

Mizuho Securities USA LLC

Financial Statements and Supplemental Schedules

For the Year Ended March 31, 2018

With Report of Independent Registered Public Accounting Firm

(Confidential Pursuant to SEC Rule 17a-5(e)(3) and CFTC Regulation 1.10(g))



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

| | |
|---|-----------------|
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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

| |
|-----------------|
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FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 04/01/2017 AND ENDING 03/31/2018
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Mizuho Securities USA LLC**

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

320 Park Avenue

(No. and Street)

New York

(City)

New York

(State)

10022

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

David Kronenberg

(212) 209-9499

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young LLP

(Name - of individual, state last, first, middle name)

5 Times Square

(Address)

New York

(City)

NY

(State)

10036

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

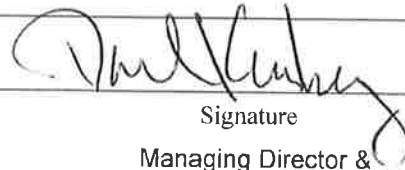
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

Potential persons who are to respond to the collection of
information contained in this form are not required to respond
SEC 1410 (06-02) unless the form displays a currently valid OMB control number.

OATH OR AFFIRMATION

I, David Kronenberg, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Mizuho Securities USA LLC, as of March 31, 2018, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:


Signature

Managing Director &
Chief Financial Officer

Title



Notary Public

ROBERT L. CORDELL II
NOTARY PUBLIC, State of New York
No. 02CO8057200
Qualified in New York County
Commission Expires July 31, 2022

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income.
- ☒ (d) Statement of Comprehensive Income
- ☒ (e) Statement of Changes in Financial Condition.
- ☒ (f) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (g) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (h) Computation of Net Capital.
- ☒ (i) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (j) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (k) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (l) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (m) An Oath or Affirmation.
- ☐ (n) A copy of the SIPC Supplemental Report.
- ☐ (o) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☒ (p) Schedule of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges.
- ☒ (q) Statement of Secured Amount and Funds Held in Separate Accounts for Foreign Futures and Options Customers Pursuant to Commission Regulation 30.7.
- ☒ (r) Statement of Cleared Swaps Customer Segregation Requirements and Funds Cleared Swaps Customer Accounts Under 4D(F) of the CEA
- ☒ (s) Computation of CFTC Minimum Net Capital Requirements.
- ☐ (t) Supplementary Report of Independent Auditors on Internal Control.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Mizuho Securities USA LLC

Financial Statements Year Ended March 31, 2018

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Ernst & Young LLP
5 Times Square
New York, NY 10036-6530

Tel: +1 212 773 3000
Fax: + 1 212 773 6350
www.ey.com

Report of Independent Registered Public Accounting Firm

The Board of Directors and Member of Mizuho Securities USA LLC

Opinion on the Financial Statements

We have audited the accompanying statement of financial condition of Mizuho Securities USA LLC (the Company) as of March 31, 2018, the related statements of income, comprehensive income, changes in member's equity, changes in subordinated borrowings and cash flows for the year then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at March 31, 2018, and the results of its operations and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Supplemental Information

The accompanying information contained in Schedules I, II, III, IV, V, VI, VII and VIII has been subjected to audit procedures performed in conjunction with the audit of the Company's financial statements. Such information is the responsibility of the Company's management. Our audit procedures included determining whether the information reconciles to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information. In forming our opinion on the information, we evaluated whether such information, including its form and content, is presented in conformity with Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 under the Commodity Exchange Act. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

We have served as the Company's auditor since 2002.
May 30, 2018

Mizuho Securities USA LLC
Statement of Financial Condition

March 31, 2018
(In Thousands)

Assets

| | |
|--|----------------------|
| Cash and cash equivalents | \$ 157,949 |
| Cash and securities segregated for regulatory purposes | 3,085,859 |
| Collateralized agreements: | |
| Securities purchased under agreements to resell | 13,261,406 |
| Securities borrowed | 1,836,319 |
| Securities owned, at fair value (including securities pledged of \$8,610,302) | 11,080,806 |
| Receivables from brokers/dealers, clearing organizations and customers | 1,252,778 |
| Accrued interest and dividends receivable | 44,910 |
| Receivable from affiliates | 18,835 |
| Clearing and other deposits | 242,533 |
| Property, equipment and leasehold improvements, net of accumulated depreciation and amortization of \$90,402 | 52,858 |
| Exchange memberships, at cost (fair value of \$7,402) | 7,152 |
| Prepaid expenses | 16,669 |
| Other assets | 31,625 |
| Total assets | <u>\$ 31,089,699</u> |

Liabilities and member's equity

| | |
|---|----------------------|
| Short-term borrowings | \$ 1,165,000 |
| Collateralized agreements: | |
| Securities sold under agreements to repurchase | 18,924,951 |
| Securities loaned | 1,556,466 |
| Securities sold, not yet purchased, at fair value | 4,147,849 |
| Payables to brokers/dealers, clearing organizations and customers | 3,810,190 |
| Accrued interest and dividends payable | 41,115 |
| Accrued expenses and other liabilities | 219,388 |
| Total liabilities | <u>\$ 29,864,959</u> |
| Subordinated borrowings | 400,000 |
| Member's equity | 824,740 |
| Total liabilities and member's equity | <u>\$ 31,089,699</u> |

The accompanying notes are an integral part of the financial statements.

Mizuho Securities USA LLC

Statement of Income

Year Ended March 31, 2018

(In Thousands)

Revenues

| | |
|--------------------------|------------------|
| Interest and dividends | \$ 1,315,251 |
| Investment banking | 304,856 |
| Commissions | 256,915 |
| Principal transactions | (46,390) |
| Affiliate service income | 39,102 |
| Other revenues | 7,453 |
| Total revenues | <u>1,877,187</u> |

| | |
|--|------------------|
| Interest and dividend expense | <u>1,048,608</u> |
| Revenues, net of interest and dividend expense | 828,579 |

Non-interest expenses

| | |
|------------------------------------|----------------|
| Employee compensation and benefits | 317,144 |
| Brokerage, clearing and execution | 159,303 |
| Communications and technology | 74,990 |
| Affiliate service fees | 51,448 |
| Occupancy | 21,005 |
| Other expenses | 44,661 |
| Total non-interest expenses | <u>668,551</u> |

| | |
|---------------------|---------|
| Income before taxes | 160,028 |
|---------------------|---------|

| | |
|----------------------------|---------------|
| Provision for income taxes | <u>72,005</u> |
|----------------------------|---------------|

| | |
|------------|------------------|
| Net income | <u>\$ 88,023</u> |
|------------|------------------|

The accompanying notes are an integral part of the financial statements.

Mizuho Securities USA LLC
Statement of Comprehensive Income

Year Ended March 31, 2018
(In Thousands)

| | |
|----------------------------------|-------------------------|
| Net income | \$ 88,023 |
| Other comprehensive income: | |
| Post-retirement plan, net of tax | <u>99</u> |
| Comprehensive income | <u><u>\$ 88,122</u></u> |

The accompanying notes are an integral part of the financial statements.

