



Mizuho Securities USA LLC

# CFTC Reg. 1.55(k) Risk Disclosure Document

April 2022

**MIZUHO SECURITIES USA LLC**  
**COMMODITY FUTURES TRADING COMMISSION RULE 1.55(k):**  
**FIRM SPECIFIC DISCLOSURE DOCUMENT**

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The Commodity Futures Trading Commission (Commission or CFTC) requires each futures commission merchant (FCM), including Mizuho Securities USA LLC (MSUSA), to provide the following information to a customer prior to the time the customer first enters into an account agreement with the FCM or deposits money or securities (funds) with the FCM. MSUSA will update this information annually and as necessary to take account of any material change to its business operations, financial condition or other factors that MSUSA believes may be material to a customer's decision to do business with MSUSA. Nonetheless, MSUSA's business activities and financial data are not static and may change in non-material ways throughout any 12-month period.

MSUSA is owned by a U.S. bank holding company, Mizuho Americas LLC, which is a wholly owned subsidiary of Mizuho Bank, Ltd ("MHBK"). MHBK is a wholly owned subsidiary of Mizuho Financial Group (MHFG). MHFG is one of the largest financial institutions in the world, offering a broad range of financial services including banking, securities, trust and asset management, credit card, private banking and venture capital through its group companies. MHFG has approximately 60,000 employees working in approximately 115 offices worldwide. MHFG had, on March 31, 2021, total consolidated assets of USD 2.26 trillion.

MSUSA has memberships in, or access to, most major domestic and international futures exchanges for trading in financial and commodity futures, futures options, and cleared swap contracts. In addition to being registered with the CFTC as an FCM and is a member of the National Futures Association (NFA). MSUSA is designated by the NFA as a swap firm. MSUSA also is an SEC-registered Broker Dealer and is designated as a Primary Dealer of US Treasuries by the Federal Reserve Bank of New York. As a broker-dealer, MSUSA engages in securities brokerage, origination and trading of debt and equity securities, and mergers and acquisitions (M&A) advisory services.

## **Firm and Its Principals**

Mizuho Securities USA LLC

Main Office: 1271 Avenue of the Americas New York, New York 10020

Branch Offices: Chicago (the Chicago office is registered with the CFTC), Boston, Iselin (NJ), Houston, Los Angeles, and San Francisco Phone: 212-282-3000 and 312-294-8800 (for FCM)

Fax: 312-294-8721

Email: [Compliance@mizuhogroup.com](mailto:Compliance@mizuhogroup.com)

MSUSA's designated self-regulatory organization (DSRO) is CME Group Inc. ([www.cmegroup.com](http://www.cmegroup.com)).

See Table below for the name, title, business address, business background, and the nature of the duties of each of MSUSA’s principals.

**Individual Principals:**

<u>Name &amp; Title</u>	<u>Business Address</u>	<u>Business Background</u>	<u>Nature of Duties</u>
Mitch Billek- Managing Director & MSUSA Chief Financial Officer	1271 Avenue of the Americas NY, NY 10020	Managing Director, Finance	Finance
John Buchanan- Chief Operating Officer	1271 Avenue of the Americas NY, NY 10020	Various leadership Roles at ABN AMRO including, Research, Mortgage Distribution and Fixed Income Sales.	Responsible for Operations, IT and Facilities
Brendan Daly- MSUSA Chief Compliance Officer	1271 Avenue of the Americas NY, NY 10020	Former CCO of Nomura Securities International, Inc. and Nomura Securities North America, LLC.	Compliance Department Head
Thomas Hartnett- Head of Fixed Income & Trading	1271 Avenue of the Americas NY, NY 10020	Former Head for Interest Rates North America, Municipal Capital Markets & U.S. Investment Grade Credit for Deutsche Bank	Fixed Income Executive
Tim Healey	1271 Avenue of the Americas NY, NY 10020	Various Risk Management Roles at US and Foreign Investment Banks.	Chief Risk Officer
Michal Katz- Managing Director	1271 Avenue of the Americas NY, NY 10020	Previously employed at RBC Capital Markets LLC and Barclays Capital Inc.	Banking Division
John Kintner- Vice President/Accounting	311 S. Wacker Drive, Suite 700 Chicago, L 60606	MSUSA Futures Accounting	Futures accounting
David Kronenberg- Mizuho Americas Chief Financial Officer	1271 Avenue of the Americas NY, NY 10020	Former Sr. Officer at Lehman Brothers	CFO and Sr. Officer responsible for Accounting & Treasury Departments
Janet McCormick Managing Director & FCM Chief Compliance Officer	311 S. Wacker Drive, Suite 700 Chicago, L 60606	Former Compliance Officer at Cargill Investor Services.	CCO of Futures Commission Merchant
John Murphy	311 S. Wacker Drive, Suite 700 Chicago, L 60606	Former ABN Amro Futures Head	Sr. Officer responsible for Futures business
Darlene Pasquill	1271 Avenue of the Americas NY, NY 10020	Former Equity Account Manager at Credit Suisse	Sr. Officer responsible for Equity business
Gerald Rizzieri	1271 Avenue of the Americas NY, NY 10020	Former Head of MSUSA's Fixed Income Division	President, CEO and Board Member
Richard Skoller	1271 Avenue of the Americas NY, NY 10020	Former BNP Paribas U.S. Deputy General Counsel	Legal & Compliance Departments

Robert Swiatlo Director	311 S. Wacker Drive, Suite 700 Chicago, IL 60606	MSUSA Futures Accounting	Futures accounting
David Wong Executive Director & MSUSA Controller	1271 Avenue of the Americas NY, NY 10020	Former Global Corporate Controller for Jefferies; and Former MUFG Securities Controller	Finance

### Corporate Principal:

Mizuho Americas LLC-100% percentage of common stock owned

### Firm's Business

The following are significant types of business activities and products lines engaged in by MSUSA, and the approximate percentage of its assets and capital that are used in each type of activity as of March 31, 2021.

