

OPPENHEIMER HOLDINGS INC

Form 10-Q

April 29, 2016

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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: 1-12043

OPPENHEIMER HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware 98-0080034
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

85 Broad Street

New York, New York 10004

(Address of principal executive offices) (Zip Code)

(212) 668-8000

(Registrant's telephone number, including area code)

(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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

Large accelerated filer ☐ Accelerated filer ☒ x

Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒ x

The number of shares of the Company’s Class A non-voting common stock and Class B voting common stock (being the only classes of common stock of the Company) outstanding on April 29, 2016 was 13,263,532 and 99,665 shares, respectively.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (unaudited)

OPPENHEIMER HOLDINGS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (unaudited)

(Expressed in thousands, except number of shares and per share amounts)	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents	\$62,479	\$63,364
Deposits with clearing organizations	56,567	49,490
Receivable from brokers, dealers and clearing organizations	263,363	360,913
Receivable from customers, net of allowance for credit losses of \$2,573 (\$2,545 in 2015)	791,631	840,355
Income tax receivable	17,261	10,937
Securities purchased under agreements to resell	—	206,499
Securities owned, including amounts pledged of \$705,835 (\$546,334 in 2015), at fair value	1,036,782	735,393
Notes receivable, net of accumulated amortization and allowance for uncollectibles of \$58,350 and \$8,722, respectively (\$54,919 and \$8,444, respectively, in 2015)	32,869	32,849
Office facilities, net of accumulated depreciation of \$106,206 (\$104,961 in 2015)	28,518	28,290
Loans held for sale	13,532	60,234
Mortgage servicing rights	28,024	28,168
Intangible assets	31,700	31,700
Goodwill	137,889	137,889
Other assets	120,249	105,751
Total assets	\$2,620,864	\$2,691,832
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Drafts payable	\$37,663	\$48,011
Bank call loans	148,300	100,200
Payable to brokers, dealers and clearing organizations	207,879	164,546
Payable to customers	521,557	594,833
Securities sold under agreements to repurchase	529,752	651,445
Securities sold, but not yet purchased, at fair value	270,952	126,493
Accrued compensation	93,835	150,898
Accounts payable and other liabilities	126,183	164,783
Senior secured notes, net of debt issuance costs of \$1,011 (\$1,132 in 2015)	148,989	148,868
Deferred tax liabilities, net of deferred tax assets of \$61,346 (\$63,481 in 2015)	19,408	16,673
Total liabilities	2,104,518	2,166,750
Commitments and contingencies (Note 11)		
Stockholders' equity		
Share capital		
Class A non-voting common stock, par value \$0.001 per share, 50,000,000 shares authorized, 13,263,532 and 13,238,486 shares issued and outstanding at March 31, 2016 and December 31, 2015, respectively	59,216	57,387
Class B voting common stock, par value \$0.001 per share, 99,665 shares authorized, issued and outstanding	133	133
	59,349	57,520
Contributed capital	38,385	44,438

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Retained earnings	411,678	417,001
Accumulated other comprehensive loss	(28) (901)
Total Oppenheimer Holdings Inc. stockholders' equity	509,384	518,058
Noncontrolling interest	6,962	7,024
Total stockholders' equity	516,346	525,082
Total liabilities and stockholders' equity	\$2,620,864	\$2,691,832

The accompanying notes are an integral part of these condensed consolidated financial statements.

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OPPENHEIMER HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

FOR THE THREE MONTHS ENDED MARCH 31,

(Expressed in thousands, except number of shares and per share amounts) 2016 2015

REVENUE

Commissions	\$ 103,833	\$ 109,695
Advisory fees	66,026	70,966
Investment banking	12,383	27,305
Interest	13,379	11,035
Principal transactions, net	1,531	18,555
Other	21,542	8,005
Total revenue	218,694	245,561

EXPENSES

Compensation and related expenses	151,413	163,091
Communications and technology	17,781	17,168
Occupancy and equipment costs	14,978	15,778
Clearing and exchange fees	6,921	6,402
Interest	5,088	3,910
Other	30,510	29,361
Total expenses	226,691	235,710
Income (loss) before income tax provision (benefit)	(7,997)) 9,851
Income tax provision (benefit)	(4,088)) 3,730
Net income (loss)	(3,909)) 6,121
Less net income (loss) attributable to noncontrolling interest	(62)) 402
Net income (loss) attributable to Oppenheimer Holdings Inc.	\$ (3,847)) \$ 5,719
Earnings (loss) per share attributable to Oppenheimer Holdings Inc.		
Basic	\$ (0.29)) \$ 0.42
Diluted	\$ (0.29)) \$ 0.40
Dividends declared per share	\$ 0.11	\$ 0.11
Weighted average shares		
Basic	13,379,827	13,704,228
Diluted	13,379,827	14,282,270

The accompanying notes are an integral part of these condensed consolidated financial statements.

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OPPENHEIMER HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)
FOR THE THREE MONTHS ENDED MARCH 31,

(Expressed in thousands)	2016	2015
Net income (loss)	\$(3,909)	\$6,121
Other comprehensive income (loss), net of tax ⁽¹⁾		
Currency translation adjustment	873	(567)
Comprehensive income (loss)	(3,036)	5,554
Less net income (loss) attributable to noncontrolling interests	(62)	402
Comprehensive income (loss) attributable to Oppenheimer Holdings Inc.	\$(2,974)	\$5,152

(1) Total other comprehensive income (loss) is attributable to Oppenheimer Holdings Inc. No other comprehensive income (loss) is attributable to noncontrolling interests.

The accompanying notes are an integral part of these condensed consolidated financial statements.

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OPPENHEIMER HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (unaudited)
FOR THE THREE MONTHS ENDED MARCH 31,

(Expressed in thousands)	2016	2015
Share capital		
Balance at beginning of period	\$57,520	\$62,397
Issuance of Class A non-voting common stock	5,463	2,889
Repurchase of Class A non-voting common stock for cancellation	(3,634)	—
Balance at end of period	59,349	65,286
Contributed capital		
Balance at beginning of period	44,438	45,118
Tax deficiency from share-based awards	(741)	(321)
Share-based expense	1,492	898
Vested employee share plan awards	(6,804)	(4,572)
Balance at end of period	38,385	41,123
Retained earnings		
Balance at beginning of period	417,001	421,047
Net income (loss) attributable to Oppenheimer Holdings Inc.	(3,847)	5,719
Dividends paid (\$0.11 per share)	(1,476)	(1,511)
Balance at end of period	411,678	425,255
Accumulated other comprehensive loss		
Balance at beginning of period	(901)	(918)
Currency translation adjustment	873	(567)
Balance at end of period	(28)	(1,485)
Total Oppenheimer Holdings Inc. stockholders' equity	509,384	530,179
Noncontrolling interest		
Balance at beginning of period	7,024	6,088
Net income (loss) attributable to noncontrolling interest	(62)	402
Balance at end of period	6,962	6,490
Total stockholders' equity	\$516,346	\$536,669

The accompanying notes are an integral part of these condensed consolidated financial statements.

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OPPENHEIMER HOLDINGS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

FOR THE THREE MONTHS ENDED MARCH 31,

(Expressed in thousands)

	2016	2015
Cash flows from operating activities		
Net income (loss) for the period	\$(3,909)	\$6,121
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Payment of taxes due for vested share-based awards related to amounts the Company withheld on behalf of its employees to meet minimum statutory tax withholding requirements	(1,341)	(1,683)
Non-cash items included in net income:		
Depreciation and amortization of office facilities and leasehold improvements	1,534	1,794
Deferred income taxes	2,735	6,089
Amortization of notes receivable	3,431	3,745
Amortization of debt issuance costs	121	121
Amortization of mortgage servicing rights	782	230
Provision for credit losses	28	12
Share-based compensation	1,189	1,495
Decrease (increase) in operating assets:		
Cash and securities segregated for regulatory and other purposes	—	17,077
Deposits with clearing organizations	(7,077)	(13,748)
Receivable from brokers, dealers and clearing organizations	97,550	(23,628)
Receivable from customers	48,696	(26,083)
Income tax receivable	(6,324)	(2,089)
Securities purchased under agreements to resell	206,499	251,606
Securities owned	(301,389)	(112,208)
Notes receivable	(3,451)	(3,808)
Loans held for sale	46,702	(76,633)
Mortgage servicing rights	(638)	1,519
Other assets	(13,625)	(11,820)
Increase (decrease) in operating liabilities:		
Drafts payable	(10,348)	(758)
Payable to brokers, dealers and clearing organizations	43,333	93,069
Payable to customers	(73,276)	51,831
Securities sold under agreements to repurchase	(121,693)	(290,051)
Securities sold, but not yet purchased	144,459	92,139
Accrued compensation	(56,760)	(63,063)
Accounts payable and other liabilities	(38,600)	62,141
Cash used in operating activities	(41,372)	(36,583)
Cash flows from investing activities		
Purchase of office facilities	(1,762)	(474)
Cash used in investing activities	(1,762)	(474)
Cash flows from financing activities		
Cash dividends paid on Class A non-voting and Class B voting common stock	(1,476)	(1,511)
Repurchase of Class A non-voting common stock for cancellation	(3,634)	—
Tax deficiency from share-based awards	(741)	(321)
Increase in bank call loans, net	48,100	42,000
Cash provided by financing activities	42,249	40,168
Net (decrease) increase in cash and cash equivalents	(885)	3,111

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Cash and cash equivalents, beginning of period	63,364	63,807
Cash and cash equivalents, end of period	\$62,479	\$66,918
Schedule of non-cash financing activities		
Employee share plan issuance	\$5,463	\$2,889
Supplemental disclosure of cash flow information		
Cash paid during the period for interest	\$1,788	\$611
Cash paid during the period for income taxes, net of refunds	\$181	\$107

The accompanying notes are an integral part of these condensed consolidated financial statements.

