

Mizuho Securities USA LLC

Consolidated Statement of Financial Condition

September 30, 2023

(Unaudited)



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Mizuho Securities USA LLC
Consolidated Statement of Financial Condition

September 30, 2023
(In Thousands)
(Unaudited)

Assets

Cash and cash equivalents	\$	767,716
Cash and securities segregated for regulatory purposes		540,075
Collateralized agreements:		
Securities purchased under agreements to resell		10,106,574
Securities borrowed		9,946,068
Financial instruments owned, at fair value (including securities pledged of \$20,490,048)		22,381,570
Securities received as collateral, at fair value		602,626
Receivables from brokers/dealers, clearing organizations and customers		1,524,556
Clearing and other deposits		305,160
Accrued interest and dividends receivable		134,477
Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$84,667)		44,469
Receivables from affiliates		33,464
Prepaid expenses		20,327
Exchange memberships, at cost (fair value of \$10,602)		8,188
Other assets		120,171
Total assets		\$ 46,535,441

Liabilities and member's equity

Short-term borrowings	\$	1,800,000
Collateralized agreements:		
Securities sold under agreements to repurchase		24,476,162
Securities loaned		10,827,269
Financial instruments sold, not yet purchased, at fair value		4,838,231
Obligations to return securities received as collateral, at fair value		602,626
Payables to brokers/dealers, clearing organizations and customers		1,101,856
Accrued interest and dividends payable		54,108
Accrued expenses and other liabilities		516,808
Total liabilities		\$ 44,217,060
 Subordinated borrowing		 400,000
 Member's equity		 1,918,381
Total liabilities and member's equity		\$ 46,535,441

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

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

(Unaudited)

1. Organization and Description of Business

The Company

Mizuho Securities USA LLC (the “Company”), a Delaware limited liability company, is a wholly-owned subsidiary of Mizuho Americas LLC (“MHA”). MHA is a bank holding company, which is ultimately wholly-owned by Mizuho Financial Group, Inc. (“MHFG”). MHFG is a holding company listed on the Tokyo, Osaka, and New York Stock Exchanges that provides comprehensive financial services through its subsidiaries.

The Company is registered as a broker-dealer with the U.S. Securities and Exchange Commission (“SEC”) and a futures commission merchant with the U.S. Commodity Futures Trading Commission (“CFTC”). The Company is a member of U.S. Financial Industry Regulatory Authority (“FINRA”) and the National Futures Association (“NFA”). The Company is a member of, or has access to, most major international futures exchanges. The Company’s activities include securities and futures brokerage, origination and trading of debt and equity securities, and mergers and acquisitions (“M&A”) advisory services. The Company is a primary dealer in U.S. government securities and, as such, participates in the Federal Reserve Bank of New York’s open market operations and in auctions of U.S. Treasury securities.

Mizuho Securities Canada Inc. (“MSCN”), is a wholly owned subsidiary of the Company. MSCN participates in debt and equity underwritings in the Canadian marketplace and is a corporation organized under the laws of British Columbia, Canada. MSCN is registered as a broker-dealer with the SEC, and is a dual member of FINRA, and the New Self-Regulatory Organization of Canada (“New SRO”), the Canadian national self-regulatory organization, and is subject to the rules and regulations of these organizations. The Company and MSCN utilize common personnel and facilities with applicable reimbursement arrangements.

The Company is the manager of Mizuho Capital Markets LLC (“MCM”), a wholly-owned subsidiary of MHA. MCM is a dealer in interest rate swaps and options, foreign currency swaps, equity derivatives and other derivative products. MCM is dually registered Swap Dealer (“SD”) with the Commodity Futures Trading Commission (“CFTC”) and Security-Based Swaps Dealer (“SBSD”) with the SEC. MCM is a member of LCH Clearent (“LCH”). The Company and MCM utilize common personnel and facilities with applicable reimbursement arrangements.

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

2. Summary of Significant Accounting Policies

Basis of presentation

The Consolidated Statement of Financial Condition are presented in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

Use of estimates

The preparation of the Consolidated Statement of Financial Condition in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Consolidated Statement of Financial Condition. Actual results could differ from those estimates.

Cash and cash equivalents

The Company defines cash equivalents as highly liquid investments with initial maturities of three months or less, that are not used for trading purposes. The Company had no cash equivalents on September 30, 2023.

Cash and securities segregated for regulatory purposes

Included in cash and securities segregated for regulatory purposes on the Consolidated Statement of Financial Condition are qualified securities, as defined, maintained in a special reserve bank account for the exclusive benefit of customers pursuant to SEC Rule 15c3-3 and cash and securities segregated or held in separate accounts under the Commodity Exchange Act. At September 30, 2023, cash and securities segregated for regulatory purposes includes \$102,000 in securities received in resale agreements (comprised of U.S. Treasuries), and \$438,075 in cash.

Collateralized agreements

The Company’s collateralized agreements include securities purchased under agreements to resell (“resale agreements”), securities sold under agreements to repurchase (“repurchase agreements”), and securities borrowed and loaned transactions. The Company records resale and repurchase agreements at contract price, plus accrued interest and securities borrowed and loaned at the amount of cash collateral advanced or received, adjusted for additional collateral obtained or received by the Company, plus accrued interest, and after applicable counterparty netting as shown

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

in Footnote 11. The amounts reported for collateralized agreements approximate fair value as these are short term in nature and interest rate movements have not caused a change in fair value.

It is the Company's general policy to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. To ensure that the market value of the underlying collateral remains sufficient, collateral is reviewed daily and the Company may require counterparties to deposit additional collateral or may return collateral pledged when appropriate. In the same manner, the Company provides securities to counterparties in order to collateralize repurchase agreements.

Securities borrowed and loaned transactions are generally recognized on the Consolidated Statement of Financial Condition except where other securities are used as collateral. When the Company acts as a lender in a securities lending agreement and receives collateral in the form of securities that can be re-pledged or sold, it recognizes securities received as collateral and a corresponding obligation to return securities received as collateral at fair value in the Consolidated Statement of Financial Condition. At September 30, 2023, these balances are comprised of equity securities with a fair value of \$602,626. In securities borrowed transactions, the Company is required to deposit cash or other collateral with the lender in an amount generally in excess of the market value of securities borrowed. In securities loaned transactions, the Company receives collateral in the form of cash or securities in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis, and obtains or returns additional collateral as necessary.

At September 30, 2023, the Company had obtained securities as collateral that could be re-pledged, delivered or otherwise transferred with a fair value of \$54,370,578. This collateral was generally received under resale agreements and securities borrowed transactions. Of these securities, \$52,821,064 was re-pledged, delivered or otherwise transferred, generally as collateral under repurchase agreements, securities lending agreements or to satisfy the Company's commitments under short sales.