	Asset Allocation	Capital Allocation
Financing (Resales, Borrows)	55%	10%
Inventory by Business Line:		
Fixed Income	18%	4%
Equity & Other	4%	13%
Receivables from Brokers Dealers and Customers	8%	
Underwriting Receivable		8%
FCM maintenance margin requirement		34%
Fixed and all Other Assets	15%	31%

### Customer Business

MSUSA provides institutional and corporate customers with a wide range of products and services through its Banking, Equity, Fixed Income, and Futures Divisions.

MSUSA's Futures Division offers a comprehensive execution and clearing services platform for a broad spectrum of institutional clients including corporates, financial institutions, hedge funds, asset managers, and market makers. Many of these institutional clients are commercial hedgers. The Futures Division clears exchange-traded derivatives in financial, agricultural, equity index, security futures and options on futures and cleared swaps for clients, and is engaged in client-centric, agency business only; it does not engage in proprietary trading.

The exchanges and clearinghouses (both domestic and international) in which MSUSA is a member are detailed below, along with carrying brokers used on markets in which it is not a member.

**MSUSA is a member of the following Exchanges:**

CBOE Futures Exchange LLC  
Chicago Mercantile Exchange, Inc.  
Chicago Board of Trade  
Commodity Exchange Inc.  
Dubai Mercantile Exchange Ltd.  
Eris Exchange LLC  
Euronext Amsterdam N.V.  
Euronext Paris S.A.  
European Energy Exchange (EEX)  
Eurex AG  
ICE Futures Europe Ltd.  
ICE Futures U.S., Inc.  
ICE Endex Markets B.V.  
Ice Futures Abu Dhabi  
London Metal Exchange Limited  
Minneapolis Grain Exchange  
Montreal Exchange  
New York Mercantile Exchange, Inc.  
Nodal Exchange LLC

**Clearinghouses:**

Chicago Mercantile Exchange  
European Commodity Clearing (ECC)  
ICE Clear Europe Ltd.  
ICE Clear US, Inc.  
LME Clear Ltd.  
NASDAQ Clearing AB  
Nodal Clear, LLC  
Options Clearing Corp.

An MSUSA affiliated company, Mizuho Securities Company, Ltd., is a member of Tokyo Stock Exchange (TSE), Osaka Securities Exchange Co, Ltd., and Tokyo Financial Exchange (TFX). Another affiliated company, Mizuho Securities (Singapore) Pte. Ltd., is a member of Singapore Exchange Ltd. (SGX), SGX AsiaClear, and Singapore Exchange Derivatives Clearing Ltd. Mizuho International plc is a member of the London Stock Exchange Ltd.

### **Carrying brokers used for customer business:**

Intesa Sanpaolo S.p.A. (formerly Banca IMI SPA)  
SG Americas Securities LLC  
Mizuho Securities Co., Ltd.  
Mizuho Securities (Singapore) Pte. Ltd.  
ADM Investor Services, Inc.  
Maybank Investment Bank Berhad  
Nissan Securities Co., Ltd.

### **Permitted Depositories and Counterparties**

MSUSA requires that all depositories used to place segregated assets provide a written acknowledgement for each bank, DCO/CCP or FCM holding these funds in accordance with CFTC regulations 1.20, 1.26, 30.7 and 22.4. The depositories must be compliant with CFTC regulation 1.49, 30.7 and regulation 22.9 (for customer cleared swaps) in that all depositories are located in a qualified money center and all currencies carried are of that qualification as well, or if customer's funds must be deposited as margin in any non-money center country, MSUSA is obligated to first obtain written consent from that customer to deposit the customer's funds in that jurisdiction. Customer cleared swaps must be qualified under Rules 22.4 and 22.8. MSUSA also requires that all depositories holding funds for MSUSA in the three regulated customer fund categories have properly identified and titled such accounts as required by CFTC regulations.

MSUSA conducts due diligence in the selection of bank depositories, custodians and counterparties to permitted transactions. MSUSA considers many factors within its due diligence criteria including, but not limited to, financial strength of the entity, concentrations of expected asset deposits, the clearing and/or custody operational environment, volume capacity, depository, regulatory and supervisory coverage, and creditworthiness.

A review of counterparties and credit ratings is conducted at least annually, if not more frequently as necessary, by the designated credit approval authority. In addition, futures-related depositories, FCMs, CCPs, active money market funds, and MUSO-related affiliates are required to have a review no less than annually.

### **Material Risks**

The funds that customers deposit with MSUSA, in its capacity as an FCM, are subject to risk of loss, including in the event of insolvency or bankruptcy of MSUSA. The principal risks specifically related to MSUSA's custody of segregated funds are addressed below. However, because we are dependent on MHFG affiliated companies, including for access to capital and funding, risks they are subject to and how those risks are managed could affect us. The following are some of the more important risk factors that could affect MSUSA. Any one of these risk factors could have an impact on our financial condition, results of operations and cash flows that could be material to MSUSA's customers.

