)	(55,733)
Total equity attributable to Raymond James Financial, Inc.	5,207,748	4,916,545
Noncontrolling interests	120,469	146,431
Total equity	5,328,217	5,062,976
Total liabilities and equity	$32,928,731	$31,486,976

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(Unaudited)

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
	(in thousands, except per share amounts)			
Revenues:				
Securities commissions and fees	$992,112	$853,330	$1,976,497	$1,702,992
Investment banking	102,377	68,704	163,802	126,257
Investment advisory and related administrative fees	110,280	93,871	218,523	192,473
Interest	192,544	161,638	375,326	304,110
Account and service fees	162,981	127,528	311,772	244,351
Net trading profit	15,811	14,415	36,366	36,584
Other	24,209	21,624	46,796	35,200
Total revenues	1,600,314	1,341,110	3,129,082	2,641,967
Interest expense	(36,677)	(29,109)	(72,643)	(55,808)
Net revenues	1,563,637	1,312,001	3,056,439	2,586,159
Non-interest expenses:				
Compensation, commissions and benefits	1,035,714	887,937	2,042,181	1,754,335
Communications and information processing	76,067	68,482	148,228	140,620
Occupancy and equipment costs	47,498	40,891	93,550	82,680
Clearance and floor brokerage	11,407	10,517	23,757	20,513
Business development	41,519	35,417	76,881	76,041
Investment sub-advisory fees	17,778	14,282	37,073	28,836
Bank loan loss provision	7,928	9,629	6,888	23,539
Acquisition-related expenses	1,086	6,015	13,752	7,887
Other	163,337	44,723	245,311	87,527
Total non-interest expenses	1,402,334	1,117,893	2,687,621	2,221,978
Income including noncontrolling interests and before provision for income taxes	161,303	194,108	368,818	364,181
Provision for income taxes	52,758	72,271	112,570	134,280
Net income including noncontrolling interests	108,545	121,837	256,248	229,901
Net loss attributable to noncontrolling interests	(4,210)	(4,010)	(3,074)	(2,275)
Net income attributable to Raymond James Financial, Inc.	$112,755	$125,847	$259,322	$232,176
Net income per common share – basic	$0.78	$0.89	$1.81	$1.63
Net income per common share – diluted	$0.77	$0.87	$1.77	$1.60
Weighted-average common shares outstanding – basic	143,367	141,472	142,732	142,273
Weighted-average common and common equivalent shares outstanding – diluted	146,779	144,012	146,119	145,047
Net income attributable to Raymond James Financial, Inc.	$112,755	$125,847	$259,322	$232,176
Other comprehensive income (loss), net of tax:(1)				
Unrealized gain (loss) on available for sale securities and non-credit portion of other-than-temporary impairment losses	1,952	1,099	(2,194)	(5,692)
Unrealized gain on currency translations, net of the impact of net investment hedges	2,223	10,714	3,224	4,099
Unrealized gain (loss) on cash flow hedges	1,531	(11,469)	27,269	(8,204)
Total comprehensive income	$118,461	$126,191	$287,621	$222,379

Other-than-temporary impairment:				
Total other-than-temporary impairment, net	$397	$(353)	$1,257	$21
Portion of (recoveries) losses recognized in other comprehensive income	(397)	353	(1,257)	(21)
Net impairment losses recognized in other revenue	$—	$—	$—	$—

(1) All components of other comprehensive income (loss), net of tax, are attributable to Raymond James Financial, Inc.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)

	Six months ended March 31,	
	2017	2016
	(in thousands, except per share amounts)	
Common stock, par value $.01 per share:		
Balance, beginning of year	$1,513	$1,491
Share issuances	23	16
Balance, end of period	1,536	1,507
Additional paid-in capital:		
Balance, beginning of year	1,498,921	1,344,779
Employee stock purchases	12,741	18,938
Exercise of stock options and vesting of restricted stock units, net of forfeitures	30,732	13,954
Restricted stock, stock option and restricted stock unit expense	52,288	39,962
Excess tax benefit from share-based payments	— [1]	34,791
Other	632	362
Balance, end of period	1,595,314	1,452,786
Retained earnings: [2]		
Balance, beginning of year	3,834,781	3,422,169
Net income attributable to Raymond James Financial, Inc.	259,322	232,176
Cash dividends declared	(66,176)	(59,142)
Balance, end of period	4,027,927	3,595,203
Treasury stock:		
Balance, beginning of year	(362,937)	(203,455)
Purchases/surrenders	(9,113)	(152,284)
Exercise of stock options and vesting of restricted stock units, net of forfeitures	(17,545)	(5,717)
Balance, end of period	(389,595)	(361,456)
Accumulated other comprehensive loss: [3]		
Balance, beginning of year	(55,733)	(40,503)
Net change in unrealized gain/loss on available for sale securities and non-credit portion of other-than-temporary impairment losses, net of tax	(2,194)	(5,692)
Net change in currency translations and net investment hedges, net of tax	3,224	4,099
Net change in cash flow hedges, net of tax	27,269	(8,204)
Balance, end of period	(27,434)	(50,300)
Total equity attributable to Raymond James Financial, Inc.	$5,207,748	$4,637,740
Noncontrolling interests: [2]		
Balance, beginning of year	$146,431	$154,454
Net income attributable to noncontrolling interests	(3,074)	(2,275)
Capital contributions	9,776	695
Distributions	(28,435)	(5,033)
Derecognition resulting from sales	(4,628)	—

Other	399	(2,187)
Balance, end of period	120,469	145,654
Total equity	$5,328,217	$4,783,394

(1) During the six months ended March 31, 2017, we adopted new stock compensation simplification guidance. See Notes 1, 16 and 20 for additional information.

(2) Each respective prior period balance has been restated to reflect the impact of the deconsolidation of certain VIEs. See Note 1 for additional information.

(3) All components of other comprehensive (loss) income, net of tax, are attributable to Raymond James Financial, Inc.

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended March 31,	
	2017	2016
	(in thousands)	
Cash flows from operating activities:		
Net income attributable to Raymond James Financial, Inc.	$259,322	$232,176
Net loss attributable to noncontrolling interests	(3,074)	(2,275)
Net income including noncontrolling interests	256,248	229,901
Adjustments to reconcile net income including noncontrolling interests to net cash provided by (used in) operating activities:		
Depreciation and amortization	40,959	35,652
Deferred income taxes	(38,181)	(13,295)
Premium and discount amortization on available for sale securities and unrealized/realized gain on other investments	(18,976)	(3,852)
Provisions for loan losses, legal proceedings, bad debts and other accruals	143,993	38,955
Share-based compensation expense	66,015	42,735
Other	(2,067)	1,015
Net change in:		
Assets segregated pursuant to regulations and other segregated assets	1,054,930	(704,005)
Securities purchased under agreements to resell and other collateralized financings, net of securities sold under agreements to repurchase	(35,755)	(96,577)
Stock loaned, net of stock borrowed	(235,408)	133,120
Loans provided to financial advisors, net of repayments	(33,945)	(70,836)
Brokerage client receivables and other accounts receivable, net	23,233	(136,374)
Trading instruments, net	174,079	(16,708)
Prepaid expenses and other assets	158,758	129,318
Brokerage client payables and other accounts payable	(431,259)	605,528
Accrued compensation, commissions and benefits	(108,250)	(168,896)
Proceeds from sales of securitizations and loans held for sale, net of purchases and originations of loans held for sale	77,765	(63,180)
Net cash provided by (used in) operating activities	1,092,139	(57,499)
Cash flows from investing activities:		
Additions to property and equipment	(123,338)	(58,180)
Increase in bank loans, net	(1,103,445)	(1,490,887)
Purchases of Federal Home Loan Bank/Federal Reserve Bank stock	(4,875)	(3,231)
Proceeds from sales of loans held for investment	106,223	65,443
Purchases, or contributions, to private equity or other investments, net of proceeds from sales of, or distributions received from, private equity and other investments	51,455	(60,639)
Purchases of available for sale securities	(1,012,238)	(87,676)
Available for sale securities maturations, repayments and redemptions	115,976	42,729
Proceeds from sales of available for sale securities	32,841	1,530
Other investing activities, net of proceeds received	2,399	4,432
Net cash used in investing activities	$(1,935,002)	$(1,586,479)