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OPPENHEIMER HOLDINGS INC.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Organization and basis of presentation

Organization

Oppenheimer Holdings Inc. ("OPY") is incorporated under the laws of the State of Delaware. The condensed consolidated financial statements include the accounts of OPY and its subsidiaries (together, the "Company"). The Company engages in a broad range of activities in the financial services industry, including retail securities brokerage, institutional sales and trading, investment banking (both corporate and public finance), research, market-making, trust services, mortgage banking and investment advisory and asset management services.

The principal subsidiaries of OPY are Oppenheimer & Co. Inc. ("Oppenheimer"), a registered broker dealer in securities and investment adviser under the Investment Advisers Act of 1940, Oppenheimer Asset Management Inc. ("OAM") and its wholly-owned subsidiary, Oppenheimer Investment Management LLC ("OIM"), both registered investment advisers under the Investment Advisers Act of 1940, Oppenheimer Trust Company of Delaware ("Oppenheimer Trust"), a limited purpose trust company that provides fiduciary services such as trust and estate administration and investment management, Oppenheimer Multifamily Housing & Healthcare Finance, Inc. ("OMHHF"), which is engaged in commercial mortgage origination and servicing, OPY Credit Corp., which offers syndication as well as trading of issued corporate loans, Oppenheimer Europe Ltd., based in the United Kingdom, with offices in the Isle of Jersey and Switzerland, which provides institutional equities and fixed income brokerage and corporate financial services and is regulated by the Financial Conduct Authority, and Oppenheimer Investments Asia Limited, based in Hong Kong, China, which provides assistance in accessing the U.S. equities markets and limited mergers and acquisitions advisory services to Asia-based companies, as well as offering fixed income brokerage services to institutional investors, and is regulated by the Securities and Futures Commission.

Oppenheimer provides its services from 82 offices in 24 states located throughout the United States and in 5 foreign jurisdictions. Oppenheimer owns Freedom Investments, Inc. ("Freedom"), a registered broker dealer in securities, which provides discount brokerage services, and Oppenheimer Israel (OPCO) Ltd., which is engaged in offering investment services in the State of Israel. Oppenheimer holds a trading permit on the New York Stock Exchange and is a member of several other regional exchanges in the United States.

Basis of Presentation

The accompanying condensed consolidated financial statements of the Company have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (the "SEC") regarding interim financial reporting. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States of America ("U.S. GAAP") for complete financial statements and should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015 (the "Form 10-K"). The accompanying December 31, 2015 condensed consolidated balance sheet data was derived from the audited consolidated financial statements, but does not include all disclosures required by U.S. GAAP for annual financial statement purposes. The accompanying condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods presented. Preparing financial statements requires management to make estimates and assumptions that affect the amounts that are reported in the financial statements and the accompanying disclosures. Although these estimates are based on management's knowledge of current events and actions that the Company may undertake in the future, actual results may differ materially from the estimates. The condensed consolidated results of operations for the three month period ended March 31, 2016 are not necessarily indicative of the results to be expected for any future interim or annual period.

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

Accounting standards require the Company to present noncontrolling interests as a separate component of stockholders' equity on the Company's condensed consolidated balance sheet. As of March 31, 2016, the Company

owned 83.68% of OMHHF and the noncontrolling interest recorded in the condensed consolidated balance sheet was \$7.0 million.

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2. New accounting pronouncements

Recently Adopted

In April 2014, the FASB issued ASU No. 2014-08, "Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity." Under this ASU, a discontinued operation is defined as a disposal of a component or group of components that is disposed of and represents a strategic shift that has or will have a major effect on an entity's operation. The ASU also modified related disclosure requirements. The ASU became effective for the annual reporting period in the fiscal year that began after December 15, 2014. The adoption of this accounting guidance did not have a material impact on the Company's condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-11, "Transfers and Servicing – Repurchase-to-Maturity Transactions, Repurchase Financing, and Disclosures," which makes amendments to the guidance in Accounting Standards Codification 860 on accounting for certain repurchase agreements. The ASU became effective for the annual reporting period in the fiscal year that began after December 15, 2015, except for the disclosures related to transactions accounted for as secured borrowings, which became effective for the period that began on or after March 15, 2015. The adoption of this accounting guidance did not have a material impact on the Company's condensed consolidated financial statements. See Note 6, Collateralized transactions, below.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation." The ASU clarifies that entities should treat performance targets that can be met after the requisite service period of a share-based award as performance conditions that affect vesting. The ASU became effective for the annual reporting period in the fiscal year that began after December 15, 2015. The adoption of the ASU did not have a material impact on the Company's condensed consolidated financial statements.

In November 2014, the FASB issued ASU No. 2014-17, "Business Combination - Pushdown Accounting." The ASU gives the acquired entity the option of applying pushdown accounting in its stand-alone financial statements upon a change-in-control event. The ASU became effective upon issuance. The adoption of this accounting guidance did not have a material impact on the Company's condensed consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items," to simplify income statement classification by removing the concept of extraordinary items. Under the existing guidance, an entity is required to separately disclose extraordinary items, net of tax, in the income statement after income from continuing operations if an event or transaction is of an unusual nature and occurs infrequently. This separate, net-of-tax presentation (and corresponding earnings per share impact) will no longer be allowed. However, the existing requirement to separately present items that are of an unusual nature or occur infrequently on a pre-tax basis within income from continuing operations has been retained. The ASU became effective for the annual reporting period in the fiscal year that began after December 15, 2015. The adoption of the ASU did not have a material impact on the Company's condensed consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation - Amendments to the Consolidation Analysis," to eliminate the deferral of the application of the revised consolidation rules and make changes to both the variable interest model and the voting model. Under this ASU, a general partner will not consolidate a partnership or similar entity under the voting model. The ASU became effective for the annual reporting period in the fiscal year that began after December 15, 2015. The adoption of the ASU impacted the disclosure of VIEs but did not have a material impact on the Company's condensed consolidated financial statements. See Note 7, Variable interest entities, below.

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs," which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. The ASU became effective for the annual reporting period in the fiscal year that began after December 15, 2015. The adoption of the ASU did not have a material impact on the Company's condensed consolidated financial statements.

In May 2015, the FASB issued ASU No. 2015-07, "Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)," which removes the requirement to categorize within the fair value hierarchy all investments measured using the net asset value per share practical expedient and related disclosures. The ASU became effective for the annual reporting periods in the fiscal year that began after December 15, 2015. The adoption

of the ASU impacted the fair value disclosures but did not have a material impact on the Company's condensed consolidated financial statements. See Note 5, Fair value measurements, below.

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Recently Issued

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. Additionally, the ASU expands the disclosure requirements for revenue recognition. The ASU was originally effective for the annual reporting period in the fiscal year that begins after December 15, 2016. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers: Deferral of the Effective Date." which defers the effective date of the standard to the annual reporting period in the fiscal year that begins after December 15, 2017 and early adoption is permitted as of the original effective date. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Disclosure of Uncertainties About an Entity's Ability to Continue as a Going Concern," which provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The ASU requires management of an entity to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date of issuance of the entity's financial statements and also provide disclosures if there is "substantial doubt about the entity's ability to continue as a going concern." The ASU is effective for the annual reporting period in the fiscal year that begins after December 15, 2016 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact on its disclosure.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which revises an entity's accounting related to the classification and measurement of investments in equity securities, changes the presentation of certain fair value changes relating to instrument specific credit risk for financial liabilities and amends certain disclosure requirements associated with the fair value of financial instruments. The ASU is effective for fiscal years beginning after December 15, 2017. The adoption of the ASU will not have a material impact on the Company's condensed consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, "Leases." The ASU requires most leases to be reflected on the balance sheet. The ASU is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of the ASU. The adoption of the new lessee model is expected to have material impact on the Company's condensed consolidated financial statements.

In March, 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and minimum statutory tax withholding requirements, as well as classification in the statement of cash flows. The ASU is effective for fiscal year beginning after December 15, 2016 and early adoption is permitted. The Company will not early adopt this ASU. The Company is currently evaluating the impact, if any, that the ASU will have on its condensed consolidated financial statements.

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3. Earnings per share

Basic earnings per share is computed by dividing net income attributable to Oppenheimer Holdings Inc. by the weighted average number of shares of Class A Stock and Class B Stock outstanding. Diluted earnings per share includes the weighted average number of shares of Class A Stock and Class B Stock outstanding and options to purchase Class A Stock and unvested restricted stock awards of Class A Stock using the treasury stock method. Earnings per share have been calculated as follows:

(Expressed in thousands, except number of shares and per share amounts)

	For the Three Months Ended March 31,	
	2016	2015
Basic weighted average number of shares outstanding	13,379,827	13,704,228
Net dilutive effect of share-based awards, treasury method ⁽¹⁾	—	578,042
Diluted weighted average number of shares outstanding	13,379,827	14,282,270
Net income (loss)	\$(3,909)	\$ 6,121
Net income (loss) attributable to noncontrolling interest, net of tax	(62)	402
Net income (loss) attributable to Oppenheimer Holdings Inc.	\$(3,847)	\$ 5,719
Basic earnings (loss) per share	\$(0.29)	\$ 0.42
Diluted earnings (loss) per share	\$(0.29)	\$ 0.40

For the three months ended March 31, 2016, the diluted earnings per share computation does not include the (1) anti-dilutive effect of 1,295,972 shares of Class A Stock granted under share-based compensation arrangements (46,076 for the three months ended March 31, 2015).

4. Receivable from and payable to brokers, dealers and clearing organizations

(Expressed in thousands)

	As of	
	March 31, 2016	December 31, 2015
Receivable from brokers, dealers and clearing organizations consist of:		
Securities borrowed	\$ 190,963	\$ 224,672
Receivable from brokers	36,059	49,458
Securities failed to deliver	10,914	7,799
Clearing organizations	22,957	25,030
Other	2,470	53,954
Total	\$ 263,363	\$ 360,913
Payable to brokers, dealers and clearing organizations consist of:		
Securities loaned	\$ 143,157	\$ 130,658
Payable to brokers	10,232	3,316
Securities failed to receive	24,781	21,513
Other	29,709	9,059
Total	\$ 207,879	\$ 164,546

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5. Fair value measurements

Securities owned and securities sold but not yet purchased, investments and derivative contracts are carried at fair value with changes in fair value recognized in earnings each period.