Mizuho Securities USA LLC
Statement of Changes in Member's Equity

Year Ended March 31, 2018
(In Thousands)

| | Retained Earnings | Accumulated Other Comprehensive Income | Member's Interest | Total |
|--|------------------------------|---|------------------------------|--------------|
| Balance at April 1, 2017 | \$ 309,343 | \$ 31 | \$ 427,244 | \$ 736,618 |
| Net income | 88,023 | — | — | 88,023 |
| Postretirement plan, net of tax (see footnote 8) | — | 99 | — | 99 |
| Balance at March 31, 2018 | \$ 397,366 | \$ 130 | \$ 427,244 | \$ 824,740 |

The accompanying notes are an integral part of the financial statements.

Mizuho Securities USA LLC
Statement of Changes in Subordinated Borrowings

Year Ended March 31, 2018
(In Thousands)

| | |
|---|-------------------|
| Subordinated borrowings at April 1, 2017 | \$ 400,000 |
| Increases: | |
| Issuance of subordinated notes | 400,000 |
| Decreases: | |
| Repayment of subordinated notes | 400,000 |
| Subordinated borrowings at March 31, 2018 | <u>\$ 400,000</u> |

The accompanying notes are an integral part of the financial statements.

Mizuho Securities USA LLC
Statement of Cash Flows

Year Ended March 31, 2018
(In Thousands)

| | |
|---|-------------------|
| Cash flows from operating activities | |
| Net income | \$ 88,023 |
| Adjustments to reconcile net income to net cash used in operating activities: | |
| Depreciation and amortization | 15,509 |
| Deferred income taxes | 12,513 |
| Loss on impairment of exchange membership | 213 |
| Changes in operating assets and liabilities: | |
| (Increase) decrease in operating assets: | |
| Cash and securities segregated for regulatory purposes | (824,243) |
| Securities purchased under agreements to resell | 2,201,309 |
| Securities borrowed | 317,151 |
| Securities owned, at fair value | (1,863,629) |
| Receivables from brokers/dealers, clearing organizations and customers | 858,635 |
| Receivables from affiliates | (15,066) |
| Accrued interest and dividends receivable | (12,438) |
| Clearing and other deposits | (51,896) |
| Prepaid expenses | 16,933 |
| Other assets | 132 |
| Increase (decrease) in operating liabilities: | |
| Securities sold under agreements to repurchase | (1,313,807) |
| Securities loaned | (444,570) |
| Securities sold, not yet purchased, at fair value | 426,465 |
| Payables to brokers/dealers, clearing organizations and customers | 250,706 |
| Accrued interest and dividends payable | 13,533 |
| Accrued expenses and other liabilities | 19,127 |
| Net cash used in operating activities | <u>(305,400)</u> |
| Cash flows from investing activities | |
| Purchases of property, equipment, and leasehold improvements | (32,498) |
| Net cash used in investing activities | <u>(32,498)</u> |
| Cash flows from financing activities | |
| Proceeds from issuance of subordinated borrowings | 400,000 |
| Payments of subordinated borrowings | (400,000) |
| Proceeds from issuance of medium term notes | 909,120 |
| Payments of medium term notes | (319,120) |
| Net increase in unsecured revolving bank loans | (180,000) |
| Net cash provided by financing activities | <u>410,000</u> |
| Increase in cash and cash equivalents | 72,102 |
| Cash and cash equivalents at beginning of period | 85,847 |
| Cash and cash equivalents at end of period | <u>\$ 157,949</u> |

The accompanying notes are an integral part of the financial statements.

Mizuho Securities USA LLC
Statement of Cash Flows (continued)

Year Ended March 31, 2018
(In Thousands)

Supplemental disclosures of cash flow information

Cash paid during the year for:

| | |
|--------------|--------------|
| Interest | \$ 1,041,571 |
| Income Taxes | \$ 43,444 |

The accompanying notes are an integral part of the financial statements.

Mizuho Securities USA LLC

Notes to Financial Statements

(In Thousands)

1. Organization and Description of Business

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.

On September 30, 2017, the Company became the Manager of Mizuho Capital Markets LLC (“MCM”), a wholly-owned subsidiary of MHA. MCM is a dealer in interest rate and foreign currency derivative products, and provides derivative clearing services to its affiliates. On January 1, 2018 certain MCM employees became MSUSA employees. The Company and MCM utilize common personnel and facilities with applicable reimbursement arrangements.

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 the 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.

2. Summary of Significant Accounting Policies

Basis of presentation

The financial statements are presented in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”).

Use of estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. 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 has no cash equivalents at March 31, 2018.

Cash and securities segregated for regulatory purposes

Included in cash and securities segregated for regulatory purposes on the 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 March 31, 2018, cash and securities segregated for regulatory purposes includes \$1,892,875 in securities received in resale agreements (comprised of U.S. Treasuries), and \$349,857 in U.S. Treasury securities owned, with the remaining balance 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 in footnote 10. 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.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Securities borrowed and loaned transactions are generally recognized on the 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 statement of financial condition. At March 31, 2018, the Company had no such transactions.

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 March 31, 2018, the Company had obtained securities as collateral that could be re-pledged, delivered or otherwise transferred with a fair value of \$49,515,570. This collateral was generally received under resale agreements and securities borrowed transactions. Of these securities, \$46,419,230 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 financing transactions in the statement of financial condition. At March 31, 2018, the Company had forward-starting collateralized agreements with start dates primarily ranging from April 2, 2018 to April 3, 2018. The contract values of these transactions total \$6,424,759 for resale and securities borrowing agreements and \$2,672,615 for repurchase agreements.

Fair value measurements

The Company reports certain assets and liabilities at fair value on the 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.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Securities transactions

Securities owned and securities 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 securities.

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

Derivative financial instruments

The Company recognizes the fair value of all derivative financial instruments in the statement of financial condition as either assets or liabilities in securities owned or securities 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 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 statement of 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

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

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 11 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 financial statements, and their effect on financial position, financial performance, and cash flows. The enhanced disclosures required by ASC 815 are included in footnote 10.

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 net balance on the statement of financial condition at March 31, 2018 is comprised of \$18,865 in leasehold improvements, \$28,856 in information technology assets, and \$5,137 in furniture and fixtures. Depreciation and amortization expense are included in Communications and technology and Occupancy expense on the statement of income.

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 on at least an annual basis. 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. The Company recorded an impairment of \$213 during the year ended March 31, 2018.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Principal transactions

Principal transactions consist of realized and unrealized gains and losses on the Company's securities owned and securities sold, not yet purchased. To the extent that these securities also have associated interest and dividend income or expense, these accounts on the statement of income will also be impacted. As a result, the Company views principal transactions revenues and any associated net interest and dividends in the aggregate.

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 securities owned at fair value and securities sold, not yet purchased at fair value is recorded in accrued interest and dividends receivable and payable on the statement of financial condition.