1.55(k)(5) The material risks, accompanied by an explanation of how such risks may be material to its customers, of entrusting funds to FCM, including without limitation:

(i) the nature of investments made by FCM (including credit quality, weighted average maturity and weighted average coupon);

All investments of customer cash by the FCM are made in accordance with CFTC rule 1.25, as well as MSUSA internal policy. Investments comply with all credit quality restrictions, as well as WAM restrictions, i.e. the weighted average time to maturity of all investments may not exceed 24 months. Investments typically include the purchase of Treasury bills/bonds, or reverse repo of such bills/bonds. Reverse repos are transacted with non-affiliate broker dealers. Investments may also include eligible money funds or cash. All securities are mark to market daily.

(ii) FCM's

- Creditworthiness,
  - MSUSA has issuer ratings from Moody's and S&P, A1/P-1 and A/A-1, respectively. MSUSA's ratings are aligned with those of Mizuho Bank, as both agencies state that since MSUSA is strongly integrated into Mizuho Financial Group and is likely to receive extraordinary support from the group in times of need.
- Net Capital,
  - MSUSA is subject to the SEC's Uniform Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital. MSUSA computes its net capital under the alternative method permitted by Rule 15c3-1. This method requires MSUSA to maintain minimum net capital, as defined, equivalent to the greater of \$250,000 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.
  - At March 31, 2021, the Company's net capital of \$1,278,123 was \$866,757 in excess of the required amount of \$411,366. 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.
- Leverage and Principal liabilities,
  - MSUSA defines leverage as the use of borrowed capital and balance sheet leverage to mean that an entity's assets exceed its stockholder's equity. MSUSA uses leverage principally in the form of securities financing transactions and loans from affiliates. MSUSA's other principal liabilities include: payables to customers, payables to brokers and dealers, and interest and other payables.
- Liquidity,
  - MSUSA defines funding liquidity risk as the risk that the firm will not be able to meet both expected and unexpected current and future cash flow/collateral needs



without affecting either the daily operations or the financial condition of the firm. Please refer to the Liquidity Risk Section on page 13 for more detail.

- Other lines of business,
  - In addition to acting as an FCM, MSUSA is registered as a broker-dealer with the SEC and is a member of U.S. Financial Industry Regulatory Authority (“FINRA”), several securities exchanges, and clearing houses. MSUSA’s other business activities include securities brokerage, origination and trading of debt and equity securities, and mergers and acquisitions (“M&A”) advisory services. MSUSA is also 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.

(iii) risks to the FCM created by its affiliates and their activities, including investment of customer fund in an affiliated entity: and

MSUSA is owned by a U.S. bank holding company, Mizuho Americas LLC, which is a wholly owned subsidiary of Mizuho Bank, Ltd (“MHBK”). MHBK is a wholly owned subsidiary of MHFG. As a result of these corporate affiliations, in the event that MHFG, MHBK and or Mizuho Americas LLC experience materially adverse effects on their credit ratings, businesses or profitability, MSUSA's businesses, reputation or financial condition may also be adversely affected.

MSUSA does not invest any customer funds in affiliated entities.

Risks to the FCM created by its affiliates are addressed by the Futures Industry Association, FAQ on Protection of Customer Funds, available at <https://fia.org/articles/fia-issues-fourth-version-guide-customer-fund-protections>.

(iv) any significant liabilities, contingent or otherwise, and material commitments

- Financing Commitments
  - MSUSA has a commitment to purchase private placement securities of \$12,136,000 at March 31, 2021.
- Underwriting Commitments
  - In the normal course of business, MSUA enters into underwriting commitments. There were no open commitments at March 31, 2021.
- Litigation
  - In accordance with the provisions of ASC 450, Contingencies (“ASC 450”), MSUSA 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 MSUSA. MSUSA 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 MSUSA's Consolidated Financial Statements.

- Exchange Member and Central Clearing Organization Guarantees
  - MSUSA is a member of various exchanges and central clearing organizations that trade and clear securities or futures contracts or both. Associated with its membership, MSUSA 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 MSUSA'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. MSUSA has not recorded any contingent liability in the Consolidated Financial Statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

## **Operational Risk**

*MSUSA may incur losses from inadequate or failed internal processes or systems, the actions of employees and others and from external events.*

MSUSA may incur losses arising from its exposure to operational risk. Financial services firms, including MSUSA, are exposed to the risk of loss resulting from inadequate or failed internal processes and systems, the actions of employees, clients, counterparties or third-party vendors, and from external events. Such operational risks may include, for example, exposure to natural or man-made disasters, mistakes made in the confirmation or settlement of transactions or from the improper recording, evaluating or accounting for transactions. In such instances, MSUSA could suffer financial loss, disruption of its business, liability to clients, regulatory intervention or reputational damage, which would affect its business and financial condition.

## **Financial Crime Risk**

Mizuho U.S. Operations ("MUSO"), the firm's shared services entity in the Americas, and MSUSA defines Financial Crime as the risk of loss or operational impact arising from non-compliance with money laundering/terrorist financing, regulatory sanctions, and bribery and corruption laws and regulations.