Securities Owned and Securities Sold, But Not Yet Purchased at Fair Value

(Expressed in thousands)

	As of March 31, 2016		As of December 31, 2015	
	Owned	Sold	Owned	Sold
U.S. Government, agency and sovereign obligations	\$749,323	\$204,003	\$509,614	\$77,485
Corporate debt and other obligations	22,823	11,166	16,138	1,652
Mortgage and other asset-backed securities	4,151	27	3,504	27
Municipal obligations	80,220	—	30,132	—
Convertible bonds	50,984	15,988	54,693	5,951
Corporate equities	44,964	39,768	34,475	41,378
Money markets	132	—	35	—
Auction rate securities	84,185	—	86,802	—
Total	\$1,036,782	\$270,952	\$735,393	\$126,493

Securities owned and securities sold, but not yet purchased, consist of trading and investment securities at fair values. Included in securities owned at March 31, 2016 are corporate equities with estimated fair values of approximately \$13.5 million (\$14.0 million at December 31, 2015), which are related to deferred compensation liabilities to certain employees included in accrued compensation on the condensed consolidated balance sheet.

Valuation Techniques

A description of the valuation techniques applied and inputs used in measuring the fair value of the Company's financial instruments is as follows:

U.S. Government Obligations

U.S. Treasury securities are valued using quoted market prices obtained from active market makers and inter-dealer brokers.

U.S. Agency Obligations

U.S. agency securities consist of agency issued debt securities and mortgage pass-through securities. Non-callable agency issued debt securities are generally valued using quoted market prices. Callable agency issued debt securities are valued by benchmarking model-derived prices to quoted market prices and trade data for identical or comparable securities. The fair value of mortgage pass-through securities are model driven with respect to spreads of the comparable To-be-announced ("TBA") security.

Sovereign Obligations

The fair value of sovereign obligations is determined based on quoted market prices when available or a valuation model that generally utilizes interest rate yield curves and credit spreads as inputs.

Corporate Debt and Other Obligations

The fair value of corporate bonds is estimated using recent transactions, broker quotations and bond spread information.

Mortgage and Other Asset-Backed Securities

The Company holds non-agency securities collateralized by home equity and various other types of collateral which are valued based on external pricing and spread data provided by independent pricing services. When specific external pricing is not observable, the valuation is based on yields and spreads for comparable bonds.

Municipal Obligations

The fair value of municipal obligations is estimated using recently executed transactions, broker quotations, and bond spread information.

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Convertible Bonds

The fair value of convertible bonds is estimated using recently executed transactions and dollar-neutral price quotations, where observable. When observable price quotations are not available, fair value is determined based on cash flow models using yield curves and bond spreads as key inputs.

Corporate Equities

Equity securities and options are generally valued based on quoted prices from the exchange or market where traded. To the extent quoted prices are not available, fair values are generally derived using bid/ask spreads.

Loans Held for Sale

The Company elected the fair value option for loans held for sale and determines the fair value using both a discounted cash flow model (see key assumptions used in determining mortgage servicing rights below) and quoted observable prices from market participants.

Interest Rate Lock Commitments

OMHHF records an interest rate lock commitment upon the commitment to originate a loan with a borrower. This commitment, which can be an asset or liability, is recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan. The interest rate lock commitments are valued using a discounted cash flow model developed based on U.S. Treasury rate changes and other observable market data. The fair value is determined after considering the potential impact of collateralization.

To-Be-Announced ("TBA") sale contracts

TBA sale contracts of permanent loans originated or purchased at OMHHF are based on observable market prices of recently executed purchases of similar loans which are then used to derive a market implied spread, which in turn is used as the primary input in estimating the fair value of loans at the measurement date. TBA sale contracts of construction loans originated or purchased at OMHHF are based on observable market prices of recently executed purchases.

Mortgage Servicing Rights ("MSRs")

The Company's MSRs are measured at fair value on a nonrecurring basis. The MSRs are initially measured at fair value on the loan securitization date and subsequently measured on the amortized cost basis subject to quarterly impairment testing. MSRs do not trade in active open markets with readily observable pricing. Therefore the Company uses a discounted cash flow model to estimate the fair value of MSRs. The discounted cash flow model calculates the present value of estimated future net servicing income using inputs such as contractually specified servicing fees, prepayment assumptions, delinquency rates, late charges, other ancillary revenue, costs to service and other economic factors. The Company reassesses and periodically adjusts the underlying inputs and assumptions used in the model to reflect observable and unobservable market conditions and assumptions that a market participant would consider in valuing a MSR asset. MSRs are carried at the lower of amortized cost or estimated fair value. The following key assumptions were used in determining the initial fair value of MSRs:

Discount Rate – The discount rate used for originated permanent and construction loans averaged approximately 12%.

Estimated Life – The estimated life of the MSRs is derived using a continuous prepayment rate ("CPR") assumption which estimates projected prepayments of the loan portfolio by considering factors such as note rates, lockouts, and prepayment penalties at the loan level. The CPR rates used are 0% until such time that a loan's prepayment penalty rate hits 4% of the unpaid principal balance of the loan with the vast majority of CPR speeds ranging from 10% to 15% thereafter, with an average of 12%.

Servicing Costs – The estimated future cost to service the loans on an annual basis per loan averages approximately \$1,250 for a permanent loan, with a considerably higher cost to service during the construction phase.

The Company does not anticipate any credit losses on the commercial mortgages it services since all of the mortgages are insured for and guaranteed against credit losses by the Federal Housing Administration ("FHA") and the Government National Mortgage Association ("GNMA") and are thus guaranteed by the U.S. government.

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Auction Rate Securities ("ARS")

In February 2010, Oppenheimer finalized settlements with each of the New York Attorney General's office ("NYAG") and the Massachusetts Securities Division ("MSD" and, together with the NYAG, the "Regulators") concluding investigations and administrative proceedings by the Regulators concerning Oppenheimer's marketing and sale of ARS. Pursuant to the settlements with the Regulators, Oppenheimer agreed to extend offers to repurchase ARS from certain of its clients subject to certain terms and conditions more fully described below. As of March 31, 2016, the Company did not have any outstanding ARS purchase commitments related to the settlements with the Regulators. In addition to the settlements with the Regulators, Oppenheimer has also reached settlements of and received adverse awards in legal proceedings with various clients where the Company is obligated to purchase ARS. Pursuant to completed Purchase Offers (as defined) under the settlements with the Regulators and client related legal settlements and awards to purchase ARS, as of March 31, 2016, the Company purchased and holds (net of redemptions) approximately \$87.1 million in ARS from its clients. In addition, the Company is committed to purchase another \$32.5 million in ARS from clients through 2020 under legal settlements and awards.

The ARS positions that the Company owns and is committed to purchase primarily represent auction rate preferred securities issued by closed-end funds and, to a lesser extent, municipal auction rate securities which are municipal bonds wrapped by municipal bond insurance and student loan auction rate securities which are asset-backed securities backed by student loans.

Interest rates on ARS typically reset through periodic auctions. Due to the auction mechanism and generally liquid markets, ARS have historically been categorized as Level 1 of the fair value hierarchy. Beginning in February 2008, uncertainties in the credit markets resulted in substantially all of the ARS market experiencing failed auctions. Once the auctions failed, the ARS could no longer be valued using observable prices set in the auctions. The Company has used less observable determinants of the fair value of ARS, including the strength in the underlying credits, announced issuer redemptions, completed issuer redemptions, and announcements from issuers regarding their intentions with respect to their outstanding ARS. The Company has also developed an internal methodology to discount for the lack of liquidity and non-performance risk of the failed auctions. Due to liquidity problems associated with the ARS market, ARS that lack liquidity are setting their interest rates according to a maximum rate formula. For example, an auction rate preferred security maximum rate may be set at 200% of a short-term index such as LIBOR or U.S.

Treasury yield. For fair value purposes, the Company has determined that the maximum spread would be an adequate risk premium to account for illiquidity in the market. Accordingly, the Company applies a spread to the short-term index for each asset class to derive the discount rate. The Company uses short-term U.S. Treasury yields as its benchmark short-term index. The risk of non-performance is typically reflected in the prices of ARS positions where the fair value is derived from recent trades in the secondary market.

The ARS purchase commitment, or derivative asset or liability, arises from both the settlements with the Regulators and legal settlements and awards. The ARS purchase commitment represents the difference between the principal value and the fair value of the ARS the Company is committed to purchase. The Company utilizes the same valuation methodology for the ARS purchase commitment as it does for the ARS it owns. Additionally, the present value of the future principal value of ARS purchase commitments under legal settlements and awards is used in the discounted valuation model to reflect the time value of money over the period of time that the commitments are outstanding. The amount of the ARS purchase commitment only becomes determinable once the Company has met with its primary regulator and the NYAG and agreed upon a buyback amount, commenced the ARS buyback offer to clients, and received notice from its clients which ARS they are tendering. As a result, it is not possible to observe the current yields actually paid on the ARS until all of these events have happened which is typically very close to the time that the Company actually purchases the ARS. For ARS purchase commitments pursuant to legal settlements and awards, the criteria for purchasing ARS from clients is based on the nature of the settlement or award which will stipulate a time period and amount for each repurchase. The Company will not know which ARS will be tendered by the client until the stipulated time for repurchase is reached. Therefore, the Company uses the current yields of ARS owned in its discounted valuation model to determine a fair value of ARS purchase commitments. The Company also uses these current yields by asset class (i.e., auction rate preferred securities, municipal auction rate securities, and student loan

auction rate securities) in its discounted valuation model to determine the fair value of ARS purchase commitments. In addition, the Company uses the discount rate and duration of ARS owned, by asset class, as a proxy for the duration of ARS purchase commitments.