Dividends are accrued on equity securities 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 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 revenues

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 net of transaction related expenses and are recognized when services for the transactions are determined to be completed and the income is reasonably determinable.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated at the rate of exchange on the statement of financial condition date, whereas amounts recognized in the statement of income are translated at the actual rates of exchange on the date of the transaction. Gains or losses resulting from foreign currency translation are included in other revenues in the statement of income.

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 financial statements 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 financial statements using the provisions of the currently enacted tax laws. It is the Company’s policy to include interest and penalties related to gross unrecognized tax benefits within its provision or benefit for income taxes.

Subsequent events

Under the provisions of ASC 855, *Subsequent Events* (“ASC 855”), companies are required to evaluate events and transactions that occur after the balance sheet date but before the date the financial statements are 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 financial statements the effect of all events or transactions that provide additional evidence of conditions that existed at the balance sheet date, including estimates inherent in the financial statements’ preparation. The Company evaluated all events and transactions through May 30, 2018, the date the financial statements are available to be issued and noted no material recognizable or non-recognizable subsequent events during this period.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

Accounting developments

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (“ASU 2014-09”). ASU No. 2014-09 and subsequent amendments, supersede revenue recognition guidance under current U.S. GAAP and establish a principles-based approach for revenue contracts with customers. The core principle of the new guidance is a five-step model through which a company will recognize revenue when it transfers control of goods or services to customers at an amount that reflects the consideration to which it expects to be entitled for those goods and services. In August 2015, the FASB issued ASU No. 2015-14, which deferred the original effective date of ASU 2014-09 by one year, to fiscal years beginning after December 15, 2017. The Company will adopt the ASUs on the mandatory effective date of April 1, 2018 and will apply the ASU’s on a modified retrospective basis, wherein the guidance is applied only to existing contracts as of the date of initial application, and to new contracts transacted after that date. The customer contracts within the scope of the new standard include investment banking fees as well as equity and futures commissions. The Company’s evaluation indicates that the new standard will not have a material impact on the timing of the recognition of revenue, but will require gross presentation of certain investment banking costs currently offset against revenue. This change in presentation will be reflected in the first quarter of 2018 and will increase both revenue and non-interest expense. Overall, the Company does not expect the new accounting standard to have a material impact on its financial statements.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Liabilities* (“ASU 2016-01”). ASU 2016-01 is intended to improve the recognition and measurement of financial instruments. This amendment is effective for fiscal years beginning after December 15, 2017. Adoption of this update will not have a material effect on the Company’s financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”). ASU 2016-02 is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This amendment is effective for fiscal years beginning after December 15, 2018. The Company continues to assess the impact of the new ASUs on its financial statements.

In September 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses* (“ASU 2016-13”). ASU 2016-13 replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

2. Summary of Significant Accounting Policies (continued)

broader range of reasonable and supportable information to inform credit loss estimates for financial assets not accounted for at fair value through net income. The guidance is effective for annual reporting periods beginning after December 15, 2019, including interim periods within those fiscal years. Adoption of this update will not have a material effect on the Company's financial statements.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows - Restricted Cash* ("ASU 2016-18"). The amendment requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalent, and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end of period total amounts shown in the statement of cash flows. The amendment does not provide a definition of restricted cash or restricted cash equivalents. The amendment is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently assessing the impact that ASU 2016-18 will have on its financial statements but does not anticipate that it will have a material impact.

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

Securities owned and securities 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, and derivative contracts. Securities 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 statement of financial condition. Securities 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.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

3. Securities Owned and Securities Sold, Not Yet Purchased, at Fair Value (Continued)

Securities owned and securities sold, not yet purchased, at fair value at March 31, 2018 consist of the following:

| | <u>Owned</u> | <u>Sold, not yet purchased</u> |
|---|----------------------|------------------------------------|
| Mortgage-backed securities | \$ 5,242,930 | \$ 42,903 |
| U.S. Treasury and federal agency securities | 3,019,708 | 3,314,883 |
| Equity securities | 1,433,093 | 189,944 |
| Corporate debt | 1,201,595 | 548,612 |
| Asset-backed securities | 138,889 | - |
| Derivative contracts | 44,591 | 51,507 |
| Total | <u>\$ 11,080,806</u> | <u>\$ 4,147,849</u> |

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

Receivables from and payables to brokers/dealers, clearing organizations and customers at March 31, 2018 consist of the following:

| | <u>Receivables</u> | <u>Payables</u> |
|--|---------------------|---------------------|
| Brokers and clearing organizations | \$ 620,845 | \$ 26,034 |
| Net receivable/payable for trades pending settlement | 423,877 | 1,391 |
| Investment banking | 78,194 | 67,713 |
| Securities failed to deliver/receive – customers | 72,826 | 146,295 |
| Securities failed to deliver/receive – brokers/dealers | 46,366 | 151,880 |
| Futures customers | 2,481 | 3,412,845 |
| Other | 8,189 | 4,032 |
| Total | <u>\$ 1,252,778</u> | <u>\$ 3,810,190</u> |

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

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

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 \$406,646. Amounts payable to brokers and clearing organizations represent brokerage and execution fees payable to exchanges, primarily for futures business.

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 March 31, 2018 were settled without a material effect on the Company's financial statements.

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.

Securities failed to deliver or receive ("fails") represent receivable or payable balances, respectively, arising from transactions with customers and brokers/dealers that have not settled on settlement date. Fails open at March 31, 2018, which remained unsettled, do not have a material effect on the Company's financial statements.

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. This balance includes \$3,026,145 of customer segregated balances under the Commodity Exchange Act.

5. Short Term Borrowings

The Company, along with Mizuho Securities Co., Ltd. ("MHSC") and Mizuho International plc ("MHI"), may issue Medium Term Notes ("MTNs" or the "program") in amounts not to exceed \$14,000,000 in the aggregate, as governed by a filing with the Luxembourg Stock Exchange. The program's prospectus was originally filed on April 20, 2010 and was most recently amended on January 19, 2018. The Company has the ability to issue notes with maturities between seven days and perpetuity and with interest rates that may be fixed, floating or zero coupon. In connection with the program, MHFG and Mizuho Bank Ltd ("MHBK") have provided a "keep well agreement" that includes requirements to continue to own a majority of

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

5. Short Term Borrowings (Continued)

the Company's voting shares and, if necessary, make available funds to meet payment obligations under the program by way of additional share capital or subordinated loans.

The Company has the following floating rate MTNs outstanding as of March 31, 2018:

| Maturity Date | Interest Rate | Par Value |
|----------------------|----------------------|-------------------|
| September 2018 | 2.56% | \$ 80,000 |
| October 2018 | 2.03% | 25,000 |
| December 2018 | 2.38% | 100,000 |
| December 2018 | 2.63% | 75,000 |
| February 2019 | 2.13% | 55,000 |
| March 2019 | 2.34% | 15,000 |
| March 2019 | 2.26% | 60,000 |
| June 2019 | 2.94% | 250,000 |
| | | <u>\$ 660,000</u> |

Interest rates will reset periodically, based on the three-month LIBOR plus a spread. The carrying value of the notes approximates fair value and is included within short term borrowings on the statement of financial condition.