The Company also enters into forward-starting collateralized financing agreements. These agreements represent off balance-sheet transactions until their start date, at which time they will be recorded as collateralized agreements in the Consolidated Statement of Financial Condition. At September 30, 2023, the Company had forward-starting collateralized agreements with start dates ranging from October 3, 2023 to October 5, 2023. The contract values of these transactions total

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

\$6,815,633 for resale and securities borrowing agreements and \$12,097,408 for repurchase agreements.

Fair value measurements

The Company reports certain assets and liabilities at fair value on the Consolidated Statement of Financial Condition in accordance with ASC 820, *Fair Value Measurements and Disclosures* (“ASC 820”). The Company has made no elections under the “Fair Value Option” in ASC 825, *Financial Instruments* (“ASC 825”), which allows the Company to irrevocably elect fair value as the initial and subsequent measurement attribute for most financial assets and liabilities on an instrument-by-instrument basis.

Credit Losses

The Company accounts for estimated credit losses on financial assets measured at an amortized cost basis in accordance with ASC 326, *Financial Instruments – Credit Losses* (“ASC 326”). ASC 326 requires the Company to estimate expected credit losses over the life of its financial assets and certain off-balance sheet exposures as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts. The Company calculated estimated credit losses as of September 30, 2023 and the calculation did not have a material impact on its Consolidated Statement of Comprehensive Income.

Financial instruments transactions

Financial instruments owned and financial instruments sold, not yet purchased, which include contracts for financial options and other derivative instruments, are recorded on a trade date basis at fair value. Fair value is generally based upon quoted market prices, where available. When quoted market prices are not available, the Company uses other market data, such as transacted prices for the same or similar financial instruments.

The Company utilizes benchmark prices and yields, as well as spreads over the yield curves for benchmark or similar financial instruments in measuring fixed income securities at fair value. Exchange-traded equities and exchange-traded funds (“ETFs”) are measured at fair value using

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

the closing price from the relevant exchanges. ETFs are adjusted to the fair value “NAV” (net asset value) price, which is calculated based on quoted prices for the underlying component stocks.

Realized and unrealized gains and losses are reflected in principal transactions on the Consolidated Statement of Comprehensive Income in the period during which the transaction or the change in fair value occurred. Related interest amounts, including accrued interest, are included in interest and dividends income or interest and dividends expense on the Consolidated Statement of Comprehensive Income.

The Company recognizes the fair value of all derivative financial instruments in the Consolidated Statement of Financial Condition as either assets or liabilities in financial instruments owned or financial instruments sold, not yet purchased, respectively. In accordance with ASC 815, *Derivatives and Hedging* (“ASC 815”), the Company nets certain derivative contracts with the same counterparty in the Consolidated Statement of Financial Condition. The Company records all derivative financial instruments at fair value with changes in fair values (unrealized gains and losses) reflected in principal transactions in the Consolidated Statement of Comprehensive Income. The Company does not apply hedge accounting as defined in ASC 815; therefore, certain of the disclosures required under ASC 815 are generally not applicable with respect to these financial instruments.

The fair values of derivative assets and liabilities traded in the over the counter (“OTC”) market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the positions. The majority of market inputs are actively quoted and can be validated through external sources including brokers, market transactions and third party pricing services. The fair values of derivative assets and liabilities traded on exchanges are determined using exchange prices, market observations, or vendor based models. The fair value of derivative transactions represents the net receivable or payable (gain or loss) to the counterparty in the contract. Refer to Footnote 12 for additional details of fair value measurements.

The Company applies the enhanced disclosure requirements for derivative instruments prescribed in ASC 815, which requires companies to disclose how derivative instruments (and any related hedged items) are accounted for, their location and amounts in a company’s statement of financial condition, and their effect on its financial position. The enhanced disclosures required by ASC 815 are included in Footnote 11.

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Clearing and other deposits

The Company is a member of various clearing organizations at which it maintains cash and/or securities required to conduct its day-to-day clearance activities.

Property, equipment and leasehold improvements

Property and equipment are depreciated on a straight-line basis over their estimated useful lives, ranging from three to ten years. Leasehold improvements are amortized over the shorter of the economic useful life of the asset or the remaining term of the lease. The Company's software costs are capitalized in accordance with ASC 350-40, *Internal-Use Software*. Software costs are amortized on a straight-line basis, over their estimated useful lives.

The Company's net balance on the Consolidated Statement of Financial Condition at September 30, 2023 is comprised of \$5,088 in leasehold improvements, \$32,390 in information technology software, \$5,502 in information technology hardware, and \$1,489 in furniture and fixtures.

Exchange memberships

The Company's exchange memberships, which represent ownership interests in the exchanges and provide the Company with the right to conduct business on various exchanges, are recorded at cost and evaluated for impairment annually. If management were to ascertain that an other-than-temporary impairment in value has occurred, the exchange membership would be reported at a value that reflects management's estimate of the impairment.

Principal transactions

Financial instruments owned and financial instruments sold, not yet purchased are carried at fair value. Principal transactions gains or losses are recorded on a trade date basis.

Interest and dividends

Securities purchased under agreements to resell, securities sold under agreements to repurchase, securities borrowed and securities loaned contract amounts are recorded with accrued interest. Interest accrued on financial instruments owned at fair value and financial instruments sold, not

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

yet purchased at fair value is recorded in accrued interest and dividends receivable and payable on the Consolidated Statement of Financial Condition.

Dividends are accrued on equity financial instruments owned and sold, not yet purchased on ex-dividend date. Dividends earned but unpaid are included in accrued interest and dividends receivable and payable on the Consolidated Statement of Financial Condition.

Commissions

The Company earns commissions from customer transactions primarily in futures clearing and execution and equity securities transactions. Commission revenues and related clearing expenses are recorded on a trade date basis.

Investment banking

Investment banking revenues include gains, losses, and fees arising from debt and equity securities offerings in which the Company acts as an underwriter or agent. Also included in investment banking revenues are fees earned from advisory activities. Investment banking revenues are presented gross of transaction related expenses and are recognized when the Company satisfies the performance obligations.

Foreign exchange

Assets and liabilities denominated in foreign currencies are revalued into U.S. dollars using the spot foreign exchange rates at the date of the Consolidated Statement of Financial Condition. Revenues and expenses denominated in foreign currencies are recorded in U.S. dollars using the effective spot foreign exchange rate at the date of the transaction.

Assets and liabilities of the Company's foreign subsidiary are translated from the Canadian ("CAD") functional currency into U.S. dollars ("USD") using the period-end spot foreign exchange rates. The Company translates its balances into USD in accordance with the rules prescribed in ASC 830, *Foreign Currency Matters*.