Quantitative Information about Level 3 Fair Value Measurements at March 31, 2016

Principal amount represents the par value of the ARS and is included in securities owned in the condensed consolidated balance sheet at March 31, 2016. The valuation adjustment amount is included as a reduction to securities owned in the condensed consolidated balance sheet at March 31, 2016.

(2) Derived by applying a multiple to the spread between 110% to 150% to the U.S. Treasury rate of 1.04%.

(3) Based on current yields for ARS positions owned.

(4) Derived by applying a multiple to the spread of 175% to the U.S. Treasury rate of 1.13%.

(5) Derived by applying the sum of the spread of 1.20% to the U.S. Treasury rate of 1.55%.

Principal amount represents the present value of the ARS par value that the Company is committed to

(6) purchase at a future date. This principal amount is presented as an off-balance sheet item. The valuation adjustment amounts, unrealized gains and losses, are included in other assets and accounts payable and other liabilities, respectively, on the condensed consolidated balance sheet at March 31, 2016.

(7) Represents ARS issued by a credit default obligation structure that the Company has purchased and is committed to purchase as a result of a legal settlement.

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The fair value of ARS and ARS purchase commitments is particularly sensitive to movements in interest rates. Increases in short-term interest rates would increase the discount rate input used in the ARS valuation and thus reduce the fair value of the ARS (increase the valuation adjustment). Conversely, decreases in short-term interest rates would decrease the discount rate and thus increase the fair value of ARS (decrease the valuation adjustment). However, an increase (decrease) in the discount rate input would be partially mitigated by an increase (decrease) in the current yield earned on the underlying ARS asset increasing the cash flows and thus the fair value. Furthermore, movements in short term interest rates would likely impact the ARS duration (i.e., sensitivity of the price to a change in interest rates), which would also have a mitigating effect on interest rate movements. For example, as interest rates increase, issuers of ARS have an incentive to redeem outstanding securities as servicing the interest payments gets prohibitively expensive which would lower the duration assumption thereby increasing the ARS fair value. Alternatively, ARS issuers are less likely to redeem ARS in a lower interest rate environment as it is a relatively inexpensive source of financing which would increase the duration assumption thereby decreasing the ARS fair value. For example, see the following sensitivities:

The impact of a 25 basis point increase in the discount rate at March 31, 2016 would result in a decrease in the fair value of \$1.1 million (does not consider a corresponding reduction in duration as discussed above).

The impact of a 50 basis point increase in the discount rate at March 31, 2016 would result in a decrease in the fair value of \$2.2 million (does not consider a corresponding reduction in duration as discussed above).

These sensitivities are hypothetical and are based on scenarios where they are "stressed" and should be used with caution. These estimates do not include all of the interplay among assumptions and are estimated as a portfolio rather than as individual assets.

Due to the less observable nature of these inputs, the Company categorizes ARS in Level 3 of the fair value hierarchy. As of March 31, 2016, the Company had a valuation adjustment (unrealized loss) of \$2.9 million for ARS owned which is included as a reduction to securities owned on the condensed consolidated balance sheet. As of March 31, 2016, the Company also had a net valuation adjustment (unrealized gain) of \$981,000 on ARS purchase commitments from settlements with the Regulators and legal settlements and awards, comprised of unrealized gains of \$1.5 million and unrealized losses of \$559,000, which are included in other assets and accounts payable and other liabilities, respectively, on the condensed consolidated balance sheet. The total valuation adjustment was \$2.0 million as of March 31, 2016. The valuation adjustment represents the difference between the principal value and the fair value of the ARS owned and ARS purchase commitments.

Investments

In its role as general partner in certain hedge funds and private equity funds, the Company, through its subsidiaries, holds direct investments in such funds. The Company uses the net asset value of the underlying fund as a basis for estimating the fair value of its investment.

The following table provides information about the Company's investments in Company-sponsored funds at March 31, 2016:

(Expressed in thousands)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds ⁽¹⁾	\$ 2,396	\$ —	Quarterly - Annually	30 - 120 Days
Private equity funds ⁽²⁾	4,866	1,251	N/A	N/A
	\$ 7,262	\$ 1,251		

Includes investments in hedge funds and hedge fund of funds that pursue long/short, event-driven, and activist (1) strategies. Each hedge fund has various restrictions regarding redemption; no investment is locked-up for a period greater than one year.

Includes private equity funds and private equity fund of funds with a focus on diversified portfolios, real estate and (2) global natural resources. Due to the illiquid nature of these funds, investors are not permitted to make withdrawals without the consent of the general partner. The lock-up period of the private equity funds can extend to 10 years.

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Valuation Process

The Finance & Accounting ("F&A") group is responsible for the Company's fair value policies, processes and procedures. F&A is independent from the business units and trading desks and is headed by the Company's Chief Financial Officer ("CFO"), who has final authority over the valuation of the Company's financial instruments. The Finance Control Group ("FCG") within F&A is responsible for daily profit and loss reporting, front-end trading system position reconciliations, monthly profit and loss reporting, and independent price verification procedures. For financial instruments categorized in Levels 1 and 2 of the fair value hierarchy, the FCG performs a monthly independent price verification to determine the reasonableness of the prices provided by the Company's independent pricing vendor. The FCG uses its third-party pricing vendor, executed transactions, and broker-dealer quotes for validating the fair values of financial instruments.

For financial instruments categorized in Level 3 of the fair value hierarchy measured on a recurring basis, primarily for ARS, a group comprised of the CFO, the Controller, and an Operations Director are responsible for the ARS valuation model and resulting fair valuations. Procedures performed include aggregating all ARS owned by type from firm inventory accounts and ARS purchase commitments from regulatory and legal settlements and awards provided by the Legal Department. Observable and unobservable inputs are aggregated from various sources and entered into the ARS valuation model. For unobservable inputs, the group reviews the appropriateness of the inputs to ensure consistency with how a market participant would arrive at the unobservable input. For example, for the duration assumption, the group would consider recent policy statements regarding short-term interest rates by the Federal Reserve and recent ARS issuer redemptions and announcements for future redemptions. The model output is reviewed for reasonableness and consistency. Where available, comparisons are performed between ARS owned or committed to purchase to ARS that are trading in the secondary market.

For financial instruments categorized in Level 3 of the fair value hierarchy measured on a non-recurring basis, primarily for MSRs, the OMHHF Valuation Committee, which is comprised of the OMHHF President & Chief Executive Officer, OMHHF CFO, OMHHF Chief Operating Officer, and OMHHF Asset Manager, is responsible for the MSR model and resulting fair valuations. The OMHHF Valuation Committee performs its review of the model and assumptions and its impairment analysis on a quarterly basis. On an annual basis, the Company utilizes an external valuation consultant to validate that the internal MSR model is functioning appropriately. The OMHHF Valuation Committee compares assumptions used for unobservable inputs, such as for discount rates, estimated life, and costs of servicing, to that used by the external valuation consultant for reasonableness. The model output and resulting valuation multiples are reviewed for reasonableness and consistency. Where available, comparisons are performed to recent MSR sales in the secondary market. The Company's management reviews the results of both the quarterly reviews and annual impairment analysis.

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Assets and Liabilities Measured at Fair Value

The Company's assets and liabilities, recorded at fair value on a recurring basis as of March 31, 2016 and December 31, 2015, have been categorized based upon the above fair value hierarchy as follows:

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2016

(Expressed in thousands)

	Fair Value Measurements at March 31, 2016			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	\$13,449	\$—	\$—	\$13,449
Deposits with clearing organizations	29,981	—	—	29,981
Securities owned:				
U.S. Treasury securities	715,404	—	—	715,404
U.S. Agency securities	1,000	29,545	—	30,545
Sovereign obligations	—	3,374	—	3,374
Corporate debt and other obligations	—	22,823	—	22,823
Mortgage and other asset-backed securities	—	4,151	—	4,151
Municipal obligations	—	80,135	85	80,220
Convertible bonds	—	50,984	—	50,984
Corporate equities	44,964	—	—	44,964
Money markets	132	—	—	132
Auction rate securities	—	—	84,185	84,185
Securities owned, at fair value	761,500	191,012	84,270	1,036,782
Investments ⁽¹⁾	—	—	161	161
Loans held for sale	—	13,532	—	13,532
Derivative contracts:				
TBAs	—	811	—	811
Interest rate lock commitments	—	—	14,024	14,024
ARS purchase commitments	—	—	1,540	1,540
Derivative contracts, total	—	811	15,564	16,375
Total	\$804,930	\$205,355	\$99,995	\$1,110,280
Liabilities				
Securities sold, but not yet purchased:				
U.S. Treasury securities	\$202,838	\$—	\$—	\$202,838
U.S. Agency securities	—	13	—	13
Sovereign obligations	—	1,152	—	1,152
Corporate debt and other obligations	—	11,166	—	11,166
Mortgage and other asset-backed securities	—	27	—	27
Convertible bonds	—	15,988	—	15,988
Corporate equities	39,768	—	—	39,768
Securities sold, but not yet purchased, at fair value	242,606	28,346	—	270,952
Derivative contracts:				
Futures	709	—	—	709
Foreign currency forward contracts	17	—	—	17
TBAs	—	11,816	—	11,816
ARS purchase commitments	—	—	559	559
Derivative contracts, total	726	11,816	559	13,101
Total	\$243,332	\$40,162	\$559	\$284,053

(1) Included in other assets on the condensed consolidated balance sheet.