On March 31, 2018, other short term borrowings are comprised of unsecured revolving bank loans totaling \$505,000 with interest rates ranging from 1.87% to 2.50%.

6. Subordinated Borrowings

The Company has a \$400,000 subordinated note payable to MHA that is set to mature in September 2019. The interest rate on the note is set based on one-month LIBOR plus a spread. These borrowings are subordinated to claims of general creditors, are covered by agreements approved by FINRA and the Chicago Mercantile Exchange, and are included in computing net capital under the SEC's Uniform Net Capital Rule. To the extent that these borrowings are required for the Company's continued compliance with minimum net capital requirements, they cannot be repaid.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

6. Subordinated Borrowings (Continued)

In addition, the Company has a \$600,000 revolving subordinated loan facility with MHBK London, which was utilized to meet regulatory capital requirements, when needed. There was no amount outstanding as of March 31, 2018.

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 March 31, 2018, the statement of financial condition included the following balances with affiliates:

Assets

| | | |
|---|----|---------|
| Cash and cash equivalents | \$ | 1,180 |
| Securities purchased under agreements to resell | | 813,511 |
| Securities borrowed | | 3,666 |
| Securities owned, at fair value | | 6 |
| Receivables from brokers/dealers, clearing organizations and customers | | 62,764 |
| Prepaid expenses | | 2,751 |
| Receivable from affiliates | | 18,980 |
| Other assets | | 1,419 |

Liabilities

| | | |
|--|----|-----------|
| Securities sold under agreements to repurchase | \$ | 1,701,587 |
| Securities loaned | | 60,294 |
| Securities sold, not yet purchased, at fair value | | 382 |
| Payables to brokers/dealers, clearing organizations and customers | | 467,358 |
| Accrued interest and dividends payable | | 249 |
| Accrued expenses and other liabilities | | 46,420 |
| Short-term borrowings | | 255,000 |
| Subordinated borrowings | | 400,000 |

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

7. Related Party Transactions (continued)

For the year ended March 31, 2018, revenues earned and expenses incurred with affiliates are reflected in the statement of income as listed below:

Revenues

| | | |
|-------------------------------|----|--------|
| Interest and dividends | \$ | 11,579 |
| Investment banking | | 7,830 |
| Commissions | | 16,840 |
| Principal transactions | | 14,033 |
| Affiliate service income | | 39,102 |
| Other revenues | | 2,844 |
| Interest and dividend expense | | 34,624 |

Non-interest expenses

| | | |
|-----------------------------------|--|--------|
| Brokerage, clearing and execution | | 14,873 |
| Affiliate service fees | | 51,448 |
| Communications and technology | | (50) |
| Other expenses | | 39 |

Financing transactions

At March 31, 2018, the financing transaction balances are mostly comprised of resale agreements, repurchase agreements and securities loaned with MHSC, MHI and MCM, and are presented after netting.

Interest income from affiliates results from interest earned primarily on resale and securities borrowing transactions. The Company charges interest or fees to affiliates at the contracted rates stipulated in the resale and securities borrowed agreements.

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 for support and services or shared resources.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

7. Related Party Transactions (continued)

Borrowings from affiliates

At March 31, 2018, the Company had \$400,000 in subordinated notes payable to MHA with accrued interest payable in the amount of \$56. For the year ended March 31, 2018, interest expense on subordinated borrowings totaled \$8,673.

In addition, the Company had \$75,000 in short-term borrowings payable to MHBK and \$180,000 payable to MCM.

Commission revenue

The Company's commodity futures brokerage business generates commission revenue by facilitating order execution and providing clearing and settlement services to customers. Affiliates have brokerage accounts with the Company in order to transact in markets to which they do not have direct access.

Affiliate service income

The Company provides managerial and support services to other affiliates. These are charges allocated to the affiliates for personnel and operational support and services. The remainder of these balances includes occupancy fees, research fees and clearing fees.

Brokerage, clearing and execution

The Company executes and clears certain futures and equity transactions on foreign exchanges through affiliates, primarily Mizuho Securities Asia Ltd. ("MHSA"), MHSC and MHBK. The Company pays execution fees and commissions to its affiliates which are recorded as brokerage, clearing and execution expense. Brokerage, clearing and execution expense also includes commission rebates to affiliates for shared coverage of customers with MHI, MHSC and MHSA.

Affiliate service fees

The Company and its affiliates share various resources for which they also share the associated costs. These are costs allocated to the Company for research, sales commissions, personnel expenses and other operational support and services. The related unpaid balances of \$24,324 are included in accrued expenses and other liabilities.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

8. Employee Compensation and Benefit Plans

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. Total expense was \$5,301 for the year ended March 31, 2018, which is included in employee compensation and benefits on the statement of income.

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. Deferred awards are recognized in the financial statements 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. The Company's maximum future liability under the plan at March 31, 2018 is \$34,495 which results from deferred awards granted for the years ended March 31, 2016 through March 31, 2018. Deferred awards that vested of \$19,317 have been recognized in compensation and benefits expense in the statement of income and a corresponding payable has been recognized in accrued expenses and other liabilities on the statement of financial condition for the year ended March 31, 2018.

Post-retirement health care plan

The Company has a defined benefit post-retirement health care plan (the "health care plan") that covers a limited group of employees meeting certain criteria. Health care plan benefits commence upon retirement from the Company and end at age of eligibility for coverage under Medicare or upon coverage of participants by another plan. Participants become eligible for plan benefits if they retire after reaching age 55 with 8 or more years of service. The health care plan is noncontributory and is a continuation of the active employee medical and dental plans in which the Company pays substantially all eligible medical expenses. The Company does not currently fund this health care plan; benefits are paid as incurred. No assets have been segregated and restricted to provide for plan benefits.

The accumulated post-retirement benefit obligation ("APBO") is the present value of benefits earned as of the year-end "measurement date" based on employee service prior to that date. The

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

8. Employee Compensation and Benefit Plans (continued)

APBO for the Plan at March 31, 2018 is \$980, which is reported in accrued expenses and other liabilities in the statement of financial condition.

The following table provides a reconciliation of the changes in the APBO from April 1, 2017 through March 31, 2018:

| Change in benefit obligation (APBO) | |
|--|---------------|
| APBO at the beginning of the period | \$ 995 |
| Service cost | 85 |
| Interest cost | 29 |
| Actuarial gain | (129) |
| APBO at the end of the period | <u>\$ 980</u> |

The funded status of the health care plan is the excess of the APBO over plan assets. The Company does not have assets segregated and restricted to provide post-retirement benefits; as such, the funded status of the health care plan is equal to the liability recorded as the APBO.