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Income taxes

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes* (“ASC 740”). ASC 740 prescribes the method to account for uncertainty in income tax positions taken or expected to be taken in a tax return by applying a “more likely than not” (“MLTN”) criteria as to whether a tax position will be sustained upon examination, based on the technical merits of the position. Accordingly, the Company assesses this likelihood based on the facts, circumstances, and information available at the end of each period. A tax position that meets the MLTN recognition threshold is measured initially and subsequently as the largest amount of tax benefit that will likely be realized upon settlement with a taxing authority that has full knowledge of all the relevant information. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change.

Deferred tax expenses or benefits are recognized in the Consolidated Statement of Financial Condition at amounts expected to be realized for the changes in deferred tax liabilities (“DTLs”) or assets (“DTAs”) between years. The Company recognizes the current and deferred tax consequences of all transactions in the Consolidated Statement of Financial Condition using the provisions of the currently enacted tax laws.

3. Financial Instruments Owned and Financial Instruments Sold, Not Yet Purchased, at Fair Value

Financial instruments owned and financial instruments sold, not yet purchased, consist of agency and non-agency mortgage-backed securities, U.S. Treasury and federal agency securities, equity securities, corporate debt, asset-backed securities, municipal securities, other sovereign obligations, and derivative contracts.

Financial instruments sold, not yet purchased, represent the Company’s obligation to acquire the securities at then prevailing market prices, which may differ from the amount reflected on the Consolidated Statement of Financial Condition. Financial instruments owned includes proprietary positions that have been pledged as collateral to counterparties on terms which permit the counterparties to sell or re-pledge the securities to others. Financial instruments owned and financial instruments sold, not yet purchased, at fair value at September 30, 2023 consist of the following:

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

3. Financial Instruments Owned and Financial Instruments Sold, Not Yet Purchased, at Fair Value (continued)

	Owned	Sold, not yet purchased
Mortgage-backed securities	\$11,318,213	\$17,795
U.S. Treasury and federal agency securities	5,676,416	3,808,289
Equity securities	3,130,659	403,294
Corporate debt	1,095,480	460,529
Derivative contracts	771,494	148,324
Asset-backed securities	375,021	-
Other sovereign obligations	14,287	-
Total	\$22,381,570	\$4,838,231

4. Receivables from and Payables to Brokers/Dealers, Clearing Organizations and Customers

Receivables from and payables to brokers/dealers, clearing organizations and customers at September 30, 2023 consist of the following:

	Receivables	Payables
Net receivable for trades pending settlement	\$ 925,300	\$ -
Securities failed to deliver/receive – customers	253,649	82,860
Brokers and clearing organizations	202,665	130,181
Investment banking	72,822	25,709
Securities failed to deliver/receive – brokers/dealers	64,669	240,126
Futures customers	4,000	615,832
Other	1,451	7,148
Total	\$ 1,524,556	\$ 1,101,856

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

4. Receivables from and Payables to Brokers/Dealers, Clearing Organizations and Customers (continued)

Net receivable for trades pending settlement is determined by the contract prices of securities to be delivered or received by the Company. Should a counterparty fail to deliver securities pending settlement to the Company, the Company may be required to purchase identical securities on the open market. Trades pending settlement at September 30, 2023 were settled without a material effect on the Company's Consolidated Statement of Financial Condition.

Securities failed to deliver or receive ("fails") represent receivable or payable balances, respectively, arising from transactions with brokers/dealers and customers that have not settled on settlement date. Fails at September 30, 2023 were settled without a material effect on the Company's Consolidated Statement of Financial Condition.

Amounts receivable from brokers and clearing organizations primarily represent balances receivable from futures exchanges. Included in this balance are receivables segregated or held in separate accounts under the Commodity Exchange Act in the amount of \$30,216. Amounts payable to brokers and clearing organizations represent brokerage and execution fees payable to exchanges, primarily for futures business.

Receivables or payables arising from investment banking activities consist of fees and concessions earned or owed by the Company from its advisory services and participation in securities offerings as an underwriter or selling agent.

Receivables from and payables to futures customers represent balances arising in connection with futures transactions, including customer cash and related accrued interest balances, as well as gains and losses on open futures and options contracts. Payable to futures customers includes \$32,561 of customer segregated balances under the Commodity Exchange Act.

For exchange-traded and OTC-cleared derivatives contracts where the Company does not obtain benefits from or control the client cash balances, the client cash initial margin collected from clients and remitted to the central counterparty clearing house ("CCP") or depository institutions is not reflected on the Company's Consolidated Statement of Financial Condition. These conditions are met when the Company has contractually agreed with the client that (i) the Company will pass through to the client all interest paid by the CCP or depository institutions on the cash initial margin and (ii) the Company will not utilize its right as a clearing member to transform cash margin into other assets; and because (iii) the Company does not guarantee and is not liable to the

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

4. Receivables from and Payables to Brokers/Dealers, Clearing Organizations and Customers (continued)

client for the performance of the CCP or the depository institution, and (iv) the client cash balances are legally isolated from the Company's bankruptcy estate. The total amount of cash initial margin collected and remitted was approximately \$6,630,509 as of September 30, 2023.

5. Short Term Borrowings

On September 30, 2023, other short term borrowings are comprised of unsecured revolving bank loans totaling \$1,800,000, with interest rates ranging from 5.66% to 5.88%. Please refer to Footnote 7 for further details.

6. Subordinated Borrowings

The Company has a \$400,000 subordinated note payable to MHA that is set to mature in September 2025. The interest rate on the note is set based on MHBK New York branch's internal cost of funds rate plus 0.60%. This borrowing is subordinated to claims of general creditors, is covered by agreements approved by FINRA and the Chicago Mercantile Exchange, and is included in computing net capital under the SEC's Uniform Net Capital Rule. To the extent that this borrowing is required for the Company's continued compliance with minimum net capital requirements, they cannot be repaid.

In addition, the Company has a \$900,000 revolving subordinated loan facility with MHBK London branch ("MHBK London"), which was not utilized as of September 30, 2023.

7. Related Party Transactions

In the normal course of business, the Company enters into transactions with affiliated companies as part of its trading, clearing, financing, and general operations. At September 30, 2023, the Consolidated Statement of Financial Condition included the following balances with affiliates:

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

7. Related Party Transactions (continued)

Assets

Securities purchased under agreements to resell	\$ 553,601
Securities borrowed	2,193,605
Securities owned, at fair value	3,963
Receivable from brokers, dealers and customers	22,413
Receivables from affiliates	33,464
Other assets	933

Liabilities

Short-term borrowings	\$ 1,800,000
Securities sold under agreements to repurchase	302,842
Securities loaned	3,115,582
Payable to brokers, dealers and customers	706,932
Accrued interest payable	20,981
Accrued expenses and other liabilities	30,104
Subordinated Borrowing	400,000

Collateralized agreements transactions

At September 30, 2023, the collateralized agreements balances are mostly comprised of resale agreements, repurchase agreements, securities borrowed, and securities loaned with MCM, Mizuho Securities (Singapore) Pte., Ltd. (“MHSS”), Mizuho Markets America LLC (“MMA”), and Mizuho Markets Cayman LP (“MMC”) and are presented after netting.