(continued on next page)

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(continued from previous page)

	Six months ended March 31,	
	2017	2016
	(in thousands)	
Cash flows from financing activities:		
Proceeds from (repayments of) short-term borrowings, net	$50,000	$(115,000)
Proceeds from Federal Home Loan Bank advances	100,000	25,000
Repayments of Federal Home Loan Bank advances and other borrowed funds	(2,291)	(2,181)
Repayment of senior notes payable	(350,000)	—
Exercise of stock options and employee stock purchases	43,989	31,240
Increase in bank deposits	2,114,997	809,576
Purchases of treasury stock	(29,063)	(159,175)
Dividends on common stock	(63,027)	(56,152)
Net cash provided by financing activities	1,864,605	533,308
Currency adjustment:		
Effect of exchange rate changes on cash	(35,868)	(10,550)
Net increase (decrease) in cash and cash equivalents	985,874	(1,121,220)
Cash and cash equivalents at beginning of year	1,650,452	2,601,006
Cash and cash equivalents at end of period	$2,636,326	$1,479,786
Supplemental disclosures of cash flow information:		
Cash paid for interest	$76,990	$55,548
Cash paid for income taxes	$144,672	$124,521
Non-cash transfers of loans to other real estate owned	$2,777	$1,942

See accompanying Notes to Condensed Consolidated Financial Statements (Unaudited).

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
March 31, 2017

NOTE 1 – INTRODUCTION AND BASIS OF PRESENTATION

Description of business

Raymond James Financial, Inc. (“RJF” or the “Company”) is a financial holding company whose broker-dealer subsidiaries are engaged in various financial services businesses, including the underwriting, distribution, trading and brokerage of equity and debt securities and the sale of mutual funds and other investment products. In addition, other subsidiaries of RJF provide investment management services for retail and institutional clients, corporate and retail banking, and trust services. As used herein, the terms “we,” “our” or “us” refer to RJF and/or one or more of its subsidiaries.

Basis of presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of RJF and its consolidated subsidiaries that are generally controlled through a majority voting interest. We consolidate all of our 100% owned subsidiaries. In addition we consolidate any variable interest entity (“VIE”) in which we are the primary beneficiary. Additional information on these VIEs is provided in Note 2 on pages 125 - 127 in the section titled, “Evaluation of VIEs to determine whether consolidation is required” as presented in our Annual Report on Form 10-K for the year ended September 30, 2016, as filed with the United States (“U.S.”) Securities and Exchange Commission (the “2016 Form 10-K”) and in Notes 2 and 9 herein. When we do not have a controlling interest in an entity, but we exert significant influence over the entity, we apply the equity method of accounting. All material intercompany balances and transactions have been eliminated in consolidation.

Accounting estimates and assumptions

Certain financial information that is normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) but not required for interim reporting purposes has been condensed or omitted. These unaudited condensed consolidated financial statements reflect, in the opinion of management, all adjustments necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods presented.

The nature of our business is such that the results of any interim period are not necessarily indicative of results for a full year. These unaudited condensed consolidated financial statements should be read in conjunction with Management’s Discussion and Analysis and the consolidated financial statements and notes thereto included in our 2016 Form 10-K. To prepare condensed consolidated financial statements in conformity with GAAP, we must make certain estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and could have a material impact on the condensed consolidated financial statements.

Principal subsidiaries

As of March 31, 2017, our principal subsidiaries, all wholly owned, include: Raymond James & Associates, Inc. (“RJ&A”) a domestic broker-dealer carrying client accounts, Raymond James Financial Services, Inc. (“RJFS”) an introducing domestic broker-dealer, Raymond James Financial Services Advisors, Inc. (“RJFSA”) a registered investment advisor, Raymond James Ltd. (“RJ Ltd.”) a broker-dealer headquartered in Canada, Eagle Asset

Management, Inc. (“Eagle”) a registered investment advisor, and Raymond James Bank, N.A. (“RJ Bank”) a national bank.

Adoption of new accounting guidance

Effective October 1, 2016, we adopted new accounting guidance related to consolidation of legal entities, as well as new guidance simplifying certain aspects of accounting for stock compensation.

As a result of our October 1, 2016 adoption of the new consolidation guidance, we deconsolidated a number of tax credit fund VIEs that had been previously consolidated. We determined that under the new guidance, we are no longer deemed to be the primary beneficiary of these VIEs. We applied the new consolidation guidance on the full retrospective basis, meaning that we have reflected the adjustments arising from this adoption as of the beginning of our earliest comparative period presented. Accordingly, we deconsolidated $107 million in assets, $20 million in liabilities, $89 million in noncontrolling equity interests, and increased retained earnings by $2 million, each computed as of September 30, 2016. There was no net impact on our Condensed Consolidated Statements of Income and Comprehensive Income for the prior year period as the net change in revenues, interest and other expenses were offset by the impact of the deconsolidation on the net loss attributable to noncontrolling interests. See Notes 2 and 9 for additional information.

Our adoption of the new stock compensation simplification guidance impacts our determination of income tax expense. Generally, the amount of compensation cost recognized for financial reporting purposes varies from the amount that can ultimately be deducted on the tax return for share-based payment awards. Under the prior guidance, the tax effects of deductions in excess of compensation expense (“windfalls”), as well as the tax effect of any deficiencies (“shortfalls”) were recorded in equity to the extent of previously recognized windfalls, with any remaining shortfall recorded in income tax expense. Under the new guidance, all tax effects related to share-based payments are recorded through tax expense in the periods during which the awards are exercised or vest, as applicable. Under the transition provisions of the new guidance, we have applied this new guidance prospectively to excess tax benefits arising from vesting after the October 1, 2016 adoption date. Under the new guidance, excess tax benefits are included along with other income tax cash flows as an operating activity in the Condensed Consolidated Statements of Cash Flows. Prior period cash flows have been adjusted to conform to the new presentation. See Note 16 for additional information.

Reclassifications

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

NOTE 2 – UPDATE OF SIGNIFICANT ACCOUNTING POLICIES

A summary of our significant accounting policies is included in Note 2 on pages 108 - 127 of our 2016 Form 10-K. Other than the October 1, 2016 adoption of new consolidation guidance which is described in Note 1 and below, and new guidance on stock compensation which is discussed in Notes 1, 16 and 20, there have been no significant changes in our significant accounting policies since September 30, 2016.

Evaluation of VIEs to determine whether consolidation is required

Our significant accounting policies applicable to the evaluation of legal entities to determine whether consolidation is required are discussed on pages 125 - 127 of our 2016 Form 10-K. As of March 31, 2017, the nature of our involvement in legal entities as described therein is unchanged. However, our assessments of whether our involvement in such legal entities constitutes a VIE, and if so, whether we are deemed to be the primary beneficiary of such VIE, are now governed under new accounting guidance.

Other than as described below, our application of the new consolidation accounting guidance to our determinations of whether legal entities with which we are involved constitute VIEs, and if so our primary beneficiary determination of such entities, is unchanged from that described in our 2016 Form 10-K.