## **Reputational Risk**

Maintaining MSUSA's reputation among clients, investors, regulators and the general public is an important aspect of its business, and depends on a large number of factors, including the selection of clients, the conduct of business activities and regulatory actions. In the event one of these factors or other risks set forth herein materialize, MSUSA could experience market losses, loss of access to credit, or an inability to do business because of the adverse impact these risks may have on its reputation.

## **Litigation Risk**

*Legal proceedings could adversely affect MSUSA's operating results and financial condition for a particular period and have a negative impact on its credit ratings.*

MSUSA has been or could be named as a defendant in various legal actions, including arbitrations, class actions, and other litigation arising in connection with its activities as a financial services institution. In some instances it is possible that underwriter indemnification by an issuer may not be available due to an action by one or more of the underwriter defendants or because an issuer may be insolvent or otherwise in financial distress. Given the actual and potential number of these matters, some could result in adverse judgments, penalties, injunctions, fines, or other relief.

MSUSA also could be subject to investigations and/or proceedings by governmental, regulatory and self-regulatory authorities. Such investigations and proceedings could result in fines, penalties, and sanctions, including a loss of the necessary licenses to conduct business, as well as increased governmental and self-regulatory scrutiny following an investigation.

## **Strategic Risk**

The risk arising from a potential earnings downside that occurs mainly due to inadequate strategic positioning and planning, failure to execute strategy or the lack of effective responses to any negative deviations of the plan, which could be driven by both internal and external factors. A potential earnings downside can consist of revenues that fall below forecasts and/or costs that rise above forecasts. Strategic risk's Key Risk Types are as follows: Growth and Expense Strategy; Balance Sheet and Risk Strategy; Acquisition and Divestiture Risk; Adaptability to Business Environment; Reputation Risk; and Product Lifecycle.

## **Regulatory and Legislative Risks**

*MSUSA's businesses are highly regulated and could be adversely affected by regulatory and legislative initiatives around the world.*

MSUSA's businesses may be adversely affected by legislation or regulatory initiatives instituted by various U.S. and non-U.S. authorities and trading exchanges, including federal and state securities regulators such as the SEC, the CFTC, self-regulatory organizations including the NFA, the CME, and FINRA.

*Failure to maintain capital adequacy ratios above minimum required levels could result in restrictions on MSUSA's business activities.*

MSUSA endeavors to maintain at all times sufficient levels of capital, taking into account its asset and liability structure and other factors. However, capital levels could decline in the future if its financial condition deteriorates significantly, as a result of the materialization of any of the risks enumerated in these "Risk Factors" or other factors. If the capital levels fall below specified amounts or ratios set forth by the CFTC or other regulators, MSUSA could have to take corrective actions, including, depending on the level of the deficiency, submission of an improvement plan that would strengthen its capital base, a reduction of its total assets or a suspension of its business operations.

*Regulations and market conditions affecting MSUSA's parent companies could affect MSUSA's business.* MSUSA is owned by Mizuho Americas LLC, which is a wholly owned subsidiary of MHBK, and MHBK is a wholly owned subsidiary of MHFG, which are themselves subject to laws, regulations, and rules, which continue to develop, in Japan and elsewhere, and to business risks and potential losses of their own. Such losses or changes in regulations could affect Mizuho Americas LLC, MHBK's and or MHFG's ability to contribute capital to MSUSA, their ability to extend loans to MSUSA, or their ability to continue business, investment or credit arrangements that MSUSA currently has in place with each entity.

*MSUSA could be subject to taxation risk.*

MSUSA is subject to the tax laws in all jurisdictions in which it operates. Tax risk is the risk associated with changes in tax law or in the interpretation or application of tax law. It also includes the risk of changes in tax rates and the risk of failure to comply with procedures required by tax authorities. Failure to manage tax risks could lead to additional tax charges or a financial penalty for failure to comply with required tax procedures or other aspects of tax law.

## **Competitive Environment**

*Competitive pressures in the financial services industry in which MSUSA operates could adversely affect its business and results of operations.*

The futures, investment banking and broker-dealer business in the United States is highly competitive. MSUSA competes with numerous U.S. and international competitors for clients based on price, the range of products that it offers, the quality of its services, its financial resources, and product and service innovation. The financial services industry continues to be affected by an intensifying competitive environment, as demonstrated by the introduction of new technology platforms, consolidation through mergers, increased competition from new and established industry participants and diminishing margins in many mature products and services. MSUSA competes with U.S. and non-U.S. commercial banks, other futures brokers and broker-dealers, and other types of financial service companies in brokerage, underwriting, trading, financing and advisory businesses.

*Plans to enter new businesses could be unsuccessful or could expose MSUSA to new or increased risks.*

MSUSA seeks opportunities to enter new businesses that it believes would be profitable or necessary to provide services to its customers. There may be significant costs associated with commencing a new business line, but there is no assurance that any new business MSUSA enters will be successful. Although MSUSA has developed and intends to maintain risk management policies that MSUSA believes are appropriate to address such risks, if a risk materializes in a manner or to a degree outside of MSUSA's expectations, its business, financial condition, and results of operations could be materially and adversely affected.