The following table illustrates the tax effects allocated to the net of tax amounts recognized as components of accumulated other comprehensive income for the year ended March 31, 2018:

| | Before-Tax Amount | Tax Expense (Benefit) | Net-of-Tax Amount |
|--|------------------------------|--------------------------------------|------------------------------|
| Defined benefit healthcare plan | | | |
| Prior service cost at the beginning of the period | \$ 64 | \$ (33) | \$ 31 |
| Adjustment for actuarial gain | 129 | (30) | 99 |
| Unamortized net prior service cost at the end of the period | <u>\$ 193</u> | <u>\$ (63)</u> | <u>\$ 130</u> |

The Company recognized net periodic benefit cost of \$114 as employee compensation and benefits in the statement of income for the year ended March 31, 2018:

| | |
|---|---------------|
| Net periodic benefit cost | |
| Service cost | \$ 85 |
| Interest cost | 29 |
| Net periodic post-retirement benefit cost | <u>\$ 114</u> |

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

8. Employee Compensation and Benefit Plans (continued)

The service cost and interest cost expected to be recognized in the net periodic post-retirement benefit cost during the fiscal year ended March 31, 2019 is \$54.

Assumptions

The weighted-average discount rate assumption used to determine the APBO and net periodic benefit cost was 3.00%. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. For measurement purposes, the annual rates of increase in the per capita cost of covered medical and dental claims assumed for the year ended March 31, 2018 were 6.4% and 4.9%, respectively. The medical and dental healthcare cost trend rates are assumed to be 6.13% and 4.8%, respectively, by the year ended March 31, 2019. The medical and dental healthcare cost increase trend rates are both further assumed to gradually decrease to be 4.5% by the year ending March 31, 2038.

As of March 31, 2018, the latest actuarial valuation date, a one-percentage-point change in assumed health care cost trend rates would have the following effects on the amounts reported for APBO and net periodic benefit cost:

| | One Percentage Point Increase | One Percentage Point Decrease |
|---|----------------------------------|----------------------------------|
| Increase/(decrease) in total service cost and interest cost | \$ 12 | \$ (10) |
| Increase/(decrease) in APBO | 61 | (57) |

The estimated benefits expected to be paid are as follows:

| | Amount |
|-----------------------|-----------------|
| Year ending March 31: | |
| 2019 | 55 |
| 2020 | 71 |
| 2021 | 64 |
| 2022 | 77 |
| 2023 | 111 |
| 2024-2028 | 681 |
| | <u>\$ 1,059</u> |

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

9. Income Taxes

The Company's provision for income taxes consists of the following:

| | |
|----------------------------|------------------|
| Current | |
| U.S. federal | \$ 51,068 |
| State and local | 8,424 |
| | <u>59,492</u> |
| Deferred | |
| U.S. federal | 12,478 |
| State and local | 35 |
| | <u>12,513</u> |
| Provision for income taxes | <u>\$ 72,005</u> |

The Company converted into a single member limited liability company at March 31, 2017. As a result, it became a disregarded entity owned by MHA for US corporate income tax purposes.

For the fiscal year ending March 31, 2018, 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 return filings 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 March 31, 2018, the Company had tax receivables of \$2,751 and tax payables of \$20,027 due from and to affiliates, which were recorded under prepaid expenses and accrued expenses and other liabilities in the statement of financial condition.

On December 22, 2017, the President signed Public Law Number 115-97, commonly referred to as the Tax Cuts and Jobs Act of 2017 (the "Act"). The Act enacted comprehensive U.S. tax legislation, making broad and complex changes to the U.S. tax code. It reduces the U.S. federal corporate tax rate from a maximum rate of 35% to a flat rate of 21%, effective January 1, 2018. Consequently, the Company has recorded a tax expense of \$10,413 primarily due to a re-measurement of deferred tax assets and liabilities.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

9. Income Taxes (Continued)

On the same day, the U.S. Securities and Exchange Commission issued Staff Accounting Bulletin No. 118, which specifies, among other things, that reasonable estimates of the income tax effects of tax legislation should be used, if determinable, and provides for a measurement period not to exceed 12 months for those estimates to be finalized. While the components of the impact of tax legislation described above were calculated to account for all available information, these amounts are estimates. The Company anticipates modification to the estimate may occur as a result of (i) refinement of the Company's calculations based on updated information, (ii) changes in the Company's interpretations and assumptions, (iii) updates from issuance of future legislative guidance and (iv) actions the Company may take as a result of Tax Legislation.

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 and the re-measurement of deferred tax assets due to the change in tax rate.

As of March 31, 2018, the Company had a net DTA of \$26,284, consisting of a gross DTA of \$28,692 and a gross DTL of \$2,408. The resulting net asset is included in other assets in the statement of financial condition. The gross DTA results primarily from certain accrued expenses not currently deductible for tax purposes. The DTL primarily results 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, 2017 to March 31, 2018:

| | |
|--|-----------------|
| Balance as of April 1, 2017 | \$ 4,441 |
| Increases related to prior year tax positions | — |
| Decreases related to prior year tax positions | — |
| Increases related to current year tax positions | 589 |
| Decreases related to current year tax positions | — |
| Decreases related to settlements with taxing authorities | (746) |
| Decreases related to lapsing of statute of limitations | — |
| Balance as of March 31, 2018 | <u>\$ 4,284</u> |

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

9. Income Taxes (Continued)

The Company's total unrecognized tax benefits (including interest and penalties of \$1,822) that, if recognized, would affect the Company's effective tax rate were \$5,207 at March 31, 2018.

The Company does not believe that it is reasonably possible that the total unrecognized benefits will significantly change within the next twelve months.

The Company's returns beginning with tax years ended March 31, 2015 remain subject to examination by federal, state and local tax authorities.

10. 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 Company enters into derivative contracts to facilitate client transactions, conduct trading activities and to manage risk. The Company's trading and hedging strategies resulted in a net loss of \$66,239 on derivative instruments, included in principal transactions on the statement of income.

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.

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 LIBOR. Interest rate swaps are

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

10. Financial Instruments (continued)

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.

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 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.

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.

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 financial statements. Market risk is substantially dependent upon the underlying financial instruments and is affected by market forces such as volatility and changes in interest rates.

The fair values of derivative financial instruments included in securities owned and securities sold, not yet purchased as of March 31, 2018 are as follows:

Derivatives not designated as hedging instruments under ASC 815-20

| | Assets | Liabilities |
|-------------------------------------|------------------|------------------|
| Options | \$ 30,576 | \$ 13,507 |
| TBA securities transactions | 12,120 | 34,809 |
| Forward settling trades | 1,895 | 2,812 |
| Interest-rate swap contracts | - | 358 |
| Credit default swaps | - | 21 |
| Total carrying value of derivatives | <u>\$ 44,591</u> | <u>\$ 51,507</u> |

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

10. Financial Instruments (continued)

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 financial statements at fair value as of March 31, 2018 and would incur a loss if the fair value of the securities increases subsequent to March 31, 2018.

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 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

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

10. Financial Instruments (continued)

held as collateral and to offset receivables and payables with the same counterparty. For purposes of the 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.