EIF Funds

The employee investment funds ("EIF Funds") were formed many years ago as a compensation and retention mechanism offered to certain of our key employees. After application of the new consolidation guidance, we no longer consider the EIF Funds to be VIEs. Our consolidation conclusion regarding the EIF Funds is unchanged after application of the new consolidation guidance, and we continued to consolidate the EIF Funds through the application of the voting interest model. During the three months ended March 31, 2017, we sold our interests in the EIF Funds.

Non-guaranteed low-income housing tax credit funds

Raymond James Tax Credit Funds, Inc. ("RJTCF"), a wholly owned subsidiary of RJF is a managing member or general partner of low-income housing tax credit ("LIHTC") funds (the "LIHTC Funds"). Under the new consolidation guidance, the fees earned by RJTCF from the LIHTC Funds are excluded from the determination of whether RJTCF has an obligation to absorb losses of, or the right to receive benefits from, the LIHTC Fund VIE, which could be potentially significant to the LIHTC Fund. As a result of this change in the primary beneficiary determination criteria, we concluded that we are not the primary beneficiary of any of the non-guaranteed LIHTC Funds, since we no longer meet the potentially significant benefits criteria as determined under the new guidance. Accordingly, we deconsolidated such funds as of our adoption of this new guidance.

Our conclusions regarding whether the LIHTC Funds are VIEs are unchanged under the new guidance.

Other real estate limited partnerships and LLCs

We have interests in several limited partnerships involved in various real estate activities in which a subsidiary is either the general partner or a limited partner. After application of the new consolidation guidance, we no longer consider these entities to be VIEs, and we do not consolidate these partnerships or limited liability companies (“LLCs”). Our consolidation conclusions regarding these interests are unchanged after application of the new consolidation guidance, as we did not consolidate these entities under the prior consolidation guidance.

Managed Funds

We have certain interests in legal entities formed for the purpose of making and managing investments in securities of other entities (“Managed Funds”). The new consolidation guidance eliminated the deferral of the determination of who is the primary beneficiary based on a power and benefits analysis. Under the prior consolidation guidance, the primary beneficiary determination was based upon an assessment of who would absorb a majority of the entity’s expected losses, receive a majority of the entity’s residual returns, or both.

We applied the new consolidation guidance to the Managed Funds and determined that they are not VIEs. Our conclusion that no consolidation of the Managed Funds is required is unchanged under the new consolidation guidance.

Private Equity Interests

We participate in principal capital and private equity activities and as a result, hold interests in a number of limited partnerships (our “Private Equity Interests”). Under the prior consolidation guidance, we concluded our Private Equity Interests were not VIEs, and our consolidation conclusions were based upon the application of the voting interest model. However, under the new consolidation guidance, we have concluded that the Private Equity Interests are VIEs, primarily as a result of the new consolidation model treatment of limited partner kick-out and participation rights. In most of our Private Equity Interests, a simple majority of the limited partners cannot initiate an action to kick-out the general partner without cause and the limited partners with equity at-risk lack substantive participating rights. As such, the Private Equity Interests are deemed to be VIEs.

In our analysis of the criteria to determine whether we are the primary beneficiary of the Private Equity Interests VIEs, we analyze the power and benefits criterion. In a number of these entities, we are a passive limited partner investor, and thus we do not have the power to make decisions that most significantly affect the economic performance of such VIEs. Accordingly, in such circumstances we have determined we are not the primary beneficiary and therefore we do not consolidate the VIE. However, in certain of these entities, we have concluded that we are the primary beneficiary as we meet the power and benefits criteria. In such instances, we consolidate the Private Equity Interests VIE.

The outcome of the application of the new consolidation guidance did not change the determination of which Private Equity Interests required consolidation under application of the prior guidance. Those Private Equity Interests deemed to be VIEs under the new consolidation guidance and for which we concluded we are the primary beneficiary, were previously consolidated through application of the voting interest model under the prior consolidation guidance.

Brokerage client receivables, loans to financial advisors and allowance for doubtful accounts

As more fully described in Note 2 on page 116 - 117 of our 2016 Form 10-K, we have certain financing receivables that arise from businesses other than our banking business. Specifically, we offer loans to financial advisors and certain key revenue producers, primarily for recruiting, transitional cost assistance, and retention purposes. We present the outstanding balance of loans to financial advisors on our Condensed Consolidated Statements of Financial Condition, net of the allowance for doubtful accounts. Of the gross balance outstanding, the portion associated with financial advisors who are no longer affiliated with us is $21 million and $13 million at March 31, 2017 and September 30, 2016, respectively. Our allowance for doubtful accounts is $7 million and $5 million at March 31, 2017 and September 30, 2016, respectively.

NOTE 3 – ACQUISITIONS

Acquisition announcements

On April 20, 2017, we announced we had entered into a definitive agreement to acquire 100% of the outstanding shares of Scout Investments, Inc. (the “Scout Group”), an asset management and distribution entity, from UMB Financial Corporation (“UMB”). The Scout Group includes Scout Investments (“Scout”) and its Reams Asset Management division (“Reams”), as well as Scout Distributors. The addition of Scout, an equity asset manager, and Reams, an institutional-focused fixed income specialist,

RAYMOND JAMES FINANCIAL, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

broadens the investment solutions available to our clients. As of December 31, 2016, Scout and its Reams division had combined assets under management and advisement of approximately $27 billion. Upon completion of this acquisition, which we expect to occur prior to December 31, 2017, the Scout Group will operate within our Asset Management segment.

Acquisitions completed in the prior fiscal year

Mummert & Company Corporate Finance GmbH

On June 1, 2016, we acquired Mummert & Company Corporate Finance GmbH ("Mummert"), a middle market M&A advisory firm, headquartered in Munich, Germany, that is focused primarily on the technology, industrial, healthcare, consumer and business services sectors. Mummert's results of operations have been included in our results prospectively from June 1, 2016. See Note 3 on pages 127 - 129 of our 2016 Form 10-K for additional information regarding the Mummert acquisition.

MacDougall, MacDougall & MacTier Inc.

On August 31, 2016, we completed our acquisition of all of the outstanding shares of MacDougall, MacDougall & MacTier Inc. ("3Macs"), an independent investment firm founded in 1849 and headquartered in Montreal, Quebec, Canada. 3Macs results of operations have been included in our results prospectively from August 31, 2016. See Note 3 on pages 127 - 129 of our 2016 Form 10-K for additional information regarding the 3Macs acquisition.

U.S. Private Client Services unit of Deutsche Bank Wealth Management

On September 6, 2016, we completed an acquisition of certain specified assets and the assumption of certain specified liabilities of the U.S. Private Client Services unit of Deutsche Bank Wealth Management ("Alex. Brown") from Deutsche Bank Securities, Inc. ("Deutsche WM"). Alex. Brown's results of operations have been included in our results prospectively from September 6, 2016. See Note 3 on pages 127 - 129 of our 2016 Form 10-K for additional information regarding the Alex. Brown acquisition.

The acquisition-related expenses presented on our Condensed Consolidated Statements of Income and Comprehensive Income for the three and six months ended March 31, 2017 pertain to certain incremental expenses incurred in connection with the Alex. Brown and 3Macs acquisitions described above. The expenses incurred during the three and six months ended March 31, 2016 were associated with the acquisition of Alex. Brown.

The table below provides a summary of acquisition-related expenses incurred in each respective period:

	Three months ended March 31,		Six months ended March 31,	
	2017	2016	2017	2016
	(in thousands)			
Acquisition and integration related incentive compensation costs[1]	$—	$—	$5,474	$—
Severance[2]	754	—	5,557	—
Early termination costs of assumed contracts	5	—	1,329	—

Information systems integration costs	417	1,655	1,622	1,655
Legal and regulatory	274	422	827	1,923
Post-closing purchase price contingency	(1,248)	—	(3,499)	—
DBRSU obligation and related hedge[3]	798	3,165 [4]	798	3,319 [4]
Travel and all other	86	773	1,644	990
Total acquisition-related expenses	$1,086	$6,015	$13,752	$7,887

The text of the footnotes in the above table are on the following page.