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Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015
(Expressed in thousands)

	Fair Value Measurements at December 31, 2015			
	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	\$ 13,000	\$—	\$—	\$ 13,000
Deposits with clearing organizations	31,456	—	—	31,456
Securities owned:				
U.S. Treasury securities	436,533	—	—	436,533
U.S. Agency securities	25,240	46,176	—	71,416
Sovereign obligations	—	1,665	—	1,665
Corporate debt and other obligations	—	16,138	—	16,138
Mortgage and other asset-backed securities	—	3,504	—	3,504
Municipal obligations	—	30,051	81	30,132
Convertible bonds	—	54,693	—	54,693
Corporate equities	34,475	—	—	34,475
Money markets	35	—	—	35
Auction rate securities	—	—	86,802	86,802
Securities owned, at fair value	496,283	152,227	86,883	735,393
Investments ⁽¹⁾	—	—	157	157
Loans held for sale	—	60,234	—	60,234
Securities purchased under agreements to resell ⁽²⁾	—	206,499	—	206,499
Derivative contracts:				
TBAs	—	6,448	—	6,448
Interest rate lock commitments	—	—	9,161	9,161
Derivative contracts, total	—	6,448	9,161	15,609
Total	\$ 540,739	\$ 425,408	\$ 96,201	\$ 1,062,348
Liabilities				
Securities sold, but not yet purchased:				
U.S. Treasury securities	\$ 75,653	\$—	\$—	\$ 75,653
U.S. Agency securities	—	15	—	15
Sovereign obligations	—	1,817	—	1,817
Corporate debt and other obligations	—	1,652	—	1,652
Mortgage and other asset-backed securities	—	27	—	27
Convertible bonds	—	5,951	—	5,951
Corporate equities	41,378	—	—	41,378
Securities sold, but not yet purchased, at fair value	117,031	9,462	—	126,493
Derivative contracts:				
Futures	249	—	—	249
Foreign currency forward contracts	2	—	—	2
TBAs	—	11,619	—	11,619
Interest rate lock commitments	—	—	923	923
ARS purchase commitments	—	—	1,369	1,369
Derivative contracts, total	251	11,619	2,292	14,162
Total	\$ 117,282	\$ 21,081	\$ 2,292	\$ 140,655

(1) Included in other assets on the condensed consolidated balance sheet.

(2)

Included in securities purchased under agreements to resell where the Company has elected fair value option treatment.

There were no transfers between any of the levels in the three months ended March 31, 2016.

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The following tables present changes in Level 3 assets and liabilities measured at fair value on a recurring basis for the three months ended March 31, 2016 and 2015:

(Expressed in thousands)

Level 3 Assets and Liabilities For the Three Months Ended March 31, 2016						
	Total Realized and Unrealized					
	Beginning Balance	Gains (Losses) ⁽⁴⁾⁽⁵⁾	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
Assets						
Municipals	\$81	\$ 4	\$	—	\$	—\$ 85
Auction rate securities ⁽¹⁾⁽⁶⁾⁽⁷⁾	86,802	233	11,450	(16,300)	—	84,185
Interest rate lock commitments ⁽²⁾	9,164	4,863	—	—	—	14,024
Investments	157	4	—	—	—	161
ARS purchase commitments ⁽³⁾	—	1,540	—	—	—	1,540
Liabilities						
Interest rate lock commitments ⁽²⁾	923	923	—	—	—	—
ARS purchase commitments ⁽³⁾	1,369	10	—	—	—	559

(1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.

(2) Interest rate lock commitment assets and liabilities are recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. The commitment assets and liabilities are recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan.

(3) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.

(4) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.

(5) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.

Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.

(7) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

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(Expressed in thousands)

Level 3 Assets and Liabilities For the Three Months Ended March 31, 2015						
	Total Realized and Unrealized					
	Beginning Balance	Gains (Losses) ⁽⁴⁾⁽⁵⁾	Purchases and Issuances	Sales and Settlements	Transfers In (Out)	Ending Balance
Assets						
Municipals	\$164	\$ (60)	\$ —	\$ —	\$ —	\$ 104
Auction rate securities ⁽¹⁾⁽⁶⁾⁽⁷⁾	91,422	935	8,225	(1,525)	—	99,057
Interest rate lock commitments ⁽²⁾	7,576	3,848	—	—	—	11,424
Investments	193	(9)	—	—	—	184
Liabilities						
Interest rate lock commitments ⁽²⁾	1,222	678	—	—	—	544
ARS purchase commitments ⁽³⁾	902	105	—	—	—	797

(1) Represents auction rate preferred securities, municipal auction rate securities and student loan auction rate securities that failed in the auction rate market.

(2) Interest rate lock commitment assets and liabilities are recorded upon the commitment to originate a loan with a borrower and sell the loan to an investor. The commitment assets and liabilities are recognized at fair value, which reflects the fair value of the contractual loan origination related fees and sale premiums, net of co-broker fees, and the estimated fair value of the expected net future cash flows associated with the servicing of the loan.

(3) Represents the difference in principal and fair value for auction rate securities purchase commitments outstanding at the end of the period.

(4) Included in principal transactions on the condensed consolidated statement of operations, except for investments which are included in other income on the condensed consolidated statement of operations.

(5) Unrealized gains (losses) are attributable to assets or liabilities that are still held at the reporting date.

Purchases and issuances in connection with ARS purchase commitments represent instances in which the Company purchased ARS securities from clients during the period pursuant to regulatory and legal settlements and awards that satisfy the outstanding commitment to purchase obligation. This also includes instances where the ARS issuer has redeemed ARS where the Company had an outstanding purchase commitment prior to the Company purchasing those ARS.

(7) Sales and settlements for the ARS purchase commitments represent additional purchase commitments made during the period for regulatory and legal ARS settlements and awards.

Financial Instruments Not Measured at Fair Value

The tables below present the carrying value, fair value and fair value hierarchy category of certain financial instruments that are not measured at fair value in the condensed consolidated balance sheets. The tables below exclude non-financial assets and liabilities (e.g., office facilities and accrued compensation).

The carrying value of financial instruments not measured at fair value categorized in the fair value hierarchy as Level 1 or Level 2 (e.g., cash and receivables from customers) approximates fair value because of the relatively short period of time between their origination and expected maturity or settlement. The fair value of the Company's 8.75% Senior Secured Notes, categorized in Level 2 of the fair value hierarchy, is based on quoted prices from the market in which the Notes trade.

The fair value of MSRs is based on observable and unobservable inputs and thus categorized as Level 3 in the fair value hierarchy. See valuation techniques above for key assumptions used.

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Assets and liabilities not measured at fair value as of March 31, 2016
(Expressed in thousands)

	As of March 31, 2016		Fair Value Measurement: Assets			
	Carrying	Fair Value	Level 1	Level 2	Level 3	Total
Cash	\$49,030	\$49,030	\$49,030	\$	—	—\$49,030
Deposits with clearing organization	26,586	26,586	26,586	—	—	26,586
Receivable from brokers, dealers and clearing organizations:						
Securities borrowed	190,963	190,963	—	190,963	—	190,963
Receivables from brokers	36,059	36,059	—	36,059	—	36,059
Securities failed to deliver	10,914	10,914	—	10,914	—	10,914
Clearing organizations	22,957	22,957	—	22,957	—	22,957
Other	2,470	2,470	—	2,470	—	2,470
	263,363	263,363	—	263,363	—	263,363
Receivable from customers	791,631	791,631	—	791,631	—	791,631
Mortgage servicing rights	28,024	41,777	—	—	41,777	41,777
Investments ⁽¹⁾	53,482	53,482	—	53,482	—	53,482

(1) Included in other assets on the condensed consolidated balance sheet.
(Expressed in thousands)

	As of March 31, 2016		Fair Value Measurement: Liabilities			
	Carrying	Fair Value	Level 1	Level 2	Level 3	Total
Drafts payable	\$37,663	\$37,663	\$37,663	\$	—	—\$37,663
Bank call loans	148,300	148,300	—	148,300	—	148,300
Payables to brokers, dealers and clearing organizations:						
Securities loaned	143,157	143,157	—	143,157	—	143,157
Payable to brokers	10,232	10,232	—	10,232	—	10,232
Securities failed to receive	24,781	24,781	—	24,781	—	24,781
Other	29,709	29,709	—	29,709	—	29,709
	207,879	207,879	—	207,879	—	207,879
Payables to customers	521,557	521,557	—	521,557	—	521,557
Securities sold under agreements to repurchase	529,752	529,752	—	529,752	—	529,752
Warehouse payable	11,845	11,845	—	11,845	—	11,845
Senior secured notes	150,000	152,195	—	152,195	—	152,195

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Assets and liabilities not measured at fair value as of December 31, 2015
(Expressed in thousands)

	Fair Value Measurement: Assets					
	As of December 31, 2015		As of December 31, 2015			
	Carrying	Fair Value	Level 1	Level 2	Level 3	Total
Cash	\$50,364	\$50,364	\$50,364	\$	—	—\$50,364
Deposits with clearing organization	18,034	18,034	18,034	—	—	18,034
Receivable from brokers, dealers and clearing organizations:						
Securities borrowed	224,672	224,672	—	224,672	—	224,672
Receivables from brokers	49,458	49,458	—	49,458	—	49,458
Securities failed to deliver	7,799	7,799	—	7,799	—	7,799
Clearing organizations	25,030	25,030	—	25,030	—	25,030
Other	53,954	53,954	—	53,954	—	53,954
	360,913	360,913	—	360,913	—	360,913
Receivable from customers	840,355	840,355	—	840,355	—	840,355
Mortgage servicing rights	28,168	41,838	—	—	41,838	41,838
Investments ⁽¹⁾	53,286	53,286	—	53,286	—	53,286

(1) Included in other assets on the condensed consolidated balance sheet.