Receivables from and payables to brokers/dealers, clearing organizations and customers

Receivables are primarily comprised of securities failed to deliver with affiliates and balances due from affiliates who have direct access to futures markets to which the Company does not. Payables are primarily comprised of balances due to affiliates who do not have direct access to futures markets to which the Company has access. The remainder of these balances includes clearing fees, underwriting fees, rebates and fees.

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

7. Related Party Transactions (continued)

Receivables from affiliates

Receivables from affiliates are primarily comprised of balances related to managerial and support services with Mizuho Bank USA (“BKUSA”) and MMA and investment banking receivables with MHBK New York branch.

Borrowings from affiliates

At September 30, 2023, the Company had a \$400,000 subordinated note payable to MHA with accrued interest payable in the amount of \$1,143.

In addition, the Company had \$1,600,000 in short-term borrowings with MMC, \$150,000 with MHBK London and \$50,000 with MCM.

8. Employee Compensation and Benefit Plans

Defined benefit plan

Qualifying employees of the Company are covered by three defined benefit plans sponsored by MHBK: Mizuho Bank, Ltd. pension plan, Fuji Bank, Ltd. Supplemental Executive Retirement Plan and Mizuho Bank, Ltd. Supplemental Executive Retirement Plan. The Company accounted for its participation in those plans as a participation in a multiemployer plan in accordance with ASC 715-30, *Compensation*.

Defined contribution plan

Substantially all employees of the Company are covered by the Company’s deferred compensation defined contribution plan. The Company’s discretionary contribution is based on eligibility and percentage of applicable employee compensation.

Deferred bonus plan

The Company maintains a deferred bonus plan (the “plan”). The plan defers a portion of certain annual bonuses (a “deferred award”) based on the terms of the plan, payable in equal installments, with interest based on the Consumer Price Index - All Urban Consumers, over three years.

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

8. Employee Compensation and Benefit Plans (continued)

Deferred awards are recognized in the Consolidated Statement of Financial Condition in the year vested. Employees must meet certain requirements to vest in and receive payment of a deferred award. Employees not meeting such requirements may forfeit all or a portion of their award. Deferred awards granted to employees who are retirement eligible or will become retirement eligible during the vesting period are expensed as of the grant date or ratably over the period from the grant date to the date the employee becomes retirement eligible, respectively. The Company's maximum future liability excluding interest under the plan at September 30, 2023 is \$93,278, which results from deferred awards granted for the years ended March 31, 2021 through March 31, 2023. The payable for deferred awards that vested of \$42,361 have been recognized in accrued expenses and other liabilities on the Consolidated Statement of Financial Condition as of September 30, 2023.

9. Stock- Based Compensation

Cash-Settled RSUs

Effective April 1, 2021, eligible employees of the Company are awarded restricted stock unit grants under the Mizuho Americas Restricted Stock Unit Plan ("Mizuho Americas Plan"). Under the Mizuho Americas Plan, employees are granted restricted stock units representing ADR shares of common stock of MHFG. All restricted stock unit awards will be settled in cash at the time of maturity. The majority of these awards were vested upon grant, subject to certain conditions. The remaining awards will vest in equal installments in tandem with the deferred awards. Participants in the Mizuho Americas Plan are entitled to "dividend equivalents" on their restricted stock units when MHFG declares dividends to its shareholders. The credit is equal to additional shares based on the amount of the dividends that the participants would have received on their shares, had actual shares been issued to the participants.

Under the Mizuho Americas Plan, expense recognition is based on the grant-date fair value of ADRs and is adjusted based on subsequent changes in the market price of the ADR shares. Restricted stock units granted to employees who are retirement eligible or will become retirement eligible during the vesting period are expensed as of the grant date or ratably over the period from

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

9. Stock- Based Compensation (continued)

the grant date to the date the employee becomes retirement eligible, respectively. Forfeitures are recognized as incurred.

Activity for cash-settled RSUs, granted and not vested, classified as a liability is as follows (in thousands, except per share data):

	Shares (000s)	Weighted-Average Grant Date Fair Value per Share	Weighted-Average Grant Date Fair Value
Granted and not vested at March 31, 2023	937	\$ 2.45	\$ 2,297
Granted	569	2.91	1,656
Vested	-	-	-
Granted and not vested at September 30, 2023	<u>1,506</u>	<u>\$ 2.63</u>	<u>\$ 3,953</u>

10. Income Taxes

The Company is a single-member limited liability company, and as such, is a disregarded entity owned by MHA for U.S. corporate income tax purposes.

For the fiscal year ending September 30, 2023, the Company is included in MHA's federal, state and local income tax returns. In addition, the Company, as a division of MHA, files certain combined or unitary group tax returns for state and local income tax purposes. Pursuant to a federal, state and local tax sharing agreement, the Company computes its federal, state and local tax provision on a separate return basis which is then adjusted for the effect of filing in the combined or unitary group. This adjustment is computed on a consistent and equitable basis among the members of the combined or unitary tax groups. The Company's share of the combined or unitary state tax expense or benefit will be settled periodically with the lead filer of each combined or unitary income tax filing. At September 30, 2023, the Company had tax payables of \$46,292, primarily due to affiliates, which was recorded in accrued expenses and other liabilities in the Consolidated Statement of Financial Condition.

The difference between taxes at the U.S. federal statutory rate and the effective rate is primarily due to the effects of state and local taxes. As of September 30, 2023, the Company had a net DTA of \$87,496 consisting of a gross DTA of \$118,573 and a gross DTL of \$31,077. The resulting net asset is included in other assets in the Consolidated Statement of Financial Condition. The gross

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

10. Income Taxes (continued)

DTA results primarily from certain accrued expenses not currently deductible for tax purposes. The gross DTL results primarily from tax depreciation in excess of book depreciation.

The following table summarizes the activity related to Company's gross unrecognized tax benefits from April 1, 2023 to September 30, 2023:

Balance as of April 1, 2023	\$ 9,306
Increases related to prior year tax positions	—
Decreases related to prior year tax positions	—
Increases related to current year tax positions	897
Decreases related to current year tax positions	—
Decreases related to settlements with taxing authorities	—
Decreases related to lapsing of statute of limitations	—
Balance as of September 30, 2023	<u>\$ 10,203</u>

The Company's total unrecognized tax benefits (including interest and penalties of \$5,155) that, if recognized, would affect the Company's effective tax rate, were \$13,215 at September 30, 2023. The Company does not believe that the total unrecognized benefits will significantly change within the next twelve months.