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The text of the footnotes to the table on the previous page are as follows:

(1) Primarily comprised of non-recurring restricted stock unit (“RSU”) grants authorized by the Board of Directors in their November 2016 meeting, made to certain employees and consultants for acquisition-related purposes. See Note 20 for discussion of share-based compensation.

(2) Primarily arising from the 3Macs acquisition. Such costs include severance costs as well as any forgiven employee loan balances and any unamortized balance of the prepaid compensation asset associated with terminated associates, which will not be collected (refer to the discussion of this prepaid asset in Note 3 on page 128, and Note 10 on page 157, each in our 2016 Form 10-K).

(3) The three and six months ended March 31, 2017 include a loss on the Deutsche Bank RSU (“DBRSU”) awards related to a Deutsche Bank AG (“DB”) rights offering during the period, partially offset by a related gain on the DB shares purchased to satisfy the DBRSU obligation, which act as an economic hedge to this obligation. Refer to Note 3 on page 129 of our 2016 Form 10-K, as well as Notes 14 and 20 in this Form 10-Q for more information.

(4) Represents the pre-Alex. Brown closing date unrealized loss on DB shares purchased to satisfy the DBRSU obligation.

NOTE 4 – CASH AND CASH EQUIVALENTS, ASSETS SEGREGATED PURSUANT TO REGULATIONS, AND DEPOSITS WITH CLEARING ORGANIZATIONS

Our cash equivalents include money market funds or highly liquid investments with original maturities of 90 days or less, other than those used for trading purposes. For discussion of our accounting policies regarding assets segregated pursuant to regulations and other segregated assets, see Note 2 on page 110 of our 2016 Form 10-K.

Our cash and cash equivalents, assets segregated pursuant to regulations and other segregated assets, and deposits with clearing organization balances are as follows:

	March 31, 2017	September 30, 2016
	(in thousands)	
Cash and cash equivalents:		
Cash in banks	$2,634,934	$ 1,649,593
Money market fund investments	1,392	859
Total cash and cash equivalents [(1)]	$2,636,326	$ 1,650,452
Assets segregated pursuant to regulations and other segregated assets [(2)]	$3,829,607	$ 4,884,487
Deposits with clearing organizations:		
Cash and cash equivalents	$148,712	$ 215,856
Government and agency obligations	50,384	29,508
Total deposits with clearing organizations	$199,096	$ 245,364

(1)

The total amounts presented include cash and cash equivalents of $924 million and $810 million as of March 31, 2017 and September 30, 2016, respectively, which are either held directly by RJF in depository accounts at third party financial institutions, held in a depository account at RJ Bank, or are otherwise invested by one of our subsidiaries on behalf of RJF, all of which are available without restrictions.

(2) Consists of cash maintained in accordance with Rule 15c3-3 under the Securities Exchange Act of 1934. RJ&A, as a broker-dealer carrying client accounts, is subject to requirements to maintain cash or qualified securities in segregated reserve accounts for the exclusive benefit of its clients. Additionally, RJ Ltd. is required to hold client Registered Retirement Savings Plan funds in trust.

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NOTE 5 – FAIR VALUE

For a discussion of our accounting policies and valuation methodologies for assets and liabilities measured at fair value, and the fair value hierarchy, see Note 2 on pages 110 - 116 of our 2016 Form 10-K. There have been no material changes to our valuation methodologies or our fair value accounting policies since our year ended September 30, 2016.

Assets and liabilities measured at fair value on a recurring and nonrecurring basis are presented below:

March 31, 2017	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3)	Netting adjustments (2)	Balance as of March 31, 2017
	(in thousands)				
Assets at fair value on a recurring basis:					
Trading instruments:					
Municipal and provincial obligations	$55	$239,752	$ —	$ —	$239,807
Corporate obligations	11,574	117,130	—	—	128,704
Government and agency obligations	7,230	72,779	—	—	80,009
Agency mortgage-backed securities (“MBS”) and collateralized mortgage obligations (“CMOs”)	394	136,658	—	—	137,052
Non-agency CMOs and asset-backed securities (“ABS”)	—	56,397	7	—	56,404
Total debt securities	19,253	622,716	7	—	641,976
Derivative contracts	—	73,771	—	(45,705)	28,066
Equity securities	20,160	970	—	—	21,130
Brokered certificates of deposit	—	32,445	—	—	32,445
Other	24	—	13,141	—	13,165
Total trading instruments	39,437	729,902	13,148	(45,705)	736,782
Available for sale securities:					
Agency MBS and CMOs	—	1,547,579	—	—	1,547,579
Non-agency CMOs	—	33,837	—	—	33,837
Other securities	1,552	—	—	—	1,552
Auction rate securities (“ARS”):					
Municipal obligations	—	—	25,728	—	25,728
Preferred securities	—	—	105,418	—	105,418
Total available for sale securities	1,552	1,581,416	131,146	—	1,714,114
Private equity investments:					
Measured at fair value	—	—	88,623	—	88,623
Measured at net asset value (“NAV”)					113,138

Total private equity investments	—	—	88,623		—	201,761
Other investments [3]	221,889	322	374		—	222,585
Derivative instruments associated with offsetting matched book positions	—	285,898	—		—	285,898
Deposits with clearing organizations:						
Government and agency obligations	50,384	—	—		—	50,384
Other assets:						
Derivative contracts [4]	—	276	—		—	276
Other assets	—	—	2,148	(5)	—	2,148
Total other assets	—	276	2,148		—	2,424
Total assets at fair value on a recurring basis	$313,262	$2,597,814	$ 235,439		$(45,705)	$3,213,948
Assets at fair value on a nonrecurring basis:						
Bank loans, net:						
Impaired loans	$—	$20,670	$ 41,081		$—	$61,751
Loans held for sale[6]	—	60,538	—		—	60,538
Total bank loans, net	—	81,208	41,081		—	122,289
Other assets: Other real estate owned (“OREO”)[7]	—	790	—		—	790
Total assets at fair value on a nonrecurring basis	$—	$81,998	$ 41,081		$—	$123,079

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March 31, 2017	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3)	Netting adjustments (2)	Balance as of March 31, 2017
	(in thousands) (continued from previous page)				
Liabilities at fair value on a recurring basis:					
Trading instruments sold but not yet purchased:					
Municipal and provincial obligations	$600	$470	$ —	$—	$1,070
Corporate obligations	1,021	22,484	—	—	23,505
Government obligations	328,609	—	—	—	328,609
Agency MBS and CMOs	1,866	43,778	—	—	45,644
Total debt securities	332,096	66,732	—	—	398,828
Derivative contracts	—	91,247	—	(35,215)	56,032
Equity securities	16,618	—	—	—	16,618
Other securities	—	226	—	—	226
Total trading instruments sold but not yet purchased	348,714	158,205	—	(35,215)	471,704
Derivative instruments associated with offsetting matched book positions	—	285,898	—	—	285,898
Trade and other payables:					
Derivative contracts (4)	—	6,868	—	—	6,868
Other liabilities	—	—	64	—	64
Total trade and other payables	—	6,868	64	—	6,932
Accrued compensation, commissions and benefits:					
Derivative contracts (8)	—	25,621	—	—	25,621
Total liabilities at fair value on a recurring basis	$348,714	$476,592	$ 64	$(35,215)	$790,155

(1) We had $1 million and $2 million in transfers of financial instruments from Level 1 to Level 2 during the three and six months ended March 31, 2017, respectively. These transfers were a result of decreased market activity in these instruments. Our transfers from Level 2 to Level 1 were insignificant during the three months ended March 31, 2017 and amounted to $1 million during the six months ended March 31, 2017. These transfers were a result of increased market activity in these instruments. Our policy is to treat transfers between levels as having occurred at the end of the reporting period.