All repurchase and resale activities are transacted under legally enforceable master repurchase agreements that give the Company, in the event of default by counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty. When specific conditions are met, including the existence of a legally enforceable master netting agreement and/or net settlement through a central clearing organization, the Company nets certain repurchase agreements and resale agreements with the same counterparty on the statement of financial condition. All securities borrowing and lending activities are transacted under legally enforceable master securities lending agreements that give the Company, in the event of default by counterparty, the right to liquidate securities held and to offset receivables and payables with the same counterparty. The Company offsets securities borrowing and lending transactions with the same counterparty on the statement of financial condition where it has such a legally enforceable master netting agreement and the transactions have the same maturity date.

The following table presents derivative instruments and securities financing agreements. Derivative instruments are included in securities owned and securities sold, not yet purchased as of March 31, 2018. Balances are presented on a gross basis, prior to the application of counterparty and collateral netting. Securities financing agreements are included on the statement of financial condition in securities purchased under agreements to resell or securities borrowed and securities sold under agreements to repurchase or securities loaned. These balances are presented on a gross basis, prior to the application of counterparty netting.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

10. Financial Instruments (continued)

| | Gross Assets | Amounts Offset (b) | Net Assets Recognized | Amounts not net (a) | | Net Exposure |
|-------------------------|--------------|-----------------------|--------------------------|---------------------------------|-------------------|-----------------|
| | | | | Financial Instruments (c) | Collateral (d) | |
| Derivatives | | | | | | |
| Options | \$ 30,576 | \$ — | \$ 30,576 | \$ — | \$ — | \$ 30,576 |
| TBA Securities | 91,449 | (79,329) | 12,120 | — | — | 12,120 |
| Interest rate swaps | 677 | (677) | — | — | — | — |
| Forward settling trades | 1,895 | — | 1,895 | — | — | 1,895 |
| Total derivatives | \$ 124,597 | \$ (80,006) | \$ 44,591 | \$ — | \$ — | \$ 44,591 |

| | Gross Assets | Amounts Offset (b) | Net Assets Recognized | Amounts not net (a) | | Net Exposure |
|---|---------------|-----------------------|--------------------------|---------------------------------|-------------------|--------------|
| | | | | Financial Instruments (c) | Collateral (d) | |
| Securities purchased under agreements to resell | \$ 40,737,267 | \$ (27,475,861) | \$ 13,261,406 | \$ 887,218 | \$ 12,373,032 | \$ 1,156 |
| Securities borrowed | 3,906,711 | (2,070,392) | 1,836,319 | 307,071 | 1,489,302 | 39,946 |

- (a) For some counterparties, the financial instruments and collateral not net on the 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 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)).

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

10. Financial Instruments (continued)

| | Gross Liabilities | Amounts Offset (f) | Net Liabilities Recognized | Amounts not net (e) | | Net Amount |
|-------------------------|----------------------|-----------------------|-------------------------------|---------------------------------|-------------------|---------------|
| | | | | Financial Instruments (g) | Collateral (h) | |
| Derivatives | | | | | | |
| Options | \$ 13,507 | \$ — | \$ 13,507 | \$ — | \$ — | \$ 13,507 |
| TBA Securities | 115,060 | (80,251) | 34,809 | — | — | 34,809 |
| Interest rate swaps | 1,635 | (1,277) | 358 | — | — | 358 |
| Forward settling trades | 2,812 | — | 2,812 | — | — | 2,812 |
| Credit default swaps | 1,684 | (1,663) | 21 | — | 21 | — |
| Total derivatives | \$ 134,698 | \$ (83,191) | \$ 51,507 | \$ — | \$ 21 | \$ 51,486 |

| | Gross Liabilities | Amounts Offset (f) | Net Liabilities Recognized | Amounts not net (e) | | Net Amount |
|--|----------------------|-----------------------|-------------------------------|---------------------------------|-------------------|------------|
| | | | | Financial Instruments (g) | Collateral (h) | |
| Securities sold under agreements to repurchase | \$ 46,400,812 | \$ (27,475,861) | \$ 18,924,951 | \$ 887,218 | \$ 17,685,680 | \$ 352,053 |
| Securities loaned | 3,626,858 | (2,070,392) | 1,556,466 | 307,071 | 1,234,307 | 15,088 |

- (e) For some counterparties, the financial instruments and collateral not net on the 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 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)).

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

10. Financial Instruments (continued)

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 March 31, 2018:

| | Remaining Contractual Maturity of Agreements | | | | | |
|--|--|---------------|---------------|--------------|---------------|--|
| | Open | Overnight | < 30 Days | >30 Days | Total | |
| Securities sold under agreements to repurchase | | | | | | |
| Collateral pledged: | | | | | | |
| U.S. Treasury and federal agency securities | \$ 678,621 | \$ 13,154,993 | \$ 11,112,608 | \$ 7,871,651 | \$ 32,817,873 | |
| Mortgage-backed securities | 1,050 | 8,958,790 | 526,249 | 914,463 | 10,400,552 | |
| Equities | 1,175,000 | 50,844 | — | — | 1,225,844 | |
| Corporate debt | 142,854 | 1,312,189 | — | — | 1,455,043 | |
| Asset-backed securities | — | 500,770 | — | 730 | 501,500 | |
| Total | \$ 1,997,525 | \$ 23,977,586 | \$ 11,638,857 | \$ 8,786,844 | \$ 46,400,812 | |
| Securities loaned | | | | | | |
| Collateral pledged: | | | | | | |
| U.S. Treasury and federal agency securities | \$ — | \$ 1,112,725 | \$ — | \$ — | \$ 1,112,725 | |
| Equities | 1,498,970 | 2,800 | — | 1,012,363 | 2,514,133 | |
| Total | \$ 1,498,970 | \$ 1,115,525 | \$ — | \$ 1,012,363 | \$ 3,626,858 | |

Concentrations of market and credit risk

The Company enters into transactions that involve varying degrees of both market and credit risk. The Company monitors its exposure to these risks on a daily basis through a variety of financial, security position and credit exposure reporting and control procedures.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

10. Financial Instruments (continued)

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 by setting risk limits and by economically hedging its exposure to risk factors.

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 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 master netting agreements to mitigate the credit risk of financial instruments, which would reduce the maximum amount of loss. Consequently, management believes the risk of credit loss from counterparties' failure to perform in connection with collateralized lending activities is minimal.

11. 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.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

11. Fair Value Measurements (continued)

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 or recently issued U.S. Treasury bonds, notes, and strips. Also included in Level 1 are listed equity securities, consisting of common stock and ETFs, and TBAs.

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, 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 and corporate debt. Also included in Level 2 assets and liabilities are interest rate swap contracts, credit default swap contracts, equity options and foreign exchange contracts.

Level 3: Assets and liabilities, whose values are based on inputs that are both unobservable and significant to the overall fair value measurement. The Company did not have any assets or liabilities measured at fair value using unobservable inputs or for which unobservable inputs were significant to their fair value measurement throughout the year or at March 31, 2018.