MHA's Federal income tax returns beginning with tax year ended March 31, 2020 remain subject to examination by the Internal Revenue Service. The Company's state and local income tax returns beginning with tax year ended March 31, 2016 remain subject to examination by state and local tax authorities.

11. Financial Instruments

Derivative financial instruments

In the normal course of business, the Company enters into a variety of derivative financial instrument transactions. These derivative financial instruments typically include forward and futures contracts, options on equities and futures contracts, interest rate swaps, credit default swaps, foreign exchange contracts, and to-be-announced securities transactions ("TBAs"). The

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

11. Financial Instruments (continued)

Company enters into derivative contracts to facilitate client transactions, conduct trading activities and to manage risk.

TBAs are forward contracts that give the purchaser/seller an obligation to receive/deliver mortgage securities in the future. The performance of the forward contracts is dependent on the financial reliability of the counterparty and exposes the Company to credit risk, which is limited to the unrealized gains recorded in the Consolidated Statement of Financial Condition. Market risk is substantially dependent upon the underlying financial instruments and is affected by market forces such as volatility and changes in interest rates.

Interest rate swaps are entered into between two counterparties, typically one on the “fixed leg” paying a fixed interest rate and one on the “floating leg” paying a floating rate based on a specified spread above a designated underlying rate, usually SOFR. Interest rate swaps are primarily used to limit or manage exposure to fluctuations in interest rates. The Company enters into interest rate swaps to help manage its exposure to interest rate risk and as an interest rate swaps dealer.

Forward settling trades and futures contracts provide for the delayed delivery or purchase of financial instruments, commodities, or currencies at a specified future date at a specified price or yield. Futures contracts are exchange traded and cash settlement is made on a daily basis for market movements. The clearing organization acts as the counterparty to specific transactions and bears the risk of delivery to and from counterparties to specific positions.

Option contracts allow the holder to purchase or sell financial instruments for cash at a specified price and within a specified period of time. When the Company is a seller of options, the Company receives a premium at the outset and then bears the risk of unfavorable changes in the price of the financial instruments underlying the option.

Foreign exchange forward contracts are used to mitigate exposure to foreign exchange rate fluctuations. The Company enters into foreign currency forwards primarily to mitigate exposure to transactions and balances settling in Japanese Yen.

Credit default swaps (“CDS”) are used to protect against the risk of default on a set of debt obligations issued by a specified reference entity or entities. The Company enters into credit default swaps primarily to mitigate credit risk on its corporate debt holdings. The Company buys protection in the course of these transactions, and may enter into a sell transaction with the same

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

11. Financial Instruments (continued)

counterparty to close out the CDS position. As such, settlements under credit derivative contracts would be calculated after netting all derivative exposures with that counterparty in accordance with a related master netting agreement. Therefore, the Company's risk of loss on sold CDS positions is offset by protection purchased with the same counterparty.

The fair values of derivative financial instruments included in financial instruments owned and financial instruments sold, not yet purchased as of September 30, 2023 are as follows:

Derivatives not designated as hedging instruments under ASC 815-20

	<u>Assets</u>	<u>Liabilities</u>
TBA securities transactions	\$ 766,751	\$ 144,879
Forward settling trades	4,008	3,445
Options on futures	398	–
Equity options	334	–
FX forwards	3	–
Total fair value of derivatives	<u>\$ 771,494</u>	<u>\$ 148,324</u>

Financial instruments with off-balance sheet risk

The Company enters into various transactions involving derivatives and other off-balance sheet financial instruments including interest rate swap contracts, credit default swaps, foreign exchange contracts, and TBAs. These derivative financial instruments are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk. In addition, the Company has sold securities that it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded these obligations in the Consolidated Statement of Financial Condition at fair value as of September 30, 2023 and would incur a loss if the fair value of the securities increases subsequent to September 30, 2023.

In the normal course of business, the Company executes and clears futures, forwards, options, swaps and securities transactions for the accounts of its customers, primarily institutional

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

11. Financial Instruments (continued)

investors, financial institutions and affiliates. Such transactions may expose the Company to off-balance sheet risk due to the possibility that the customer is unable to satisfy its obligations, and the Company has to purchase or sell the underlying financial instrument at a loss.

The Company provides securities as collateral to counterparties under repurchase agreements and securities lending transactions. In the event a counterparty is unable to meet its contractual obligation to return securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its obligations. The Company controls this risk by monitoring the market value of financial instruments pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess credit exposure. Where the Company does not have direct access to certain futures markets, it utilizes clearing brokers. The Company guarantees to the respective clearing houses or other clearing brokers its customers' performance under these contracts. In accordance with regulatory requirements and market practice, the Company requires its customers to meet, at a minimum, the margin requirements established by each of the exchanges at which contracts are cleared.

Offsetting assets and liabilities

Derivative activities are transacted under legally enforceable master netting agreements that give the Company, in the event of default by the counterparty, the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty. For purposes of the Consolidated Statement of Financial Condition, the Company offsets derivative assets and liabilities and cash collateral held with the same counterparty where it has such a legally enforceable master netting agreement.

In accordance with FASB ASC 210-20-45-1, Balance Sheet, Offsetting, Other Presentation Matters, the Company offsets repurchase and resale agreements on the Consolidated Statement of Financial Condition with the same counterparty where they have a legally enforceable master netting agreement and all criteria for netting have been met.

Derivative instruments are included in financial instruments owned and financial instruments sold, not yet purchased as of September 30, 2023. Securities financing agreements are included on the Consolidated Statement of Financial Condition in securities purchased under agreements to resell or securities borrowed and securities sold under agreements to repurchase or securities loaned. The following table presents derivative instruments and securities financing agreements. These

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

11. Financial Instruments (continued)

balances are presented on a gross basis, prior to the application of counterparty and collateral netting.