(2) For derivative transactions, where permitted, we have elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists. See Note 14 for additional information on the collateral related to our derivative contracts and Note 15 for information on offsetting financial instruments.

(3) Other investments include $79 million of financial instruments that are related to obligations to perform under certain deferred compensation plans (see Note 2 on page 116, and Note 24 on pages 186 - 191, of our 2016 Form 10-K, for further information regarding these plans), and DB shares with a fair value of $19 million as of March 31, 2017 which we hold as an economic hedge against the DBRSU obligation (see Note 20 for additional information).

(4) Consists of derivatives arising from RJ Bank's business operations, see Note 14 for additional information.

(5) Includes the fair value of forward commitments to purchase GNMA or FNMA (as hereinafter defined) MBS arising from our fixed income public finance operations. See Note 2 and Note 21 of our 2016 Form 10-K for additional information.

(6) Includes individual loans classified as held for sale, which were recorded at a fair value lower than cost.

(7) Represents the fair value of foreclosed properties which were measured at a fair value subsequent to their initial classification as OREO. The recorded value in the Condensed Consolidated Statements of Financial Condition is net of the estimated selling costs.

(8) The balance reflects the DBRSU obligation from our acquisition of Alex. Brown. See Notes 14 and 20 for additional information.

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September 30, 2016	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3)	Netting adjustments (2)	Balance as of September 30, 2016
	(in thousands)				
Assets at fair value on a recurring basis:					
Trading instruments:					
Municipal and provincial obligations	$480	$273,683	$ —	$—	$274,163
Corporate obligations	10,000	122,885	—	—	132,885
Government and agency obligations	6,412	43,186	—	—	49,598
Agency MBS and CMOs	413	164,250	—	—	164,663
Non-agency CMOs and ABS	—	34,421	7	—	34,428
Total debt securities	17,305	638,425	7	—	655,737
Derivative contracts	—	163,242	—	(107,539)	55,703
Equity securities	14,529	1,500	—	—	16,029
Brokered certificates of deposit	—	35,206	—	—	35,206
Other	555	3	3,572	—	4,130
Total trading instruments	32,389	838,376	3,579	(107,539)	766,805
Available for sale securities:					
Agency MBS and CMOs	—	682,297	—	—	682,297
Non-agency CMOs	—	50,519	—	—	50,519
Other securities	1,417	—	—	—	1,417
ARS:					
Municipal obligations	—	—	25,147	—	25,147
Preferred securities	—	—	100,018	—	100,018
Total available for sale securities	1,417	732,816	125,165	—	859,398
Private equity investments:					
Measured at fair value	—	—	83,165	—	83,165
Measured at NAV					111,469
Total private equity investments	—	—	83,165	—	194,634
Other investments (3)	296,146	257	441	—	296,844
Derivative instruments associated with offsetting matched book positions	—	422,196	—	—	422,196
Deposits with clearing organizations:					
Government and agency obligations	29,508	—	—	—	29,508
Other assets:					
Derivative contracts (4)	—	2,016	—	—	2,016
Other assets	—	—	2,448 (5)	—	2,448

Total other assets	—	2,016	2,448	—	4,464
Total assets at fair value on a recurring basis	$359,460	$1,995,661	$ 214,798	$(107,539)	$2,573,849
Assets at fair value on a nonrecurring basis:					
Bank loans, net:					
Impaired loans	$—	$23,146	$ 47,982	$—	$71,128
Loans held for sale [(6)]	—	18,177	—	—	18,177
Total bank loans, net	—	41,323	47,982	—	89,305
Other assets: OREO [(7)]	—	679	—	—	679
Total assets at fair value on a nonrecurring basis	$—	$42,002	$ 47,982	$—	$89,984

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September 30, 2016	Quoted prices in active markets for identical assets (Level 1) (1)	Significant other observable inputs (Level 2) (1)	Significant unobservable inputs (Level 3)	Netting adjustments (2)	Balance as of September 30, 2016
	(in thousands) (continued from previous page)				
Liabilities at fair value on a recurring basis:					
Trading instruments sold but not yet purchased:					
Municipal and provincial obligations	$1,161	$—	$ —	$—	$1,161
Corporate obligations	1,283	29,791	—	—	31,074
Government obligations	266,682	—	—	—	266,682
Agency MBS and CMOs	2,804	—	—	—	2,804
Total debt securities	271,930	29,791	—	—	301,721
Derivative contracts	—	151,694	—	(142,859)	8,835
Equity securities	18,382	—	—	—	18,382
Total trading instruments sold but not yet purchased	290,312	181,485	—	(142,859)	328,938
Derivative instruments associated with offsetting matched book positions	—	422,196	—	—	422,196
Trade and other payables:					
Derivative contracts (4)	—	26,671	—	—	26,671
Other liabilities	—	—	67	—	67
Total trade and other payables	—	26,671	67	—	26,738
Accrued compensation, commissions and benefits:					
Derivative contracts (8)	—	17,769	—	—	17,769
Total liabilities at fair value on a recurring basis	$290,312	$648,121	$ 67	$(142,859)	$795,641

The text of the footnotes to the table on the previous page are as follows:

(1) We had $3 million in transfers of financial instruments from Level 1 to Level 2 during the year ended September 30, 2016. These transfers were a result of decreased market activity in these instruments. We had $1 million in transfers of financial instruments from Level 2 to Level 1 during the year ended September 30, 2016. These transfers were a result of an increased market activity in these instruments. Our policy is to treat transfers between levels of the fair value hierarchy as having occurred at the end of the reporting period.

(2) For derivative transactions not cleared through a clearing organization, and where permitted, we have elected to net derivative receivables and derivative payables and the related cash collateral received and paid when a legally enforceable master netting agreement exists (see Note 15 for additional information regarding offsetting financial instruments). Deposits associated with derivative transactions cleared through a clearing organization are included in deposits with clearing organizations on our Condensed Consolidated

Statements of Financial Condition as of September 30, 2016.

(3) Other investments include $77 million of financial instruments that are related to obligations to perform under certain deferred compensation plans (see Note 2 and Note 24, of our 2016 Form 10-K for further information regarding these plans), and DB shares with a fair value of $12 million as of September 30, 2016 which we hold as an economic hedge against the DBRSU obligation (see Notes 2, 18, and 24 of our 2016 Form 10-K for additional information).

(4) Consists of derivatives arising from RJ Bank's business operations, see Note 14 for additional information.

(5) Includes the fair value of forward commitments to purchase GNMA or FNMA (as hereinafter defined) MBS arising from our fixed income public finance operations. See Note 2 and Note 21 of our 2016 Form 10-K for additional information.

(6) Includes individual loans classified as held for sale, which were recorded at a fair value lower than cost.

(7) Represents the fair value of foreclosed properties which were measured at a fair value subsequent to their initial classification as OREO. The recorded value in the Consolidated Statements of Financial Condition is net of the estimated selling costs.

(8) The balance reflects the DBRSUs obligation from our acquisition of Alex. Brown. See Notes 14 and 20 for additional information.

The adjustment to fair value of the nonrecurring fair value measures for the six months ended March 31, 2017 resulted in a $10 million increase to the provision for loan losses relating to impaired loans and an insignificant amount of other losses relating to loans held for sale and OREO. The adjustment to fair value of the nonrecurring fair value measures for the six months ended March 31, 2016 resulted in a $2 million additional provision for loan losses relating to impaired loans and an insignificant amount of other losses relating to loans held for sale and OREO.