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.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

11. Fair Value Measurements (continued)

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 March 31, 2018:

| Assets | Level 1 | Level 2 | Level 3 | Total |
|--|---------------------|---------------------|----------------|----------------------|
| Securities owned: | | | | |
| Mortgage-backed securities | \$ — | \$ 5,242,930 | \$ — | \$ 5,242,930 |
| U.S. Treasury and federal agency securities | 1,055,545 | 1,964,163 | — | 3,019,708 |
| Equities | 1,433,093 | — | — | 1,433,093 |
| Corporate debt | — | 1,201,595 | — | 1,201,595 |
| Asset-backed securities | — | 138,889 | — | 138,889 |
| Derivative contracts | 13,568 | 31,023 | — | 44,591 |
| Securities segregated for regulatory purposes: | | | | |
| U.S. Treasury and federal agency securities | 349,857 | — | — | 349,857 |
| Total | \$ 2,852,063 | \$ 8,578,600 | \$ — | \$ 11,430,663 |

| Liabilities | Level 1 | Level 2 | Level 3 | Total |
|---|---------------------|---------------------|----------------|---------------------|
| Securities sold, not yet purchased: | | | | |
| U.S. Treasury and federal agency securities | \$ 1,068,693 | \$ 2,246,190 | \$ — | \$ 3,314,883 |
| Corporate debt | — | 548,612 | — | 548,612 |
| Equities | 189,944 | — | — | 189,944 |
| Derivative contracts | 37,586 | 13,921 | — | 51,507 |
| Mortgage-backed securities | — | 42,903 | — | 42,903 |
| Total | \$ 1,296,223 | \$ 2,851,626 | \$ — | \$ 4,147,849 |

Valuation techniques

The Company utilizes Level 1 prices whenever available. U.S. Treasury Bills and other U.S. Treasury securities are measured at fair value using quoted prices for identical securities in active dealer markets. The Level 2 designation is utilized with off-the-run U.S. Treasury securities. Off-the-run securities are aged issuances which tend to be less liquid and not as readily quotable as on-the-run securities. Federal agency securities are measured using a spread to the Treasury benchmark. These Level 2 measurements may be applied for securities such as medium term notes, which are typically smaller issuances initiated through reverse inquiry by potential investors and some callable securities.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

11. Fair Value Measurements (continued)

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 prices of a liquid benchmark set, credit risk, interest rate risk and prepayment risk. As such, securitized products are categorized as Level 2.

The Company measures ABS using the spread over the U.S. Treasury benchmark. Most of the asset-backed-securities in inventory are collateralized auto loans and credit cards.

The Company’s corporate bonds largely consist of investment grade corporate bonds and notes. These are categorized as Level 2 as the Company measures fair value using the spread over the U.S. Treasury benchmark.

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.

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 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 10.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

11. Fair Value Measurements (continued)

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, accrued interest and dividends payable, and subordinated borrowings. 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.

Transfers into/out of Levels 1 and 2

There have been no transfers between Levels 1 and 2 for the year ended March 31, 2018.

12. Commitments and Contingencies

Lease commitments

The Company has remaining minimum annual rental commitments for office spaces under non-cancelable operating leases with initial terms in excess of one year, as follows:

| | Amount |
|-----------------------|------------------|
| Year ending March 31: | |
| 2019 | 10,502 |
| 2020 | 10,838 |
| 2021 | 4,524 |
| 2022 | 3,207 |
| 2023 | 3,189 |
| Thereafter | 18,940 |
| | <u>\$ 51,200</u> |

Rentals are subject to periodic escalation charges and do not include amounts payable for insurance, taxes and maintenance. In addition, minimum commitments have not been reduced by future sublease rental income of \$7,376 from an affiliate. The Company had rental expense under operating leases of \$11,170 for the year ended March 31, 2018, which is included in occupancy expense on the statement of income.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

12. Commitments and Contingencies (continued)

The Company is legally obligated to return certain premises to original condition. In accordance with ASC 410, *Asset Retirement Obligations*, the Company initially recognized the fair value of these liabilities for asset retirement obligations of \$1,160. The Company recognized corresponding assets for these amounts and capitalized these costs on the statement of financial condition. These amounts are amortized on a straight line basis over the life of the leases. The Company will recognize additional accretion costs of \$302 for assumed inflation rates to be accreted on a straight line basis over the life of the leases. For the year ended March 31, 2018, the Company recorded accretion expense of \$36, resulting in an asset retirement obligation of \$1,384. This amount is recorded in accrued expenses and other liabilities on the statement of financial condition.

The Company has provided letters of credit in connection with leases for its New York and Boston offices in the amount of \$824 and \$18, respectively. These letters of credit are collateralized by U.S. Treasury securities.

Underwriting Commitments

In the normal course of business, the Company enters into underwriting commitments. There are no open commitments at March 31, 2018.

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.

The Company, together with at least 20 other Primary Dealers of U.S. Treasury securities, was previously named as a defendant in more than forty class action lawsuits filed in various federal district courts, alleging, among other things, conspiracy among the Primary Dealers to manipulate U.S. Treasury auctions. Those cases were consolidated in the United States District Court for the Southern District of New York. In August of 2017, Breakwater Trading LLC and certain affiliates filed a separate individual lawsuit bringing similar claims against the Company and a number of other primary dealers (the "Breakwater Action"). On October 16, 2017, plaintiffs in the Consolidated Action filed a consolidated amended complaint and

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

12. Commitments and Contingencies (continued)

dropped the Company as a named defendant in the action. On February 6, 2018, plaintiffs in the Breakwater action similarly agreed to voluntarily dismiss the Company. While these are positive developments, these voluntary dismissals of claims against the Company do not have the same finality as would dismissals with prejudice after a motion to dismiss or after a settlement. In principle, and subject to the statute of limitations, plaintiffs in either or both actions could potentially amend their complaint again and add back the Company as a defendant, or other individual plaintiffs might decide to file separate actions. In light of the dismissals and absent any significant developments, these matters will not be reported on a going-forward basis.

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 financial statements.

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 financial statements for these agreements and believes that any potential requirement to make payments under these agreements is remote.

Affiliate Guarantees

In connection with the Company's memberships in central clearing organizations, the Company acts in the capacity of "sponsor" to two affiliates that wish to clear transactions through the central counterparty where the Company has a membership. As a sponsor, the Company may be required to provide collateral or assume other trade-related responsibilities on behalf of the affiliate.

Mizuho Securities USA LLC

Notes to Financial Statements (continued)

(In Thousands)

13. 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 \$250 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 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, 2018, the Company's net capital of \$807,982 was \$568,089 in excess of the required amount of \$239,893. 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.