## **Financial Risk**

*Derivative transactions may expose MSUSA to unexpected risk and potential losses.*

MSUSA may be party to derivative transactions, including but not limited to transactions that require delivery to counterparties of such transactions the underlying security, loan or other obligation in order to receive payment. In a number of cases, MSUSA may not hold the underlying security, loan or other obligation and may have difficulty obtaining, or be unable to obtain, the underlying security, loan or other

obligation through the physical settlement of other transactions. As a result, MSUSA may be subject to the risk that it may not be able to obtain the security, loan or other obligation within the required contractual time frame for delivery, particularly if default rates increase.. This could cause MSUSA to forfeit payments due to it under these contracts or result in settlement delays with attendant and possibly significant credit and operational risk as well as increased costs.

Risk in MSUSA's derivative transactions also could arise if the counterparties on such transactions are unable to settle the transactions, become subject to credit difficulties or are downgraded, or are unable to post margin or collateral as may be required under the terms of such derivative transactions. In the event that a counter-party to one or more of MSUSA's derivative transactions experiences difficulties or is the subject of perceived weakness by other market participants, the value of MSUSA's derivative transactions with such counterparty could be impaired.

### **Market risk**

The risk that MSUSA will suffer a loss due to a change in the value of assets and liabilities held (including off-balance-sheet items) caused by changes in market risk factors, such as interest rates, securities prices, foreign-exchange rates, etc. Market risk is also inclusive of market liquidity risk, or the degree to which it will be difficult to sell an asset due to lack of marketability caused by market disruptions. Market Risk's key risk types are as follow: Trading Book; Non-Trading/Banking book; and Pension.

### **Credit Risk**

*MSUSA may incur losses from its credit exposure related to trading, financing, clearing, and other business activities.*

MSUSA is exposed to the potential for credit-related losses that can occur as a result of a counterparty or issuer being unable or unwilling to honor its contractual obligations. These credit exposures exist within commitments, credit, derivative and other transactions. These exposures may arise, for example, from a decline in the financial condition or insolvency of a counterparty, from a decrease in the value of securities of third parties held by MSUSA as collateral, and from extending credit or margin to clients or counterparties through various arrangements. MSUSA's credit exposures could have an adverse effect on its business and profitability if credit losses exceed any credit provisions.

### **Liquidity Risk**

*MSUSA's business and financial condition could be adversely affected by an inability to borrow funds or sell assets to meet maturing obligations.*

Financial services firms, including MSUSA, are exposed to funding liquidity risk, which is the potential inability to repay financial obligations (both contractual as well as behavioral) when due. This could be most pronounced in times of stress, when tenor mismatches between funding sources and uses or incremental CCP requirements put a strain on available sources of liquidity..

MSUSA's liquidity could be impaired due to circumstances that it may be unable to control, such as general market disruptions or an operational problem that affects its trading clients, third parties or itself.

MSUSA's ability to sell assets also could be impaired if other market participants are seeking to sell similar assets at the same time in significant volumes or in a thinly traded market environment.

As such, MSUSA maintains a robust liquidity risk management and monitoring process. The core objective is that MSUSA maintains sufficient cash and collateral to meet its current and future obligations at all times, in normal and stressed circumstances. There is an ongoing assessment of all known and expected cash flows, along with collateral that can be used to provide additional funding.

In addition, liquidity gaps are monitored on a regular basis. Furthermore, the Treasury department performs daily liquidity stress testing, and maintains a liquidity buffer composed of high quality liquid assets. This buffer is sized to cover 30 days of net stressed cash outflows as indicated by the liquidity stress test. In addition, businesses are subject to certain limits and thresholds in an effort to mitigate liquidity risk. A daily Early Warning Indicator dashboard is prepared that provides a broad suite of metrics, giving Management a current assessment of the state of MSUSA's liquidity. This EWI dashboard is also used to activate/deactivate the Contingency Funding Plan, when and if necessary.

*Rating agency actions could affect MSUSA's ability to fund its operations.*

Credit ratings are subject to revisions, suspension, or withdrawal by the credit rating agencies at any time. Standard & Poor's (S&P) has assigned A/A1 counterparty ratings and Moody's has assigned A1/P-1 ratings to MSUSA. Should S&P or Moody's downgrade the credit rating of MSUSA or place it on credit watch for possible downgrade, there may be a potential adverse effect on MSUSA's ability to borrow funds for its operations, either by increasing the cost of funding or by making certain funding sources unavailable to MSUSA. Certain transactions may have downgrade triggers that require MSUSA to post additional collateral to CCPs and other counterparties.

## **Model risk**

The risk of increased financial loss, incorrect business decisions, misstatements of external disclosures, or damage to MSUSA's reputation resulting from the use of models. A "model," as noted in SR 11-7, refers to a quantitative method, system, or approach that applies statistical, economic, financial, or mathematical theories, techniques, and assumptions to process input data into quantitative estimates. More specifically, a "model" is defined as a computational process to produce quantitative outputs characterized by some degree of uncertainty.

## **Material Complaints or Actions**

MSUSA is obligated to disclose information regarding any material administrative, civil, enforcement or criminal complaints or actions filed against FCM where such complaints or actions have not concluded, and any enforcement complaints or actions filed against FCM during the last three years. MSUSA has not had any material administrative, civil, enforcement or criminal complaints or actions filed against it where such complaints or actions have not concluded, or any enforcement complaints or actions filed against it during the last three years.

## Customer Funds Segregation

FCMs may maintain up to three different types of accounts for customers, depending on the products a customer trades:

- (i) a **Customer Segregated Account** for customers that trade futures and options on futures listed on US futures exchanges;
- (ii) a **30.7 Account** for customers that trade futures and options on futures listed on foreign boards of trade; and
- (iii) a **Cleared Swaps Customer Account** for customers trading swaps that are cleared on a DCO registered with the Commission.