(Expressed in thousands)

	Fair Value Measurement: Liabilities					
	As of December 31, 2015		As of December 31, 2015			
	Carrying Value	Fair Value	Level 1	Level 2	Level 3	Total
Drafts payable	\$48,011	\$48,011	\$48,011	\$ —	—	—\$48,011
Bank call loans	100,200	100,200	—	100,200	—	100,200
Payables to brokers, dealers and clearing organizations:						
Securities loaned	130,658	130,658	—	130,658	—	130,658
Payable to brokers	3,316	3,316	—	3,316	—	3,316
Securities failed to receive	21,513	21,513	—	21,513	—	21,513
Other	9,059	9,059	—	9,059	—	9,059
	164,546	164,546	—	164,546	—	164,546
Payables to customers	594,833	594,833	—	594,833	—	594,833
Securities sold under agreements to repurchase	651,445	651,445	—	651,445	—	651,445
Warehouse payable	54,341	54,341	—	54,341	—	54,341
Senior secured notes	150,000	154,568	—	154,568	—	154,568

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Fair Value Option

The Company has elected to apply the fair value option to its loan trading portfolio which resides in OPY Credit Corp. and is included in other assets on the condensed consolidated balance sheet. Management has elected this treatment as it is consistent with the manner in which the loan trading portfolio is managed as well as the way that financial instruments in other parts of the business are recorded. There were no loan positions held in the secondary loan trading portfolio at March 31, 2016 or December 31, 2015.

The Company elected the fair value option for repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential mismatch in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At March 31, 2016, the Company did not have any reverse repurchase agreements and repurchase agreements that elected the fair value option.

On October 1, 2013, the Company also elected the fair value option for loans held for sale which reside in OMHHF and are reported on the condensed consolidated balance sheet. Loans held for sale represent originated loans that are generally transferred or sold within 60 days from the date that a mortgage loan is funded. Electing to use fair value allows a better offset of the change in fair value of the loan and the change in fair value of the derivative instruments used as economic hedges. During the period prior to its sale, interest income on a loan held for sale is calculated in accordance with the terms of the individual loan. At March 31, 2016, the Company did not carry any loans held for sale for a period longer than 90 days. At March 31, 2016, the book value and fair value of loans held for sale was \$12.7 million and \$13.5 million, respectively.

Derivative Instruments and Hedging Activities

The Company transacts, on a limited basis, in exchange traded and over-the-counter derivatives for both asset and liability management as well as for trading and investment purposes. Risks managed using derivative instruments include interest rate risk and, to a lesser extent, foreign exchange risk. All derivative instruments are measured at fair value and are recognized as either assets or liabilities on the condensed consolidated balance sheet.

Cash flow hedges used for asset and liability management

For derivative instruments that were designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative was reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Gains or losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in current earnings. For the three months ended March 31, 2016 and 2015, there were no derivative instruments that were designated and qualified as a cash flow hedge.

Foreign exchange hedges

From time to time, the Company also utilizes forward and options contracts to hedge the foreign currency risk associated with compensation obligations to Oppenheimer Israel (OPCO) Ltd. employees denominated in New Israeli Shekel. Such hedges have not been designated as accounting hedges. Unrealized gains and losses on foreign exchange forward contracts are recorded in other assets in the condensed consolidated balance sheet and other income in the condensed consolidated statement of operations.

Derivatives used for trading and investment purposes

Futures contracts represent commitments to purchase or sell securities or other commodities at a future date and at a specified price. Market risk exists with respect to these instruments. Notional or contractual amounts are used to express the volume of these transactions and do not represent the amounts potentially subject to market risk. The futures contracts the Company used include U.S. Treasury notes, Federal Funds, General collateral futures and Eurodollar contracts which are used primarily as an economic hedge of interest rate risk associated with government trading activities. Unrealized gains and losses on futures contracts are recorded in the condensed consolidated balance sheet in payable to brokers, dealers and clearing organizations and in the condensed consolidated statement of operations as principal transactions revenue, net.

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Derivatives used for commercial mortgage banking

In the normal course of business, OMHHF enters into contractual commitments to originate (purchase) and sell multifamily mortgage loans at fixed prices with fixed expiration dates. The commitments become effective when the borrowers "lock-in" a specified interest rate within time frames established by OMHHF. All mortgagors are evaluated for credit worthiness prior to the extension of the commitment. Market risk arises if interest rates move adversely between the time of the "lock-in" of rates by the borrower and the sale date of the loan to an investor. To mitigate the effect of the interest rate risk inherent in providing rate lock commitments to borrowers, OMHHF's policy is to enter into a TBA sale contract with the investor simultaneously with the rate lock commitment with the borrower. The TBA sale contract with the investor locks in an interest rate and price for the sale of the loan. The terms of the contract with the investor and the rate lock with the borrower are matched in substantially all respects, with the objective of eliminating interest rate risk to the extent practical. TBA sale contracts with the investors have an expiration date that is longer than our related commitments to the borrower to allow, among other things, for the closing of the loan and processing of paperwork to deliver the loan into the sale commitment.

Both the rate lock commitments to borrowers and the TBA sale contracts to buyers are undesignated derivatives and, accordingly, are marked to fair value through earnings. Unrealized gains and losses on rate lock commitments are recorded in other assets in the condensed consolidated balance sheet and other income in the condensed consolidated statement of operations. The fair value of the Company's rate lock commitments to borrowers and loans held for sale and the related input includes, as applicable:

- the assumed gain/loss of the expected resultant loan sale to the buyer;
- the expected net future cash flows associated with servicing the loan;
- the effects of interest rate movements between the date of the rate lock and the balance sheet date; and
- the nonperformance risk of both the counterparty and the Company.

The fair value of the Company's TBA sale contracts to investors considers effects of interest rate movements between the trade date and the balance sheet date. The market price changes are multiplied by the notional amount of the TBA sale contracts to measure the fair value.

The assumed gain/loss considers the amount that the Company has discounted the price to the borrower from par for competitive reasons, if at all, and the expected net cash flows from servicing to be received upon securitization of the loan. The fair value of the expected net future cash flows associated with servicing the loan is calculated pursuant to the valuation techniques described previously for MSRs.

To calculate the effects of interest rate movements, the Company uses applicable published U.S. Treasury prices, and multiplies the price movement between the rate lock date and the balance sheet date by the notional loan commitment amount.

The fair value of the Company's TBA sale contracts to investors considers the market price movement of the same type of security between the trade date and the balance sheet date. The market price changes are multiplied by the notional amount of the TBA sale contracts to measure the fair value.

The fair value of the Company's interest rate lock commitments and TBA sale contracts is adjusted to reflect the risk that the agreement will not be fulfilled. The Company's exposure to nonperformance in rate lock and TBA sale contracts is represented by the contractual amount of those instruments. Given the credit quality of our counterparties, the short duration of interest rate lock commitments and TBA sale contracts, and the Company's historical experience with the agreements, the risk of nonperformance by the Company's counterparties is not significant.

TBA Securities

The Company also transacts in pass-through mortgage-backed securities eligible to be sold in the TBA market as economic hedges against mortgage-backed securities that it owns or has sold but not yet purchased. TBAs provide for the forward or delayed delivery of the underlying instrument with settlement up to 180 days. The contractual or notional amounts related to these financial instruments reflect the volume of activity and do not reflect the amounts at risk. Unrealized gains and losses on TBAs are recorded in the condensed consolidated balance sheet in receivable from brokers, dealers and clearing organizations and payable to brokers, dealers and clearing organizations, respectively, and in the condensed consolidated statement of operations as principal transactions revenue, net.

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The notional amounts and fair values of the Company's derivatives at March 31, 2016 and December 31, 2015 by product were as follows:

(Expressed in thousands)

	Fair Value of Derivative Instruments at March 31, 2016		
	Description	Notional	Fair Value
Assets			
Derivatives not designated as hedging instruments ⁽¹⁾			
Other contracts			
	TBAs	\$ 135,100	\$ 803
	TBA sale contracts	3,480	8
	Interest rate lock commitments	248,420	14,024
	ARS purchase commitments	11,237	1,540
		\$ 398,237	\$ 16,375
Liabilities			
Derivatives not designated as hedging instruments ⁽¹⁾			
Commodity contracts			
	Futures	\$ 4,060,000	\$ 709
Other contracts			
	Foreign exchange forward contracts	400	17
	TBAs	132,900	798
	TBA sale contracts	257,592	11,018
	ARS purchase commitments	21,312	559
	Forward start repurchase agreements	680,000	—
		\$ 5,152,204	\$ 13,101

(1) See "Derivative Instruments and Hedging Activities" above for description of derivative financial instruments.
Such derivative instruments are not subject to master netting agreements, thus the related amounts are not offset.
(Expressed in thousands)

	Fair Value of Derivative Instruments at December 31, 2015		
	Description	Notional	Fair Value
Assets			
Derivatives not designated as hedging instruments ⁽¹⁾			
Other contracts			
	TBAs	\$ 35,650	\$ 4
	TBA sale contracts	83,810	6,444
	Interest rate lock commitments	203,648	9,161
		\$ 323,108	\$ 15,609
Liabilities			
Derivatives not designated as hedging instruments ⁽¹⁾			
Commodity contracts			
	Futures	\$ 2,943,000	\$ 249
Other contracts			
	Foreign exchange forward contracts	400	2
	TBAs	24,350	5
	TBA sale contracts	223,846	11,614
	Interest rate lock commitments	48,638	923
	ARS purchase commitments	27,813	1,369
		\$ 3,268,047	\$ 14,162

(1) See "Derivative Instruments and Hedging Activities" above for description of derivative financial instruments.
Such derivative instruments are not subject to master netting agreements, thus the related amounts are not offset.