Changes in Level 3 recurring fair value measurements

The realized and unrealized gains and losses for assets and liabilities within the Level 3 category presented in the tables below may include changes in fair value that were attributable to both observable and unobservable inputs. Our policy is to treat transfers between levels of the fair value hierarchy as having occurred at the end of the reporting period.

Additional information about Level 3 assets and liabilities measured at fair value on a recurring basis is presented below:

Three months ended March 31, 2017 Level 3 assets at fair value
(in thousands)

	Financial assets							Financial liabilities
	Trading instruments		Available for sale securities		Private equity, other investments and other assets			Payables-trade and other
	Non-agency CMOs & ABS	Other	ARS – municipal obligations	ARS - preferred securities	Private equity investments	Other investments	Other assets	Other liabilities
Fair value beginning of period	$7	$11,052	$25,364	$103,853	$83,466	$ 223	$—	$(1,856)
Total gains (losses) for the period:								
Included in earnings	—	(383)	—	—	(11)	151	2,148	1,792
Included in other comprehensive income	—	—	364	1,565	—	—	—	—
Purchases and contributions	—	22,418	—	—	5,168	—	—	—
Sales	—	(19,946)	—	—	—	—	—	—
Redemptions by issuer	—	—	—	—	—	—	—	—
Distributions	—	—	—	—	—	—	—	—
Transfers:								
Into Level 3	—	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—	—	—
Fair value end of period	$7	$13,141	$25,728	$105,418	$88,623	$ 374	$2,148	$(64)
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	$—	$(303)	$364	$1,565	$—	$ 151	$3,940	$—

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Six months ended March 31, 2017 Level 3 assets at fair value
(in thousands)

	Financial assets							Financial liabilities
	Trading instruments		Available for sale securities		Private equity, other investments and other assets			Payables-trade and other
	Non-agency CMOs & ABS	Other	ARS – municipal obligations	ARS - preferred securities	Private equity investments	Other investments	Other assets	Other liabilities
Fair value beginning of period	$7	$3,572	$25,147	$100,018	$83,165	$ 441	$2,448	$ (67)
Total gains (losses) for the period:								
Included in earnings	—	(524)	—	1	290	143	(300)	3
Included in other comprehensive income	—	—	581	5,422	—	—	—	—
Purchases and contributions	—	41,101	—	—	5,168	—	—	—
Sales	—	(31,008)	—	(23)	—	(15)	—	—
Redemptions by issuer	—	—	—	—	—	—	—	—
Distributions	—	—	—	—	—	—	—	—
Transfers:								
Into Level 3	—	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	(195)	—	—
Fair value end of period	$7	$13,141	$25,728	$105,418	$88,623	$ 374	$2,148	$ (64)
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	$—	$(423)	$581	$5,422	$301	$ 151	$(300)	$ —

Three months ended March 31, 2016 Level 3 assets at fair value
(in thousands)

	Financial assets								Financial liabilities
	Trading instruments			Available for sale securities		Private equity, other investments and other assets			Payables-trade and other
	Corporate Obligations	Non-agency CMOs & ABS	Other	ARS – municipals obligations	ARS - preferred securities	Private equity investments (1)	Other investments	Other assets	Other liabilities

Fair value beginning of period	$189	$9	$1,964	$27,480	$102,899	$78,314	$ 493	$1,526	$ (67)
Total gains (losses) for the period:									
Included in earnings	(97)	—	(100)	133	—	—	18	1,586	—
Included in other comprehensive income	—	—	—	(583)	(300)	—	—	—	—
Purchases and contributions	2	—	19,470	—	—	—	—	—	—
Sales	(94)	—	(7,038)	(1,583)	—	—	—	—	—
Redemptions by issuer	—	—	—	(25)	—	—	—	—	—
Distributions	—	(1)	—	—	—	(5,175)	(72)	—	—
Transfers:									
Into Level 3	—	—	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—	—	—	—
Fair value end of period	$—	$8	$14,296	$25,422	$102,599	$73,139	$ 439	$3,112	$ (67)
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	$—	$—	$(60)	$(637)	$(300)	$—	$ 18	$1,586	$ —

(1) Effective September 30, 2016, we adopted new accounting guidance related to the classification and disclosure of certain investments using NAV as a practical expedient to measure the fair value of the investment. The prior year amounts reflect the effect of reclassifications to conform the prior year period to current period presentation.

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Six months ended March 31, 2016 Level 3 assets at fair value
(in thousands)

	Financial assets								Financial liabilities
	Trading instruments			Available for sale securities		Private equity, other investments and other assets			Payables-trade and other
	Corporate Obligations	Non-agency CMOs & ABS	Other	ARS – municipal obligations	ARS - preferred securities	Private equity investments (1)	Other investments	Other assets	Other liabilities
Fair value beginning of period	$ 156	$9	$1,986	$28,015	$110,749	$77,435	$ 565	$4,975	$ (58)
Total gains (losses) for the period:									
Included in earnings	(137)	—	(349)	133	—	—	11	(1,863)	—
Included in other comprehensive income	—	—	—	(1,118)	(8,150)	—	—	—	—
Purchases and contributions	75	—	38,487	—	—	915	—	—	(9)
Sales	(94)	—	(25,828)	(1,583)	—	(18)	—	—	—
Redemptions by issuer	—	—	—	(25)	—	—	—	—	—
Distributions	—	(1)	—	—	—	(5,193)	(137)	—	—
Transfers:									
Into Level 3	—	—	—	—	—	—	—	—	—
Out of Level 3	—	—	—	—	—	—	—	—	—
Fair value end of period	$ —	$8	$14,296	$25,422	$102,599	$73,139	$ 439	$3,112	$ (67)
Change in unrealized gains (losses) for the period included in earnings (or changes in net assets) for assets held at the end of the reporting period	$ —	$1	$(71)	$(1,073)	$(8,150)	$—	$ 11	$(1,863)	$ —

(1) Effective September 30, 2016, we adopted new accounting guidance related to the classification and disclosure of certain investments using NAV as a practical expedient to measure the fair value of the investment. The prior year amounts reflect the effect of reclassifications to conform the prior year period to current period presentation.

As of March 31, 2017, 10% of our assets and 3% of our liabilities are instruments measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 as of March 31, 2017 represent 7% of our assets measured at fair value. In comparison, as of March 31, 2016, 8% of our assets and 3% of our liabilities, represented instruments measured at fair value on a recurring basis. Instruments measured at fair value on a recurring basis categorized as Level 3 as of March 31, 2016 represented 10% of our assets measured at fair value.

Level 3 instruments as a percentage of total financial instruments decreased by 3% as compared to March 31, 2016, primarily as a result of the increase in total assets measured at fair value since March 31, 2016.