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Statement of Financial Condition (b)	Net Amounts of Assets Presented in the Consolidated Statement of Financial Condition	Gross Amounts Not Offset in the Consolidated Statement of Financial Condition (a)		Net Amount
				Financial Instruments (c)	Collateral Received (d)	
Derivatives						
TBA Securities	\$ 2,494,444	\$(1,727,693)	\$ 766,751	\$ –	\$ –	\$ 766,751
Interest rate swaps	27,541	(27,541)	–	–	–	–
Forward settling trades	4,008	–	4,008	–	–	4,008
Options on futures	2,542	(2,144)	398	–	–	398
FX forwards	572	(569)	3	–	–	3
Equity options	523	(189)	334	–	–	334
Total derivatives	\$ 2,529,630	\$ (1,757,136)	\$ 771,494	\$ –	\$ –	\$ 771,494

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Statement of Financial Condition (b)	Net Amounts of Assets Presented in the Consolidated Statement of Financial Condition	Gross Amounts Not Offset in the Consolidated Statement of Financial Condition (a)		Net Amount
				Financial Instruments (c)	Collateral (d)	
Securities purchased under agreements to resell	\$ 38,270,689	\$(28,164,115)	\$ 10,106,574	\$ 873,639	\$ 9,184,900	\$ 47,984
Securities borrowed	11,996,874	(2,050,806)	9,946,068	4,748,772	5,032,591	164,705
Securities received as collateral, at fair value	602,626	–	602,626	–	570,247	32,379

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

11. Financial Instruments (continued)

- (a) For some counterparties, the financial instruments and collateral not net on the Consolidated Statement of Financial Condition may exceed the net asset recognized. Where this is the case, the total amounts reported in these two columns are limited to the balance of the net assets recognized. As a result, a net amount is reported even though the Company, on an aggregate basis has received securities collateral with a total fair value that is greater than the funds provided to counterparties.
- (b) Amounts relate to master netting agreements, which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting guidance or clearing organization agreements.
- (c) These represent liabilities with the same counterparties that are not presented net on the Consolidated Statement of Financial Condition because all U.S. GAAP netting criteria were not met.
- (d) These represent collateral values received on net assets recognized after consideration of liabilities with the same counterparties (note (c)).

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Statement of Financial Condition (f)	Net Amounts of Liabilities Presented in the Consolidated Statement of Financial Condition	Gross Amounts Not Offset in the Consolidated Statement of Financial Condition (e)		Net Amount
				Financial Instruments (g)	Collateral (h)	
Derivatives						
TBA Securities	\$ 2,329,664	\$ (2,184,785)	\$ 144,879	\$ -	\$ -	\$ 144,879
Interest rate swaps	6,097	(6,097)	-	-	-	-
Forward settling trades	3,445	-	3,445	-	-	3,445
Credit default swaps	2,076	(2,076)	-	-	-	-
Equity options	189	(189)	-	-	-	-
FX forwards	1	(1)	-	-	-	-
Total derivatives	\$ 2,341,472	\$ (2,193,148)	\$ 148,324	\$ -	\$ -	\$ 148,324

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

11. Financial Instruments (continued)

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Statement of Financial Condition (f)	Net Amounts of Liabilities Presented in the Consolidated Statement of Financial Condition	Gross Amounts Not Offset in the Consolidated Statement of Financial Condition (e)		Net Amount
				Financial Instruments (g)	Collateral (h)	
Securities sold under agreements to repurchase	\$ 52,640,277	\$ (28,164,115)	\$ 24,476,162	\$ 873,639	\$ 23,512,704	\$ 89,819
Securities loaned	12,878,075	(2,050,806)	10,827,269	4,748,772	5,850,450	228,047
Obligations to return securities received as collateral, at fair value	602,626	–	602,626	–	570,247	32,379

- (e) For some counterparties, the financial instruments and collateral not net on the Consolidated Statement of Financial Condition may exceed the net liability recognized. Where this is the case, the total amounts reported in these two columns are limited to the balance of the net liability recognized. As a result, a net amount is reported even though the Company, on an aggregate basis, has pledged securities collateral with a total fair value that is greater than the funds owed to counterparties.
- (f) Amounts relate to master netting agreements, which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting guidance or clearing organization agreements.
- (g) These represent assets with the same counterparties that are not presented net on the Consolidated Statement of Financial Condition because all U.S. GAAP netting criteria were not met.
- (h) These represent collateral values provided against net liabilities recognized after consideration of assets with the same counterparties (note (g)).

The following table presents the Company's gross obligation disaggregated by the class of collateral pledged and the remaining maturity of securities sold under agreements to repurchase and securities loaned at September 30, 2023:

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

11. Financial Instruments (continued)

	Remaining Contractual Maturity of Agreements				
	Open	Overnight	< 30 Days	>30 Days	Total
Securities sold under agreements to repurchase					
<i>Collateral pledged:</i>					
U.S. Treasury and federal agency securities	\$ 123,155	\$ 26,139,042	\$ 5,515,643	\$ 4,175,654	\$ 35,953,493
Mortgage-backed securities	15,288	5,910,091	1,132,783	3,645,647	10,703,809
Asset-backed securities	837	16,030	149,701	1,848,793	2,015,361
Corporate debt	2,379	208,256	675,992	962,089	1,848,716
Equities	–	1,040,000	5,251	597,306	1,642,557
Municipal securities	–	300,000	-	176,341	476,341
Total	\$ 141,659	\$ 33,613,418	\$ 7,479,370	\$ 11,405,830	\$ 52,640,277
 Securities loaned					
<i>Collateral pledged:</i>					
Equities	\$ 9,550,596	\$ 6,950	\$ 1,256,420	\$ 798,869	\$ 11,612,834
U.S. Treasury and federal agency securities	3,342	1,261,879	-	19	1,265,240
Total	\$ 9,553,938	\$ 1,268,829	\$ 1,256,420	\$ 798,888	\$ 12,878,074

Risk Management

Risk is an inherent part of the Company's business and activities. The Company has established risk management policies and procedures to measure and monitor each of the various types of significant risks. The Company's ability to properly and effectively identify, assess, monitor, and manage its risk is critical to the overall execution of the Company's strategy and its profitability.

Risk management at the Company requires independent Company-level oversight. Effective risk practices are carried out through constant communication, exercise of professional judgement, and knowledge of specialized products and markets. The Company's senior management takes an active role in the identification, assessment, and management of risks at the Company level.

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

11. Financial Instruments (continued)

Market Risk - Market risk is the potential loss the Company may incur as a result of changes in the market value of a particular instrument. All financial instruments, including derivatives and short sales, are subject to market risk. The Company's exposure to market risk is determined by a number of factors, including the size, duration, composition, and diversification of positions held, the absolute and relative levels of interest rates and foreign currency exchange rates as well as market volatility and illiquidity. The Company manages market risk primarily by setting and monitoring risk limits, scenario analysis (for historical events as well as potential adverse market conditions), review and analysis of large potential trades or new securitizations before the execution, regular review of the desk level portfolios and firm wide exposures to various risk factors, including hedging of its exposure to risk factors.

Liquidity Risk - Liquidity risk is the risk that an institution's financial condition or overall safety and soundness is adversely affected by the inability, or perceived inability to meet its contractual, including contingent obligations. The Company's potential risks remain that its liquidity, business activities and profitability may be adversely affected by inability to access the funding from its affiliates or to sell assets during periods of market-wide or firm-specific liquidity stress. This situation may arise due to circumstances unrelated to its businesses such as current geopolitical or macroeconomic conditions and hence outside of its control. The objective of liquidity risk management is to maintain a sufficient amount of liquidity and diversity of funding sources to allow an institution to meet obligations in both stable and adverse conditions using liquidity stress models. The Company manages liquidity risk mainly through its Treasury function and has established policies and strategies to identify, manage and report on liquidity risk.