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The following table presents the location and fair value amounts of the Company's derivative instruments and their effect on the condensed consolidated statements of operations for the three months ended March 31, 2016 and 2015: (Expressed in thousands)

The Effect of Derivative Instruments on the Statement of Operations
For the Three Months Ended March 31, 2016

Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ (1,754)
Other contracts	Foreign exchange forward contracts	Other revenue	17
	TBAs	Principal transactions revenue	(9)
	TBA sale contracts	Other revenue	(7,901)
	Interest rate lock commitments	Other revenue	5,786
	ARS purchase commitments	Principal transactions revenue	2,350
			\$ (1,511)

(Expressed in thousands)

The Effect of Derivative Instruments on the Statement of Operations
For the Three Months Ended March 31, 2015

Types	Description	Recognized in Income on Derivatives (pre-tax)	
		Location	Gain (Loss)
Commodity contracts	Futures	Principal transactions revenue	\$ (1,480)
Other contracts	Foreign exchange forward contracts	Other revenue	3
	TBAs	Principal transactions revenue	(14)
	TBA sale contracts	Other revenue	(1,619)
	Interest rate lock commitments	Other revenue	4,526
	ARS purchase commitments	Principal transactions revenue	105
			\$ 1,521

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6. Collateralized transactions

The Company enters into collateralized borrowing and lending transactions in order to meet customers' needs and earn residual interest rate spreads, obtain securities for settlement and finance trading inventory positions. Under these transactions, the Company either receives or provides collateral, including U.S. government and agency, asset-backed, corporate debt, equity, and non-U.S. government and agency securities.

The Company obtains short-term borrowings primarily through bank call loans. Bank call loans are generally payable on demand and bear interest at various rates but not exceeding the broker call rate. At March 31, 2016, bank call loans were \$148.3 million (\$100.2 million at December 31, 2015). At March 31, 2016, such loans were collateralized by firm and customer securities with market values of approximately \$163.5 million and \$230.6 million, respectively, with commercial banks.

At March 31, 2016, the Company had approximately \$1.1 billion of customer securities under customer margin loans that are available to be pledged, of which the Company has re-pledged approximately \$114.7 million under securities loan agreements.

At March 31, 2016, the Company had pledged \$360.7 million of customer securities directly with the Options Clearing Corporation to secure obligations and margin requirements under option contracts written by customers.

The Company enters into reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions to, among other things, acquire securities to cover short positions and settle other securities obligations, to accommodate customers' needs and to finance the Company's inventory positions. Except as described below, repurchase and reverse repurchase agreements, principally involving government and agency securities, are carried at amounts at which the securities subsequently will be resold or reacquired as specified in the respective agreements and include accrued interest. Repurchase and reverse repurchase agreements are presented on a net-by-counterparty basis, when the repurchase and reverse repurchase agreements are executed with the same counterparty, have the same explicit settlement date, are executed in accordance with a master netting arrangement, the securities underlying the repurchase and reverse repurchase agreements exist in "book entry" form and certain other requirements are met.

The following table presents a disaggregation of the gross obligation by the class of collateral pledged and the remaining contractual maturity of the repurchase agreements and securities loaned transactions as of March 31, 2016: (Expressed in thousands)

	Overnight and Open
Repurchase agreements:	
U.S. Treasury and Agency securities	\$ 850,440
Securities loaned:	
Equity securities	143,157
Gross amount of recognized liabilities for repurchase agreements and securities loaned	\$ 993,597

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The following tables present the gross amounts and the offsetting amounts of reverse repurchase agreements, repurchase agreements, securities borrowed and securities loaned transactions as of March 31, 2016 and December 31, 2015:

As of March 31, 2016

(Expressed in thousands)

	Gross Amounts of Recognized Assets	Gross Amounts Offset on the Balance Sheet	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet Financial Instruments	Cash Collateral Received	Net Amount
Reverse repurchase agreements	\$ 320,688	\$ (320,688)	\$ —	\$ —	\$ —	\$ —
Securities borrowed ⁽¹⁾	190,963	—	190,963	(185,319)	—	5,644
Total	\$ 511,651	\$ (320,688)	\$ 190,963	\$ (185,319)	\$ —	\$ 5,644

(1) Included in receivable from brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet Financial Instruments	Cash Collateral Pledged	Net Amount
Repurchase agreements	\$ 850,440	\$ (320,688)	\$ 529,752	\$ (518,518)	\$ —	\$ 11,234
Securities loaned ⁽²⁾	143,157	—	143,157	(139,315)	—	3,842
Total	\$ 993,597	\$ (320,688)	\$ 672,909	\$ (657,833)	\$ —	\$ 15,076

(2) Included in payable to brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

As of December 31, 2015

(Expressed in thousands)

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Balance Sheet	Net Amounts of Assets Presented on the Balance Sheet	Gross Amounts Not Offset on the Balance Sheet Financial Instruments	Cash Collateral Received	Net Amount
Reverse repurchase agreements	\$ 282,042	\$ (75,543)	\$ 206,499	\$ (203,266)	\$ —	\$ 3,233
Securities borrowed ⁽¹⁾	224,672	—	224,672	(219,099)	—	5,573
Total	\$ 506,714	\$ (75,543)	\$ 431,171	\$ (422,365)	\$ —	\$ 8,806

(1) Included in receivable from brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

Gross Amounts Not Offset on
the Balance Sheet

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	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Balance Sheet	Net Amounts of Liabilities Presented on the Balance Sheet	Financial Instruments	Cash Collateral Pledged	Net Amount
Repurchase agreements	\$ 726,988	\$ (75,543)	\$ 651,445	\$ (645,498)	\$ —	\$ 5,947
Securities loaned ⁽²⁾	130,658	—	130,658	(122,650)	—	8,008
Total	\$ 857,646	\$ (75,543)	\$ 782,103	\$ (768,148)	\$ —	\$ 13,955

(2) Included in payable to brokers, dealers and clearing organizations on the condensed consolidated balance sheet.

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Certain of the Company's repurchase agreements and reverse repurchase agreements are carried at fair value as a result of the Company's fair value option election. The Company elected the fair value option for those repurchase agreements and reverse repurchase agreements that do not settle overnight or have an open settlement date. The Company has elected the fair value option for these instruments to more accurately reflect market and economic events in its earnings and to mitigate a potential imbalance in earnings caused by using different measurement attributes (i.e. fair value versus carrying value) for certain assets and liabilities. At March 31, 2016, the Company did not have any reverse repurchase agreements and repurchase agreements that elected the fair value option.

The Company receives collateral in connection with securities borrowed and reverse repurchase agreement transactions and customer margin loans. Under many agreements, the Company is permitted to sell or re-pledge the securities received (e.g., use the securities to enter into securities lending transactions, or deliver to counterparties to cover short positions). At March 31, 2016, the fair value of securities received as collateral under securities borrowed transactions and reverse repurchase agreements was \$185.9 million (\$217.0 million at December 31, 2015) and \$320.8 million (\$278.8 million at December 31, 2015), respectively, of which the Company has sold and re-pledged approximately \$23.4 million (\$36.0 million at December 31, 2015) under securities loaned transactions and \$320.8 million under repurchase agreements (\$278.8 million at December 31, 2015).

The Company pledges certain of its securities owned for securities lending and repurchase agreements and to collateralize bank call loan transactions. The carrying value of pledged securities owned that can be sold or re-pledged by the counterparty was \$705.8 million, as presented on the face of the condensed consolidated balance sheet at March 31, 2016 (\$546.3 million at December 31, 2015). The carrying value of securities owned by the Company that have been loaned or pledged to counterparties where those counterparties do not have the right to sell or re-pledge the collateral was \$163.7 million at March 31, 2016 (\$142.7 million at December 31, 2015).

The Company manages credit exposure arising from repurchase and reverse repurchase agreements by, in appropriate circumstances, entering into master netting agreements and collateral arrangements with counterparties that provide the Company, in the event of a customer default, the right to liquidate and the right to offset a counterparty's rights and obligations. The Company manages market risk of repurchase agreements and securities loaned by monitoring the market value of collateral held and the market value of securities receivable from others. It is the Company's policy to request and obtain additional collateral when exposure to loss exists. In the event the counterparty is unable to meet its contractual obligation to return the securities, the Company may be exposed to off-balance sheet risk of acquiring securities at prevailing market prices.

Credit Concentrations

Credit concentrations may arise from trading, investing, underwriting and financing activities and may be impacted by changes in economic, industry or political factors. In the normal course of business, the Company may be exposed to risk in the event customers, counterparties including other brokers and dealers, issuers, banks, depositories or clearing organizations are unable to fulfill their contractual obligations. The Company seeks to mitigate these risks by actively monitoring exposures and obtaining collateral as deemed appropriate. Included in receivable from brokers, dealers and clearing organizations as of March 31, 2016 are receivables from four major U.S. broker-dealers totaling approximately \$124.8 million.

Warehouse Facilities

The Company reached an agreement with RBS Citizens, NA ("Citizens") that was announced in July 2012, whereby the Company, through OPY Credit Corp., will introduce lending opportunities to Citizens, which Citizens can elect to accept and in which the Company will participate in the fees earned from any related commitment by Citizens. The Company can also in certain circumstances assume a portion of Citizen's syndication and lending risk under such loans, and if it does so it shall be obligated to secure such obligations via a cash deposit determined through risk-based formulas. Neither the Company nor Citizens is obligated to make any specific loan or to commit any minimum amount of lending capacity to the relationship. The agreement also calls for Citizens and the Company at their option to jointly participate in the arrangement of various loan syndications. At March 31, 2016, there were no loans in place.

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The Company is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligations to the Company. Clients are required to complete their transactions on the settlement date, generally one to three business days after the trade date. If clients do not fulfill their contractual obligations, the Company may incur losses. The Company has clearing/participating arrangements with the National Securities Clearing Corporation ("NSCC"), the Fixed Income Clearing Corporation ("FICC"), R.J. O'Brien & Associates (commodities transactions), Mortgage-Backed Securities and Clearing Corporation and others. With respect to its business in reverse repurchase and repurchase agreements, substantially all open contracts at March 31, 2016 are with the FICC. In addition, the Company began clearing its non-U.S. international equities business carried on by Oppenheimer Europe Ltd. through BNP Paribas Securities Services and Oppenheimer through BNP Securities Corp. The clearing organizations have the right to charge the Company for losses that result from a client's failure to fulfill its contractual obligations. Accordingly, the Company has credit exposures with these clearing brokers. The clearing brokers can re-hypothecate the securities held on behalf of the Company. As the right to charge the Company has no maximum amount and applies to all trades executed through the clearing brokers, the Company believes there is no maximum amount assignable to this right. At March 31, 2016, the Company had recorded no liabilities with regard to this right. The Company's policy is to monitor the credit standing of the clearing brokers and banks with which it conducts business.