The requirement to maintain these separate accounts reflects the different risks posed by the different products. Cash, securities and other collateral (collectively, Customer Funds) required to be held in one type of account, *e.g.*, the Customer Segregated Account, may not be commingled with funds required to be held in another type of account, *e.g.*, the 30.7 Account, except as the Commission may permit by order.

For example, the Commission has issued orders authorizing ICE Clear Europe Limited, which is registered with the Commission as a DCO, and its FCM clearing members: (i) to hold in Cleared Swaps Customer Accounts Customer Funds used to margin both (a) Cleared Swaps and (b) foreign futures and foreign options traded on ICE Futures Europe, and to provide for portfolio margining of such Cleared Swaps and foreign futures and foreign options; and (ii) to hold in Customer Segregated Accounts Customer Funds used to margin both (c) futures and options on futures traded on ICE Futures US and (d) foreign futures and foreign options traded on ICE Futures Europe, and to provide for portfolio margining of such transactions.

**Customer Segregated Account.** Funds that customers deposit with an FCM, or that are otherwise required to be held for the benefit of customers, to margin futures and options on futures contracts traded on futures exchanges located in the US, *i.e.*, designated contract markets, are held in a Customer Segregated Account in accordance with Section 4d(a)(2) of the Commodity Exchange Act and Commission Rule 1.20. Customer Segregated Funds held in the Customer Segregated Account may not be used to meet the obligations of the FCM or any other person, including another customer.

All Customer Segregated Funds may be commingled in a single account, *i.e.*, a customer omnibus account, and held with: (i) a bank or trust company located in the US; (ii) a bank or trust company located outside of the US that has in excess of \$1 billion of regulatory capital; (iii) an FCM; or (iv) a DCO. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's customers. Unless a customer provides instructions to the contrary, an FCM may hold Customer Segregated Funds only: (i) in the US; (ii) in a money center country; or (iii) in the country of origin of the currency.

An FCM must hold sufficient US dollars in the US to meet all US dollar obligations and sufficient funds in each other currency to meet obligations in such currency. Notwithstanding the foregoing, assets

denominated in a currency may be held to meet obligations denominated in another currency (other than the US dollar) as follows: (i) US dollars may be held in the US or in money center countries to meet obligations denominated in any other currency; and (ii) funds in money center currencies may be held in the US or in money center countries to meet obligations denominated in currencies other than the US dollar.

**30.7 Account.** Funds that 30.7 Customers deposit with an FCM, or that are otherwise required to be held for the benefit of customers, to margin futures and options on futures contracts traded on foreign boards of trade, *i.e.*, 30.7 Customer Funds, and sometimes referred to as the foreign futures and foreign options secured amount, are held in a 30.7 Account in accordance with Commission Rule 30.7.

Funds required to be held in the 30.7 Account for or on behalf of 30.7 Customers may be commingled in an omnibus account and held with: (i) a bank or trust company located in the US; (ii) a bank or trust company located outside the US that has in excess of \$1 billion in regulatory capital; (iii) an FCM; (iv) a DCO; (v) the clearing organization of any foreign board of trade; (vi) a foreign broker; or (vii) such clearing organization's or foreign broker's designated depositories. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM's 30.7 Customers. As explained below, Commission Rule 30.7 restricts the amount of such funds that may be held outside of the US.

Customers trading on foreign markets assume additional risks. Laws or regulations will vary depending on the foreign jurisdiction in which the transaction occurs, and funds held in a 30.7 Account outside of the US may not receive the same level of protection as Customer Segregated Funds. If the foreign broker carrying 30.7 Customer positions fails, the broker will be liquidated in accordance with the laws of the jurisdiction in which it is organized, which laws may differ significantly from the U.S. Bankruptcy Code. Return of 30.7 Customer Funds to the US will be delayed and likely will be subject to the costs of administration of the failed foreign broker in accordance with the law of the applicable jurisdiction, as well as possible other intervening foreign brokers, if multiple foreign brokers were used to process the US customers' transactions on foreign markets.

If the foreign broker does not fail but the 30.7 Customers' US FCM fails, the foreign broker may want to assure that appropriate authorization has been obtained before returning the 30.7 Customer Funds to the FCM's trustee, which may delay their return. If both the foreign broker and the US FCM were to fail, potential differences between the trustee for the US FCM and the administrator for the foreign broker, each with independent fiduciary obligations under applicable law, may result in significant delays and additional administrative expenses. Use of other intervening foreign brokers by the US FCM to process the trades of 30.7 Customers on foreign markets may cause additional delays and administrative expenses.

To reduce the potential risk to 30.7 Customer Funds held outside of the US, Commission Rule 30.7 generally provides that an FCM may not deposit or hold 30.7 Customer Funds in permitted accounts outside of the US except as necessary to meet margin requirements, including prefunding margin requirements, established by rule, regulation, or order of the relevant foreign boards of trade or foreign clearing organizations, or to meet margin calls issued by foreign brokers carrying the 30.7 Customers' positions. The rule further provides, however, that, in order to avoid the daily transfer of funds from



accounts in the US, an FCM may maintain in accounts located outside of the US an additional amount of up to 20 percent of the total amount of funds necessary to meet margin and prefunding margin requirements to avoid daily transfers of funds.