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Gains and losses related to Level 3 recurring fair value measurements included in earnings are presented in net trading profit, other revenues and other comprehensive income in our Condensed Consolidated Statements of Income and Comprehensive Income as follows:

	Net trading profit	Other revenues	Other comprehensive income
	(in thousands)		
For the three months ended March 31, 2017			
Total (losses) gains included in earnings	$(383)	$4,080	$ 1,929
Change in unrealized (losses) gains for assets held at the end of the reporting period	$(303)	$4,091	$ 1,929
For the six months ended March 31, 2017			
Total (losses) gains included in earnings	$(524)	$137	$ 6,003
Change in unrealized (losses) gains for assets held at the end of the reporting period	$(423)	$152	$ 6,003
For the three months ended March 31, 2016			
Total (losses) gains included in earnings	$(197)	$1,737	$ (883)
Change in unrealized (losses) gains for assets held at the end of the reporting period	$(60)	$1,604	$ (937)
For the six months ended March 31, 2016			
Total losses included in earnings	$(486)	$(1,719)	$ (9,268)
Change in unrealized losses for assets held at the end of the reporting period	$(70)	$(1,852)	$ (9,223)

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Quantitative information about level 3 fair value measurements

The significant assumptions used in the valuation of level 3 financial instruments are as follows (the table that follows includes the significant majority of the financial instruments we hold that are classified as level 3 measures):

Level 3 financial instrument	Fair value at March 31, 2017 (in thousands)	Valuation technique(s)	Unobservable input	Range (weighted-average)
Recurring measurements:				
Available for sale securities:				
ARS:				
Municipal obligations - issuer is a municipality	$ 10,590	Scenario 1 - recent trades	Observed trades (in inactive markets) of in-portfolio securities	80% of par - 80% of par (80% of par)
		Scenario 2 - Discounted cash flow	Average discount rate[a]	6.65% - 7.93% (7.29%)
			Average interest rates applicable to future interest income on the securities[b]	2.63% - 3.54% (3.09%)
			Prepayment year[c]	2019 - 2026 (2023)
			Weighting assigned to outcome of scenario1 / scenario 2	25%/75%
Municipal obligations - tax-exempt preferred securities	$ 15,138	Discounted cash flow	Average discount rate[a]	5.40% - 6.40% (5.90%)
			Average interest rates applicable to future interest income on the securities[b]	1.89% - 1.89% (1.89%)
			Prepayment year[c]	2017 - 2021 (2021)
Preferred securities - taxable	$ 105,418	Discounted cash flow	Average discount rate[a]	5.59% - 7.02% (6.18%)
			Average interest rates applicable to future interest income on the securities[b]	2.57% - 3.43% (2.71%)
			Prepayment year[c]	2017 - 2021 (2021)
Private equity investments (not measured at NAV):	$ 62,215	Income or market approach:		
			Discount rate[a]	13% - 20% (18.1%)

		Scenario 1 - income approach - discounted cash flow		
			Terminal growth rate of cash flows	3% - 3% (3%)
			Terminal year	2019 - 2021 (2020)
		Scenario 2 - market approach - market multiple method	EBITDA Multiple[d]	5.25 - 7.5 (6.2)
			Weighting assigned to outcome of scenario 1/scenario 2	82%/18%
	$ 26,408	Transaction price or other investment-specific events[e]	Not meaningful[e]	Not meaningful[e]
Nonrecurring measurements:				
Impaired loans: residential	$ 22,109	Discounted cash flow	Prepayment rate	7 yrs. - 12 yrs. (10.4 yrs.)
Impaired loans: corporate	$ 18,972	Appraisal or discounted cash flow value[f]	Not meaningful[f]	Not meaningful[f]

(a) Represents discount rates used when we have determined that market participants would take these discounts into account when pricing the investments.

(b) Future interest rates are projected based upon a forward interest rate path, plus a spread over such projected base rate that is applicable to each future period for each security within this portfolio segment. The interest rates presented represent the average interest rate over all projected periods for securities within the portfolio segment.

(c) Assumed year of at least a partial redemption of the outstanding security by the issuer.

(d) Represents amounts used when we have determined that market participants would use such multiples when pricing the investments.

(e) Certain private equity investments are valued initially at the transaction price until either our annual review, significant transactions occur, new developments become known, or we receive information from the fund manager that allows us to update our proportionate share of net assets, when any of which indicate that a change in the carrying values of these investments is appropriate.

(f) The valuation techniques used for the impaired corporate loan portfolio are appraisals less selling costs for the collateral dependent loans and discounted cash flows for impaired loans that are not collateral dependent.

Qualitative disclosure about unobservable inputs

For our recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the sensitivity of the fair value measurement to changes in significant unobservable inputs and interrelationships between those unobservable inputs are described below:

Auction rate securities:

One of the significant unobservable inputs used in the fair value measurement of auction rate securities presented within our available for sale securities portfolio relates to judgments regarding whether the level of observable trading activity is sufficient to conclude markets are active. Where insufficient levels of trading activity are determined to exist as of the reporting date, then management's assessment of how much weight to apply to trading prices in inactive markets versus management's own valuation models could significantly impact the valuation conclusion. The valuation of the securities impacted by changes in management's assessment of market activity levels could be either higher or lower, depending upon the relationship of the inactive trading prices compared to the outcome of management's internal valuation models.

The future interest rate and maturity assumptions impacting the valuation of the auction rate securities are directly related. As short-term interest rates rise, due to the variable nature of the penalty interest rate provisions embedded in most of these securities in the event auctions fail to set the security's interest rate, then a penalty rate that is specified in the security increases. These penalty rates are based upon a stated interest rate spread over what is typically a short-term base interest rate index. Management estimates that at some level of increase in short-term interest rates, issuers of the securities will have the economic incentive to refinance (and thus prepay) the securities. Therefore, the short-term interest rate assumption directly impacts the input related to the timing of any projected prepayment. The faster and steeper short-term interest rates rise, the earlier prepayments will likely occur and the higher the fair value of the security.

Private equity investments:

The significant unobservable inputs used in the fair value measurement of private equity investments relate to the financial performance of the investment entity and the market's required return on investments from entities in industries in which we hold investments. Significant increases (or decreases) in our investment entities' future economic performance will have a corresponding increase (or decrease) on the valuation results. The value of our investment moves inversely with the market's expectation of returns from such investments. Should the market require higher returns from industries in which we are invested, all other factors held constant, our investments will decrease in value. Should the market accept lower returns from industries in which we are invested, all other factors held constant, our investments will increase in value.

Investments in private equity measured at net asset value per share

As more fully described in Note 2 on pages 115 - 116 of our 2016 Form 10-K, as a practical expedient, we utilize NAV or its equivalent to determine the recorded value of a portion of our private equity portfolio.

Our private equity portfolio as of March 31, 2017 includes various direct and third party private equity investments, and various private equity funds which we sponsor. The portfolio is primarily invested in a broad range of industries including leveraged buyouts, growth capital, distressed capital, venture capital and mezzanine capital.

Due to the closed-end nature of certain of our fund investments, such investments cannot be redeemed directly with the funds. Our investment is monetized through distributions received through the liquidation of the underlying assets of those funds.

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The recorded value and unfunded commitments related to our private equity portfolio are as follows:

		Unfunded Commitment [1]		
	Recorded Value	RJF	Noncontrolling Interest	Total
	(in thousands)			
March 31, 2017				
Private equity investments at NAV	$113,138 [2]	$23,135	$ 2,308	$25,443
Private equity investments at fair value	88,623			
Total private equity investments	$201,761 [3]			
September 30, 2016				
Private equity investments at NAV	$111,469 [2]	$27,542	$ 3,001	$30,543
Private equity investments at fair value	83,165			
Total private equity investments	$194,634 [3]			

(1) Unfunded commitments related to the portion of underlying investments held in our private equity portfolio. Such commitments are required to be funded either by RJF or by the holders of the noncontrolling interests.

(2) We anticipate 90% of these funds will be liquidated over a period of five years or less. The remaining 10% of these funds we anticipate to be liquidated over a period of six to nine years.

(3) The portions of these investments we do not own are $53 million and $51 million as of March 31, 2017 and September 30, 2016, respectively and as such are included as a component of noncontrolling interest in our Condensed Consolidated Statements of Financial Condition. Of the total private equity investments, the weighted average portion we own is $149 million or 74% and $144 million or 74% as of March 31, 2017 and September 30, 2016, respectively.

Many of these fund investments meet the definition of prohibited “covered funds” as defined by the Volcker Rule of the Dodd-Frank Wall Street Reform and Consumer Protection Act. During the quarter ended March 31, 2017, we received approval from the Board of Governors of the Federal Reserve System (the “Fed”) to continue to hold the majority of our “covered fund” investments for up to an additional five-year conformance period, thereby extending our applicable holding period until July 2022 for such investments.