Credit Risk - Credit risk is the risk of loss resulting from a counterparty's failure to meet its obligations. The Company is engaged in various trading and brokerage activities with brokers/dealers, banks and other institutions. The risk of default depends on the creditworthiness of the counterparty. It is the Company's policy to manage credit risk based on the risk profile of the borrower or counterparty, repayment sources, the nature of underlying collateral, and other support given current events, conditions and expectations. The credit risk for derivatives is limited to the unsettled fair valuation gains recorded in the Consolidated Statement of Financial Condition. With respect to collateralized financing transactions, the Company continually monitors the value and adequacy of the collateral pledged by its counterparties. In addition, the Company enters into netting agreements to mitigate the credit risk and reduce the maximum amount of loss. Management believes the risk of credit loss from counterparties' failure to perform in connection with collateralized trading activities is low.

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

11. Financial Instruments (continued)

Operational Risk – Operational risk is the risk of loss, whether direct or indirect, to which the Company is exposed due to inadequate or failed internal processes or systems, human error or misconduct, or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches, technology failure, cybersecurity, financial crime, and environmental risk, but excludes strategic and reputational risk. Operational risk, in some form exists in each of the Company’s business and support activities, and can result in financial loss, regulatory sanctions and damage to the Company’s reputation. The company has developed policies, processes, and assessment methodologies to ensure that operational risk is appropriately identified. There was no operational risk that had a material impact on the Company’s Consolidated Financial Statements.

12. Fair Value Measurements

ASC 820 defines fair value as “the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date” or an “exit price”. The objective of a fair value measurement is to determine this price.

The valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs, using techniques that are appropriate and for which sufficient data is available. Additionally, for inputs based on bid and ask prices, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

Fair value hierarchy

ASC 820 prioritizes the inputs used to measure fair value into three broad levels, assigning the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (Level 1 measurements) and the lowest to unobservable inputs (Level 3 measurements). If the inputs used to measure an asset or liability fall into different levels within the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement.

The three categories are as follows:

Level 1: Assets and liabilities whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include U.S. Treasury Bills, on-the-run U.S. Treasury bonds, notes, and strips. Also included in Level 1 are listed equity securities, consisting of common stock and ETFs.

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

12. Fair Value Measurements (continued)

Level 2: Assets and liabilities whose values are based on inputs that are observable either directly or indirectly, but do not qualify as Level 1 inputs. Level 2 assets and liabilities include primarily off-the-run U.S. Treasury bonds, notes, and strips, foreign treasury bills, federal agency obligations, pass-through mortgage-backed securities issued by U.S. government agencies or government sponsored entities, non-agency mortgage-backed securities, agency securities, corporate debt, and municipal securities. Also included in Level 2 assets and liabilities are interest rate swap contracts, credit default swap contracts, equity options, equity securities, and foreign exchange contracts, and TBAs.

Level 3: Assets and liabilities, whose values are based on inputs that are both unobservable and significant to the overall fair value measurement. Level 3 assets consist of private placement securities. The Company did not have any Level 3 liabilities at September 30, 2023.

In determining the appropriate measurement levels, the Company performs analyses on the assets and liabilities subject to ASC 820 at the end of each reporting period. Changes in the observability of significant valuation inputs during the reporting period may result in a reclassification of certain assets and liabilities within the fair value hierarchy.

The following tables present the Company's major categories of assets and liabilities that are measured at fair value on a recurring basis using the above fair value hierarchy at September 30, 2023:

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

12. Fair Value Measurements (continued)

Assets	Level 1	Level 2	Level 3	Total
Financial instruments owned:				
Mortgage-backed securities	\$ -	\$ 11,318,213	\$ -	\$ 11,318,213
U.S. Treasury and federal agency securities	1,628,047	4,048,369	-	5,676,416
Equity securities	2,635,420	495,239	-	3,130,659
Corporate debt	-	1,087,980	7,500	1,095,480
Derivative contracts	-	771,494	-	771,494
Asset-backed securities	-	375,021	-	375,021
Other sovereign obligations	-	14,287	-	14,287
Securities received as collateral:				
Equities	602,626	-	-	602,626
Total	\$ 4,866,093	\$ 18,110,603	\$ 7,500	\$ 22,984,196
Liabilities	Level 1	Level 2	Level 3	Total
Financial instruments sold, not yet purchased:				
U.S. Treasury and federal	\$ 1,397,639	\$ 2,410,650	\$ -	\$ 3,808,289
Corporate debt	-	460,529	-	460,529
Equity securities	400,101	3,193	-	403,294
Derivative contracts	-	148,324	-	148,324
Mortgage-backed securities	-	17,795	-	17,795
Obligations received as collateral:				
Equities	602,626	-	-	602,626
Total	\$ 2,400,366	\$ 3,040,491	\$ -	\$ 5,440,857

Valuation techniques

The fair values of securitized products, which include agency pass-through securities, collateralized mortgage obligations (“CMO”), non-agency residential mortgage-backed securities (“RMBS”), asset-backed securities (“ABS”) and private label (non-agency) commercial mortgage-backed securities (“CMBS”), are primarily based on actively traded markets where prices are based on either direct market quotes or observed transactions. Market price quotes may not be readily available for some positions. These instruments are valued using vendor supplied models that estimate the fair value of the securities using observable

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

12. Fair Value Measurements (continued)

prices of a liquid benchmark set, credit risk, interest rate risk and prepayment risk. The Company measures ABS using active markets and various deal level and tranche level characteristics. Most of the asset-backed-securities in inventory are collateralized loan obligations backed by corporate loans and bonds. As such, securitized products are categorized as Level 2.

Equities include common stock and ETFs, which are all measured at fair value using quoted market prices from the exchanges on which they are traded. For ETFs, the Company uses the quoted prices for the underlying component stocks (fair value NAV price) for fair value measurement, which is consistent with how the Company would exit the position, by redeeming the shares for a basket of individual stocks. As such, these securities are categorized as Level 1. The special purpose acquisition company (“SPAC”) equities are exchange-traded, but are not always marked to exchange close. As such, these securities are categorized as Level 2.

The Company’s corporate debt largely consist of investment grade corporate bonds and notes and private placement securities. Corporate bonds categorized as Level 2 are valued using third party market price quotations, recently executed transactions, or spread over the U.S. Treasury benchmark. Private placement securities are categorized as Level 3. The material unobservable assumptions used to model the valuation are market proxy discount rates, and liquidity and structure yield premiums.