**Cleared Swaps Customer Account.** Funds deposited with an FCM, or otherwise required to be held for the benefit of customers, to margin swaps cleared through a registered DCO, (*i.e.*, Cleared Swaps Customer Collateral), are held in a Cleared Swaps Customer Account in accordance with the provisions of section 4d(f) of the Act and Part 22 of the Commission’s rules. Cleared Swaps Customer Accounts are sometimes referred to as LSOC Accounts. LSOC is an acronym for “legally separated, operationally commingled.” Funds required to be held in a Cleared Swaps Customer Account may be commingled in an omnibus account and held with: (i) a bank or trust company located in the US; (ii) a bank or trust company located outside of the US that has in excess of \$1 billion of regulatory capital; (iii) a DCO; or (iv) another FCM. Such commingled account must be properly titled to make clear that the funds belong to, and are being held for the benefit of, the FCM’s Cleared Swaps Customers.

Further, Commission rules require MSUSA to hold funds deposited to margin futures and options on futures contracts traded on US designated contract markets in Customer Segregated Accounts. Similarly, MSUSA must hold funds deposited to margin cleared swaps and futures and options on futures contracts traded on foreign boards of trade in a Cleared Swaps Customer Account or a 30.7 Account, respectively. In computing its Customer Funds requirements under relevant Commission rules, MSUSA may only consider those Customer Funds actually held in the applicable Customer Accounts and may not apply free funds in an account under identical ownership but of a different classification or account type (*e.g.*, securities, Customer Segregated, 30.7) to an account’s margin deficiency. In order to be used for margin purposes, the funds must actually transfer to the identically-owned under-margined account. For additional information on the protection of customer funds, please see the Futures Industry Associations’ “Protection of customer funds – frequently asked questions: <https://fia.org/articles/protection-customer-funds-frequently-asked-questions>.”

### **Investment of Customer Funds.**

Section 4d(a)(2) of the Act authorizes FCMs to invest Customer Segregated Funds in obligations of the United States, in general obligations of any State or of any political subdivision thereof, and in obligations fully guaranteed as to principal and interest by the United States. Section 4d(f) authorizes FCMs to invest Cleared Swaps Customer Collateral in similar instruments.

Commission Rule 1.25 authorizes FCMs to invest Customer Segregated Funds, Cleared Swaps Customer Collateral and 30.7 Customer Funds in instruments of a similar nature. Commission rules further provide that the FCM may retain all gains earned and is responsible for investment losses incurred in connection with the investment of Customer Funds. However, the FCM and customer may agree that the FCM will pay the customer interest on the funds deposited.

- (i) Permitted investments include: Obligations of the United States and obligations fully guaranteed as to principal and interest by the United States (U.S. government securities);

- (ii) General obligations of any State or of any political subdivision thereof (municipal securities);
- (iii) Obligations of any United States government corporation or enterprise sponsored by the United States government (U.S. agency obligations);
- (iv) Certificates of deposit issued by a bank (CDs) as defined in section 3(a)(6) of the Securities Exchange Act of 1934, or a domestic branch of a foreign bank that carries deposits insured by the Federal Deposit Insurance Corporation;
- (v) Commercial paper fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (commercial paper);
- (vi) Corporate notes or bonds fully guaranteed as to principal and interest by the United States under the Temporary Liquidity Guarantee Program as administered by the Federal Deposit Insurance Corporation (corporate notes or bonds); and
- (vii) Interests in money market mutual funds.

As an FCM, the duration of the securities in which MSUSA invests Customer Funds cannot exceed, on average, two years.

MSUSA may also engage in repurchase and reverse repurchase transactions with non-affiliated registered broker-dealers, provided such transactions are made on a delivery versus payment basis and involve only permitted investments. All funds or securities received in repurchase and reverse repurchase transactions with Customer Funds must be held in the appropriate Customer Account, (*i.e.*, Customer Segregated Account, 30.7 Account or Cleared Swaps Customer Account). Further, in accordance with the provisions of Commission Rule 1.25, all such funds or collateral must be received in the appropriate Customer Account on a delivery versus payment basis in immediately available funds.

**No SIPC Protection.** Although MSUSA is a registered broker-dealer, it is important to understand that the funds you deposit with MSUSA for trading futures and options on futures contracts on either US or foreign markets or cleared swaps are not protected by the Securities Investor Protection Corporation.

Further, Commission rules require MSUSA to hold funds deposited to margin futures and options on futures contracts traded on US designated contract markets in Customer Segregated Accounts. Similarly, MSUSA must hold funds deposited to margin cleared swaps and futures and options on futures contracts traded on foreign boards of trade in a Cleared Swaps Customer Account or a 30.7 Account, respectively. In computing its Customer Funds requirements under relevant Commission rules, MSUSA may only consider those Customer Funds actually held in the applicable Customer Accounts and may not apply free funds in an account under identical ownership but of a different classification or account type (*e.g.*, securities, Customer Segregated, 30.7) to an account's margin deficiency. In order to be used for margin purposes, the funds must actually transfer to the identically-owned under-margined account.

For additional information on the protection of customer funds, please see the Futures Industry Association’s “Protection of Customer Funds Frequently Asked Questions” located at <https://fia.org/articles/protection-customer-funds-frequently-asked-questions>.