Fair value option

The fair value option is an accounting election that allows the reporting entity to apply fair value accounting for certain financial assets and liabilities on an instrument by instrument basis. As of March 31, 2017, we have not elected the fair value option for any of our financial assets or liabilities not already recorded at fair value.

Other fair value disclosures

Many, but not all, of the financial instruments we hold are recorded at fair value in the Condensed Consolidated Statements of Financial Condition. Refer to Note 5 on pages 140 - 142 of our 2016 Form 10-K for discussion of the methods and assumptions we apply to the determination of fair value of our financial instruments that are not otherwise recorded at fair value.

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The estimated fair values by level within the fair value hierarchy and the carrying amounts of our financial instruments that are not carried at fair value are as follows:

	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total estimated fair value	Carrying amount
	(in thousands)				
March 31, 2017					
Financial assets:					
Bank loans, net (1)	$—	$120,388	$15,580,471	$15,700,859	$15,872,400
Loans to Financial advisors, net	$—	$—	$717,344	$717,344	$861,346
Financial liabilities:					
Bank deposits	$—	$16,093,059	$282,509	$16,375,568	$16,377,544
Other borrowings (2)	$—	$31,562	$—	$31,562	$31,134
Senior notes payable	$—	$1,410,240	$—	$1,410,240	$1,339,582
September 30, 2016					
Financial assets:					
Bank loans, net (1)	$—	$196,109	$14,925,802	$15,121,911	$15,121,430
Loans to financial advisors, net	$—	$—	$706,717	$706,717	$838,721
Financial liabilities:					
Bank deposits	$—	$13,947,310	$318,228	$14,265,538	$14,262,547
Other borrowings (2)	$—	$34,520	$—	$34,520	$33,391
Senior notes payable	$362,180	$1,452,071	$—	$1,814,251	$1,680,587

(1) Excludes all impaired loans and loans held for sale which have been recorded at fair value in the Condensed Consolidated Statements of Financial Condition at March 31, 2017 and September 30, 2016.

(2) Excludes the components of other borrowings that are recorded at amounts that approximate their fair value in the Condensed Consolidated Statements of Financial Condition at March 31, 2017 and September 30, 2016.

NOTE 6 – TRADING INSTRUMENTS AND TRADING INSTRUMENTS SOLD BUT NOT YET PURCHASED

	March 31, 2017		September 30, 2016	
	Trading instruments	Instruments sold but not yet purchased	Trading instruments	Instruments sold but not yet purchased
	(in thousands)			
Municipal and provincial obligations	$239,807	$ 1,070	$274,163	$ 1,161

Corporate obligations	128,704	23,505	132,885	31,074
Government and agency obligations	80,009	328,609	49,598	266,682
Agency MBS and CMOs	137,052	45,644	164,663	2,804
Non-agency CMOs and ABS	56,404	—	34,428	—
Total debt securities	641,976	398,828	655,737	301,721
Derivative contracts (1)	28,066	56,032	55,703	8,835
Equity securities	21,130	16,618	16,029	18,382
Brokered certificates of deposit	32,445	—	35,206	—
Other	13,165	226	4,130	—
Total	$736,782	$ 471,704	$766,805	$ 328,938

(1) Represents the derivative contracts held for trading purposes. These balances do not include all derivative instruments. See Note 14 for further information regarding all of our derivative transactions, and see Note 15 for additional information regarding offsetting financial instruments.

See Note 5 for additional information regarding the fair value of trading instruments and trading instruments sold but not yet purchased.

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NOTE 7 – AVAILABLE FOR SALE SECURITIES

Available for sale securities are comprised of MBS and CMOs owned by RJ Bank and ARS owned by one of our non-broker-dealer subsidiaries. Refer to the discussion of our available for sale securities accounting policies, including the fair value determination process, in Note 2 on pages 113 - 114 of our 2016 Form 10-K.

There were $25 million and $33 million of proceeds from the sale of available for sale securities held by RJ Bank during the three and six months ended March 31, 2017, respectively, and the related losses on such sales were insignificant. There were no sales of available for sale securities held by RJ Bank during the three and six months ended March 31, 2016.

The proceeds from the sale of ARS during the three and six months ended March 31, 2017 were insignificant. There were $2 million of proceeds and an insignificant gain from the sale or redemption of ARS during the three and six months ended March 31, 2016.

The amortized cost and fair values of available for sale securities are as follows:

	Cost basis	Gross unrealized gains	Gross unrealized losses	Fair value
	(in thousands)			
March 31, 2017				
Available for sale securities:				
Agency MBS and CMOs	$1,557,075	$ 813	$(10,309)	$1,547,579
Non-agency CMOs [1]	35,153	—	(1,316)	33,837
Other securities	1,575	—	(23)	1,552
Total RJ Bank available for sale securities	1,593,803	813	(11,648)	1,582,968
Auction rate securities:				
Municipal obligations	27,491	14	(1,777)	25,728
Preferred securities	103,204	2,256	(42)	105,418
Total auction rate securities	130,695	2,270	(1,819)	131,146
Total available for sale securities	$1,724,498	$ 3,083	$(13,467)	$1,714,114
September 30, 2016				
Available for sale securities:				
Agency MBS and CMOs	$680,341	$ 2,512	$(556)	$682,297
Non-agency CMOs [1]	53,427	9	(2,917)	50,519
Other securities	1,575	—	(158)	1,417
Total RJ Bank available for sale securities	735,343	2,521	(3,631)	734,233
Auction rate securities:				
Municipal obligations	27,491	14	(2,358)	25,147
Preferred securities	103,226	—	(3,208)	100,018
Total auction rate securities	130,717	14	(5,566)	125,165

Total available for sale securities	$866,060	$ 2,535	$(9,197)	$859,398

(1) As of March 31, 2017 and September 30, 2016 the non-credit portion of unrealized losses related to non-agency CMOs with previously recorded other-than-temporary impairment ("OTTI") before taxes was $1 million and $2 million, respectively, recorded in accumulated other comprehensive income (loss) ("AOCI"). See Note 18 for additional information.

See Note 5 for additional information regarding the fair value of available for sale securities.

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The contractual maturities, amortized cost, carrying values and current yields for our available for sale securities are as presented below. Since RJ Bank's available for sale securities (MBS & CMOs) are backed by mortgages, actual maturities will differ from contractual maturities because borrowers may have the right to prepay obligations without prepayment penalties. Expected maturities of ARS may differ significantly from contractual maturities, as issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	March 31, 2017				
	Within one year	After one but within five years	After five but within ten years	After ten years	Total
	($ in thousands)				
Agency MBS & CMOs:					
Amortized cost	$—	$55,577	$410,323	$1,091,175	$1,557,075
Carrying value	—	55,020	407,913	1,084,646	1,547,579
Weighted-average yield	—	1.78 %	1.80 %	1.99 %	1.94 %
Non-agency CMOs:					
Amortized cost	$—	$—	$—	$35,153	$35,153
Carrying value	—	—	—	33,837	33,837
Weighted-average yield	—	—	—	2.86 %	2.86 %
Other securities:					
Amortized cost	$—	$—	$—	$1,575	$1,575
Carrying value	—	—	—	1,552	1,552
Weighted-average yield	—	—	—	—	—
Sub-total agency MBS & CMOs, non-agency CMOs, and other securities:					
Amortized cost	$—	$55,577	$410,323	$1,127,903	$1,593,803
Carrying value	—	55,020	407,913	1,120,035	1,582,968
Weighted-average yield	—	1.78 %	1.80		