OMHHF, which is engaged in commercial mortgage origination and servicing, has obtained an uncommitted warehouse facility line through PNC Bank ("PNC") under which OMHHF pledges FHA-guaranteed mortgages for a period averaging 15 business days and PNC provides a facility that allows OMHHF to fund the loan at the closing table. Warehouse payable represents the warehouse line amount outstanding with PNC and is included in accounts payable and other liabilities on the condensed consolidated balance sheet and cash flows from operating activities on the condensed consolidated statement of cash flows. OMHHF repays PNC upon the securitization of the mortgage by GNMA and the delivery of the security to the counter-party for payment pursuant to a contemporaneous sale on the date the mortgage is securitized. At March 31, 2016, OMHHF had \$11.8 million (\$54.3 million at December 31, 2015) outstanding under the warehouse facility line at a variable interest rate of one month LIBOR plus a spread. The Company earns a spread between the interest earned on the loans originated by the Company and the interest incurred on amounts drawn from the warehouse facility. Interest expense for the three months ended March 31, 2016 and 2015 was \$200,000 and \$125,000, respectively. The Company's ability to originate mortgage loans depends upon our ability to secure and maintain these types of short-term financings on acceptable terms.

As discussed in Note 5, Fair value measurements, the Company enters into TBA sale contracts to offset exposures related to commitments to provide funding for FHA loans at OMHHF. In the normal course of business, the Company may be exposed to the risk that counterparties to these TBA sale contracts are unable to fulfill their contractual obligations.

7. Variable interest entities ("VIEs")

The Company's policy is to consolidate all subsidiaries in which it has a controlling financial interest, as well as any VIEs where the Company is deemed to be the primary beneficiary, when it has the power to make the decisions that most significantly affect the economic performance of the VIE and has the obligation to absorb significant losses or the right to receive benefits that could potentially be significant to the VIE.

For funds that the Company has concluded are not VIEs, the Company then evaluates whether the fund is a partnership or similar entity. If the fund is a partnership or similar entity, the Company evaluates the fund under the partnership consolidation guidance. Pursuant to that guidance, the Company consolidates funds in which it is the general partner, unless presumption of control by the Company can be overcome. This presumption is overcome only when unrelated investors in the fund have the substantive ability to liquidate the fund or otherwise remove the Company as the general partner without cause, based on a simple majority vote of unaffiliated investors, or have other substantive participating rights. If the presumption of control can be overcome, the Company accounts for its interest in the fund pursuant to the equity method of accounting.

The Company serves as general partner of hedge funds and private equity funds that were established for the purpose of providing investment alternatives to both its institutional and qualified retail clients. The Company holds variable

interests in these funds as a result of its right to receive management and incentive fees. The Company's investment in and additional capital commitments to these hedge funds and private equity funds are also considered variable interests. The Company's additional capital commitments are subject to call at a later date and are limited in amount.

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The Company assesses whether it is the primary beneficiary of the hedge funds and private equity funds in which it holds a variable interest in the form of general and limited partner interests. In each instance, the Company has determined that it is not the primary beneficiary and therefore need not consolidate the hedge funds or private equity funds. The subsidiaries' general and limited partnership interests, additional capital commitments, and management fees receivable represent its maximum exposure to loss. The subsidiaries' general partnership and limited partnership interests and management fees receivable are included in other assets on the condensed consolidated balance sheet. The following tables set forth the total VIE assets, the carrying value of the subsidiaries' variable interests, and the Company's maximum exposure to loss in Company-sponsored non-consolidated VIEs in which the Company holds variable interests and other non-consolidated VIEs in which the Company holds variable interests at March 31, 2016 and December 31, 2015:

(Expressed in thousands)

At March 31, 2016

	Total	Carrying Value of the Company's Variable Interest	Capital	Maximum Exposure to Loss in Non-consolidated VIEs
	VIE Assets ⁽¹⁾	Assets ⁽²⁾	Liabilities	Commitments
Hedge funds	\$317,804	\$ 609	\$ —	\$ —
Private equity funds	52,800	15	—	2
Total	\$370,604	\$ 624	\$ —	\$ 2

(1) Represents the total assets of the VIEs and does not represent the Company's interests in the VIEs.

(2) Represents the Company's interests in the VIEs and is included in other assets on the condensed consolidated balance sheet.

(Expressed in thousands)

At December 31, 2015

	Total	Carrying Value of the Company's Variable Interest	Capital	Maximum Exposure to Loss in Non-consolidated VIEs
	VIE Assets ⁽¹⁾	Assets ⁽²⁾	Liabilities	Commitments
Hedge funds	\$1,775,503	\$ 1,354	\$ —	\$ —
Private equity funds	54,800	27	—	2
Total	\$1,830,303	\$ 1,381	\$ —	\$ 2

(1) Represents the total assets of the VIEs and does not represent the Company's interests in the VIEs.

(2) Represents the Company's interests in the VIEs and is included in other assets on the condensed consolidated balance sheet.

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8. Commercial mortgage banking

OMHHF is engaged in the business of originating and servicing FHA-insured multifamily and healthcare facility loans and securitizing these loans into GNMA mortgage backed securities. OMHHF also offers mortgage services to developers of commercial properties including apartments, elderly housing and nursing homes that satisfy FHA criteria. OMHHF maintains a mortgage servicing portfolio for which it provides a full array of services, including the collection of mortgage payments from mortgagors which are passed on to the mortgage holders, construction loan management and asset management.

The Company owns an 83.68% controlling interest in OMHHF. The 16.32% noncontrolling interest belongs to one related party who is the President and Chief Executive Officer of OMHHF.

Loan Origination Fees

OMHHF recognizes origination fees and other direct origination costs when it enters into a rate lock commitment with the borrower. The origination fees and other direct origination costs are recognized when OMHHF enters into a commitment to sell loans to third parties. In accordance with Housing and Urban Development ("HUD") guidelines, OMHHF will, with HUD's approval and for certain loan programs, apply the premium income towards the payment of prepayment costs that customers will incur on their prior mortgage. These costs are netted with revenues from premium income that are otherwise earned from these loan refinancings or modifications. Prepayment costs recorded as contra-revenue against premium income were \$1.2 million for the three months ended March 31, 2016 (\$8.2 million for the three months ended March 31, 2015).

Funding Commitments

OMHHF provides its clients with commitments to fund FHA-insured permanent or constructions loans. Upon providing these commitments to fund, OMHHF enters into TBA sale contracts directly or indirectly with counterparties to offset its exposures related to these funding commitments. See Note 5, Fair value measurements, for more information.

Loans Held For Sale

OMHHF advances funds from its own cash reserves in addition to obtaining financing through warehouse facilities in order to fund initial loan closing and subsequent construction loan draws. Prior to the GNMA securitization of a loan, a loan held for sale is recorded on the condensed consolidated balance sheet. Loans held for sale are recorded at fair value through earnings.

Escrows Held in Trust

Custodial escrow accounts relating to loans serviced by OMHHF totaled \$256.1 million at March 31, 2016 (\$421.5 million at December 31, 2015). These amounts are not included on the condensed consolidated balance sheet as such amounts are not OMHHF's assets. Certain cash deposits at financial institutions exceeded the FDIC-insured limits or other institutionally provided insurance. The combined uninsured balance with relation to escrow accounts at March 31, 2016 was approximately \$138.0 million. OMHHF places these deposits with major financial institutions where it believes the risk is minimal and that meet or exceed GNMA required credit ratings.

The total unpaid principal balance of loans the Company was servicing for various institutional investors as of March 31, 2016 and December 31, 2015 was as follows:

(Expressed in thousands)

	As of March 31, 2016	As of December 31, 2015
Unpaid principal balance of loans	\$3,937,592	\$ 3,974,292

Mortgage Servicing Rights ("MSRs")

OMHHF purchases commitments or originates mortgage loans that are sold and securitized into GNMA mortgage backed securities. OMHHF retains the servicing responsibilities for the loans securitized and recognizes either a MSR asset or a MSR liability for that servicing contract. OMHHF receives monthly servicing fees equal to a percentage of the outstanding principal balance of the loans being serviced.

OMHHF estimates the initial fair value of the servicing rights based on the present value of future net servicing income, adjusted for factors such as discount rate and prepayment. OMHHF uses the amortization method for subsequent measurement, subject to annual impairment. See Note 5, Fair value measurements, for more information.

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The fair value of the servicing rights on the loan portfolio was \$41.8 million at both March 31, 2016 and December 31, 2015 (carrying value of \$28.0 million and \$28.2 million at March 31, 2016 and December 31, 2015, respectively). The following tables summarize the changes in carrying value of MSR for the three months ended March 31, 2016 and 2015:

(Expressed in thousands)

	For the Three Months Ended March 31,	
	2016	2015
Balance at beginning of period	\$28,168	\$30,140
Originations ⁽¹⁾	1,388	601
Purchases	111	208
Disposals ⁽¹⁾	(861)	(2,328)
Amortization expense	(782)	(230)
Balance at end of period	\$28,024	\$28,391

(1) Includes refinancings.

Servicing rights are amortized using the straight-line method over 10 years. Estimated amortization expense for the next five years and thereafter is as follows:

(Expressed in thousands)

	Originated MSRs	Purchased MSRs	Total MSRs
2016	\$ 2,340	\$ 791	\$ 3,131
2017	3,116	1,053	4,169
2018	3,091	1,046	4,137
2019	2,995	985	3,980
2020	2,851	886	3,737