## Filing a Complaint

The following is information on how a customer may obtain information regarding filing a complaint about MSUSA with the Commission or with FCM’s DSRO:

A customer that wishes to file a complaint about MSUSA or one of its employees with the Commission can contact the Division of Enforcement either electronically at <https://forms.cftc.gov/fp/complaintform.aspx> or by calling the Division of Enforcement toll-free at 866-FON-CFTC (866-366-2382).

A customer that may file a complaint about MSUSA or one of its employees with the National Futures Association electronically at <http://www.nfa.futures.org/basicnet/Complaint.aspx> or by calling NFA directly at 800-621-3570.

A customer that wishes to file a complaint about MSUSA or one of its employees with the Chicago Mercantile Exchange electronically at: <http://www.cmegroup.com/market-regulation/file-complaint.html> or by calling the CME at 312.341.3286.

## Relevant Financial Data

You can view MSUSA’s annual audited financial statements that MSUSA’s website. The following is a link to that information: <https://www.mizuhogroup.com/americas/futures-disclosures>

The following is MSUSA financial data as of the most recent month-end when the Disclosure Document is prepared:

- (i) The FCM’s total equity and regulatory capital, all computed in accordance with U.S. Generally Accepted Accounting Principles and Rule 1.17, as applicable;
  - On March 31, 2022, MSUSA had total equity of \$1.54 billion and total regulatory capital and allowable subordinated liabilities of \$1.94 billion.
- (ii) As of March 31, 2022, the dollar value of MSUSA’s proprietary margin requirements as a percentage of the aggregate margin requirement for futures customers, cleared swaps customers, and 30.7 customers;

Total required	\$ 16,814,265,874.51
Proprietary	1.05%
Customer related IM	98.95%

- (iii) As of March 31, 2022, the number of futures customers, cleared swaps customers, and 30.7 customers that comprise 50 percent of MSUSA’s total funds held for futures customers, cleared swaps customers, and 30.7 customers, respectively;

# of Clients

Segregated	5
30.7 Secured	1
Customer Cleared Swaps	0

- (iv) The aggregate notional value, by asset class, of all non-hedged, principal over-the counter transactions into which the FCM has entered as of March 31, 2022;

	Assets		Liabilities
	Notional		Notional
Foreign Exchange Contracts	15,084,686		23,977,855
IRS Bilateral	287,000,000		15,000,000
TBA Securities	10,627,662,831		11,117,520,394
Options			
Fwd Settling Trades	3,240,527,307		2,330,569,973

- (v) The amount, generic source and purpose of any unsecured lines of credit (or similar short-term funding) the FCM has obtained but not yet drawn upon.
  - MSUSA has no committed unsecured lines of credit.
- (vi) The aggregated amount of financing the futures commission merchant provides for customer transactions involving illiquid financial products for which it is difficult to obtain timely and accurate prices; and
  - MSUSA doesn’t provide financing for customer transactions
- (vii) The percentage of futures customers, cleared swaps customer, and 30.7 customer receivable balances that the FCM had to write-off as uncollectable during the past 12-month period, as compared to the current balance of funds held for futures customers, cleared swaps customers, and 30.7 customers.
  - MSUSA did not write off any customer, cleared swap, or 30.7 customer receivables during the past 12 months.

Additional financial information on all FCMs is also available on the Commission's website at <http://www.cftc.gov/MarketReports/financialfcmdata/index.htm>.

Customers should be aware that the NFA publishes on its website certain financial information with respect to each FCM. The FCM Capital Report provides each FCM's most recent month-end adjusted net capital, required net capital, and excess net capital. (Information for a twelve-month period is available.) In addition, NFA publishes twice-monthly a Customer Segregated Funds report, which shows for each FCM: (i) total funds held in Customer Segregated Accounts; (ii) total funds required to be held in Customer Segregated Accounts; and (iii) excess segregated funds, *i.e.*, the FCM's Residual Interest. This report also shows the percentage of Customer Segregated Funds that are held in cash and each of the permitted investments under Commission Rule 1.25. Finally, the report indicates whether the FCM held any Customer Segregated Funds during that month at a depository that is an affiliate of the FCM. The report shows the most recent semi-monthly information, but the public will also have the ability to see information for the most recent twelve-month period. A 30.7 Customer Funds report and a Customer Cleared Swaps Collateral report provides the same information with respect to the 30.7 Account and the Cleared Swaps Customer Account.

The above financial information reports can be found by conducting a search for a specific FCM in NFA's BASIC system (<http://www.nfa.futures.org/basicnet/>) and then clicking on "View Financial Information" on the FCM's BASIC Details page.

### **Summary of FCM's current risk practices, controls and procedures/risk management program.**

As required under CFTC Rule 1.11, MSUSA has established a Risk Management Program, which encompasses all functional areas of the firm, taking into account market, credit, liquidity, foreign currency, legal, operational, settlement, segregation, technological, capital and any other applicable risks. Each MSUSA department that supports or is directly involved in the firm's FCM business has in place written policies and procedures which are intended to ensure that the firm operates in compliance with applicable legal, regulatory, and exchange requirements and in a manner that incorporates and promotes an internal control environment. MSUSA's Board of Directors, as mandated by CFTC 1.11 approves such policies and procedures. As an additional measure, MSUSA's Internal Audit Function and Operational Risk Department conduct reviews to determine compliance with written policies and procedures and to identify vulnerabilities, if any, that could subvert internal controls.

This Disclosure Document was issued in April 2022.