U.S. Treasury securities are measured at fair value using quoted prices for identical securities in active dealer markets. Federal agency securities are measured using a spread to the Treasury benchmark. Accordingly, U.S. Treasury securities are categorized in Level 1 of the fair value hierarchy when actively traded (“on-the-run”). Less actively traded (“off-the-run”) U.S. Treasury and federal agency securities are categorized in Level 2 of the fair value hierarchy.

Derivative contracts include interest rate swaps, credit default swaps and foreign currency forwards, which are measured using discounted cash flow calculations, based on observable inputs from the relevant interest/credit/exchange rate curves, which is considered a Level 2 measurement. The Company’s derivative contracts also include TBAs, which are measured at fair value using market prices from broker markets. As such, TBAs are categorized as Level 1.

Forward settling trades are measured using the underlying securities and may be Level 1 or Level 2. Equity options are measured using a Black-Scholes model and are categorized as Level

Mizuho Securities USA LLC

Notes to Consolidated Statement of Financial Condition

(In Thousands)

12. Fair Value Measurements (continued)

2. The fair value of derivatives offset on the balance sheet is consistent with the leveling reported. Details of derivative contracts are disclosed in Footnote 11.

Municipal Securities are measured at fair value using quoted prices in active dealer markets, third party provided prices, recently executed transactions and spreads over taxable and tax free benchmark curves for comparable securities. These securities are classified as Level 2.

Other sovereign obligations are measured at fair value using quoted prices in active dealer markets. These securities are classified as Level 2.

Financial assets and liabilities not measured at fair value

Other financial instruments are recorded by the Company at contract amounts and include short-term borrowings, receivables from and payables to brokers, dealers, clearing organizations and customers, securities borrowed and securities loaned, securities purchased under agreements to resell, securities sold under agreements to repurchase, exchange memberships, accrued interest and dividends receivable and payable, and subordinated borrowing. All financial instruments carried at contract amounts either have short-term maturities (one year or less), or bear market interest rates and, accordingly, are carried at amounts approximating fair value.

13. Leases

The Company's lessee arrangements consist of non-cancelable operating leases for office space. In accordance with ASC 842, the Company recognizes right-of-use assets and lease liabilities, which are recognized based on the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates. The Company has sublease arrangements for portions of the space and lease term. At September 30, 2023 the amounts related to leases on the Consolidated Statement of Financial Condition are as follows:

	<u>Amount</u>
Other assets – ROU assets	\$ 24,402
Other liabilities and accrued expenses – Lease liabilities	24,367
Weighted average:	
Remaining lease terms, in years	6.99
Discount rate	3.00%

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

13. Leases (continued)

At September 30, 2023 the future minimum rental payments for the Company's operating leases with initial terms in excess of one year, as follows:

	<u>Amount</u>
Six months ending March 31, 2024	\$ 2,459
Year ending March 31 :	
2025	5,367
2026	4,680
2027	2,856
2028	2,155
Thereafter	9,856
Total undiscounted cash flows	<u>27,373</u>
Less: Implied Interest	<u>(3,006)</u>
Amount on balance sheet	<u>\$ 24,367</u>

14. Commitments and Contingencies

The Company has provided a letter of credit in connection with leases for its Boston office in the amount \$120. This letter of credit is collateralized by U.S. Treasury securities.

Underwriting Commitments

In the normal course of business, the Company enters into underwriting commitments. There were no open commitments on September 30, 2023.

Litigation

In accordance with the provisions of ASC 450, Contingencies ("ASC 450"), the Company accrues for a litigation-related liability when the assessed likelihood of realizing a future loss is probable and the amount of loss can be reasonably estimated. In applying these principles, the information available may indicate that the estimated amount of loss is within a range of amounts. When an amount within a range of loss is identified as the most likely result within the range, that amount is accrued by the Company.

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

14. Commitments and Contingencies (continued)

The CFTC is conducting investigation of the Company regarding compliance with record keeping requirements related to business communications sent over unapproved electronic messaging channels. The Company is cooperating with the investigation and as of September 30, 2023 the investigation is ongoing. Any expected settlement payments have been provided for and recorded in the Consolidated Statement of Financial Condition.

The Company is involved in litigation arising in the normal course of business. It is the opinion of management that the ultimate resolution of such litigation will not have a material adverse effect on the Company's Consolidated Statement of Financial Condition.

Exchange Member and Central Clearing Organization Guarantees

The Company is a member of various exchanges and central clearing organizations that trade and clear securities or futures contracts or both. Associated with its membership, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the exchange. Although the rules governing different exchange memberships vary, in general the Company's guarantee obligations would arise only if the exchange had previously exhausted its resources. In addition, any such guarantee obligation would be apportioned among the other non-defaulting members of the exchange. Any potential contingent liability under these membership agreements cannot be estimated. The Company has not recorded any contingent liability in the Consolidated Statement of Financial Condition for these agreements and believes that any potential requirement to make payments under these agreements is remote.

15. Net Capital Requirements

The Company is subject to the SEC's Uniform Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital. The Company computes its net capital under the alternative method permitted by Rule 15c3-1. This method requires that the Company maintain minimum net capital, as defined, equivalent to the greater of \$1,000 or 2% of aggregate debit items arising from customer transactions pursuant to the Computation for Determination of Reserve Requirements under SEC Rule 15c3-3 ("Rule 15c3-3"), or 8% of the total risk maintenance margin requirement for positions carried in customer and non-customer accounts pursuant to the Commodity Exchange Act, plus excess margin collected on securities received on resale agreements, as defined.

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Notes to Consolidated Statement of Financial Condition

(In Thousands)

15. Net Capital Requirements (continued)

At September 30, 2023, the Company's net capital of \$1,406,618 was \$927,459 in excess of the required amount of \$479,158. Advances to affiliates, repayment of subordinated liabilities, dividend payments, and other equity withdrawals are subject to certain limitations and other provisions of the SEC and other regulators.

16. Subsequent Events

Under the provisions of ASC 855, *Subsequent Events* ("ASC 855"), companies are required to evaluate events and transactions that occur after the Consolidated Statement of Financial Condition date but before the date the Consolidated Statement of Financial Condition is issued, or available to be issued in the case of non-public entities. As such, the Company is required to evaluate and recognize in the Consolidated Statement of Financial Condition the effect of all events or transactions that provide additional evidence of conditions that existed at the Consolidated Statement of Financial Condition date, including estimates inherent in the Consolidated Statement of Financial Condition's preparation.

The Company evaluated events subsequent to September 30, 2023 through December 1, 2023, the date on which the Consolidated Statement of Financial Condition is available to be issued. There were no material recognizable or non-recognizable subsequent events during this period.