Supplemental Information

Mizuho Securities USA LLC

Schedule I: Computation of Net Capital Pursuant to Rule 15c3-1
Under the Securities Exchange Act of 1934

March 31, 2018
(In Thousands)

| | | | |
|---|----|---------|-----------|
| Total ownership equity | | \$ | 824,740 |
| Liabilities subordinated to claims of general creditors allowable in computation of net capital | | | 400,000 |
| Total capital and allowable subordinated liabilities | | | 1,224,740 |
| Deductions and/or charges: | | | |
| Total non-allowable assets from Statement of Financial Condition | \$ | 274,024 | |
| Aged fail-to-deliver | | 948 | |
| Commodity futures contracts and spot commodities – proprietary capital charges | | 1,167 | |
| Other deductions and/or charges | | 11,203 | |
| Total deductions and/or charges | | | (287,342) |
| Net capital before haircuts on securities positions | | | 937,398 |
| Haircuts on securities: | | | |
| U.S. and Canadian government obligations | | | 21,562 |
| State and municipal government obligations | | | 660 |
| Corporate obligations | | | 78,703 |
| Arbitrage | | | 3,647 |
| Other securities | | | 24,819 |
| Other | | | 25 |
| Total Haircuts | | | (129,416) |
| Net capital | | | 807,982 |

There are no material differences between the above computation and the corresponding computation included in the Company's unaudited Form X-17a-5 filing dated May 30, 2018.

Mizuho Securities USA LLC

Schedule I (continued): Computation of Net Capital Pursuant to Rule 15c3-1 Under the Securities Exchange Act of 1934

March 31, 2018
(In Thousands)

| | |
|--|-------------------|
| 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 prepared as of the date of net capital computation | \$ 239,893 |
| Minimum dollar net capital requirement of reporting broker or dealer and minimum net capital, under 15c3-1 | 1,000 |
| Net capital requirement (the greater of the minimum dollar net capital requirement or 2% of combined aggregate debit or CFTC minimum requirement) | 239,893 |
| Excess net capital | 568,089 |
| Percentage of Net Capital to Aggregate Debit | 1,027.94% |
| Percentage of Net Capital after anticipated capital withdrawals, to Aggregate Debits | 1,027.94% |
| Net capital in excess of the greater of: 5% of combined aggregate debit items or 120% of minimum net capital requirement | <u>\$ 520,110</u> |

There are no material differences between the above computation and the corresponding computation included in the Company's unaudited Form X-17a-5 filing dated May 30, 2018.

Mizuho Securities USA LLC

Schedule II: Computation of CFTC Minimum Net Capital Requirement

March 31, 2018
(In Thousands)

| | | |
|--|---------------------|-------------------|
| Risk based requirement: | | |
| Amount of customer risk maintenance margin requirement | <u>\$ 2,166,068</u> | |
| Enter 8% of above | | \$ 173,285 |
| Amount of non-customer risk maintenance margin requirement | <u>66,544</u> | |
| Enter 8% of above | | <u>5,324</u> |
| Total risk based requirement | | <u>\$ 178,609</u> |
| Minimum dollar requirement | | <u>\$ 1,000</u> |
| Minimum CFTC net capital requirement | | <u>\$ 178,609</u> |
| CFTC Early Warning Level | | <u>\$ 196,470</u> |

There are no material differences between the above computation and the corresponding computation included in the Company's unaudited Form X-17a-5 filing dated May 30, 2018.

Mizuho Securities USA LLC

Schedule III: Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934

March 31, 2018
(In Thousands)

Credit balances:

| | |
|---|---------------|
| Free credit balances and other credit balances in customers' security accounts | \$ 54,535 |
| Customers' securities failed to receive | 10,265 |
| Credit balances in firm accounts which are attributable to principal sales to customers | <u>24,688</u> |
| Total credits | <u>89,488</u> |

Debit balances:

| | |
|--|----------------|
| Debit balances in customers' cash and margin accounts excluding unsecured accounts and accounts doubtful of collection | 66,414 |
| Securities borrowed to effectuate short sales by customers and securities borrowed to make delivery on customers' securities failed to deliver | 11,479 |
| Failed to deliver of customers' securities not older than 30 calendar days | <u>709</u> |
| Aggregate debit items | <u>78,602</u> |
| Less: 3% for alternative method | <u>(2,358)</u> |
| Total debits | <u>76,244</u> |

| | |
|---|------------------|
| Excess of total credits over total debits | <u>\$ 13,244</u> |
|---|------------------|

| | |
|--|-----------|
| Amount on deposit in "Reserve Bank Account(s)" | \$ 58,313 |
|--|-----------|

| | |
|-----------------------------------|---|
| Amount of deposit (or withdrawal) | - |
|-----------------------------------|---|

| | |
|--|------------------|
| New amount in Reserve Bank Account(s) after adding deposit or subtracting withdrawal | <u>\$ 58,313</u> |
|--|------------------|

There are no material differences between the above computation and the corresponding computation included in the Company's unaudited Form X-17a-5 filing dated May 30, 2018.

Mizuho Securities USA LLC

Schedule IV: Information for Possession or Control Requirements
Pursuant to Rule 15c3-3 Under the Securities Exchange Act of 1934

March 31, 2018
(In Thousands)

- | | | |
|----|--|-------|
| 1. | Customers' fully paid securities and excess margin securities not in the respondent's possession or control as of the report date (for which instructions to reduce to possession or control had been issued as of the report date) but for which the required action was not taken by respondent within the time frames specified under Rule 15c3-3 | None |
| | | <hr/> |
| | Number of items – 0 | |
| | | |
| 2. | Customers' fully paid securities and excess margin securities for which instructions to reduce to possession or control had not been issued as of the report date, excluding items arising from "temporary lags which result from normal business operations" as permitted under Rule 15c3-3 | None |
| | | <hr/> |
| | Number of items – 0 | |
| | | |
| 3. | The system and procedures utilized in complying with the requirement to maintain physical possession or control of customers' fully paid and excess margin securities have been tested and are functioning in a manner adequate to fulfill the requirements of Rule 15c3-3 | Yes |
| | | <hr/> |

There are no material differences between the above computation and the corresponding computation included in the Company's unaudited Form X-17a-5 filing dated May 30, 2018.

Mizuho Securities USA LLC

Schedule V: Statement of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges

March 31, 2018
(In Thousands)

Segregation Requirements

Net ledger balance:

| | |
|--|--------------|
| Cash | \$ 4,451,224 |
| Securities (at market) | 204,634 |
| Net unrealized profit (loss) in open futures contracts traded on a contract market | (1,978,493) |
| Exchange traded options: | |
| Add market value of open option contracts purchased on a contract market | 805,848 |
| Deduct market value of open option contracts granted (sold) on a contract market | (693,206) |
| Net equity (deficit) | 2,790,007 |
| Accounts liquidating to a deficit and accounts with debit balances – gross amount | 484 |
| Less: amount offset by customer owned securities | (484) |
| Amount required to be segregated | 2,790,007 |

Funds in Segregated Accounts

Deposited in segregated funds bank accounts:

| | |
|--|------------|
| Cash | 451,210 |
| Securities representing investments of customers' funds (at market) | 251,666 |
| Securities held for particular customers or option customers in lieu of cash (at market) | 11,079 |
| Margins on deposit with clearing organizations of contract markets: | |
| Cash | 266,360 |
| Securities representing investments of customers' funds (at market) | 1,784,461 |
| Securities held for particular customers or option customers in lieu of cash (at market) | 193,554 |
| Net settlement from (to) derivatives clearing organizations of contract markets | (30,739) |
| Exchange-traded options: | |
| Value of open long option contracts | 805,848 |
| Value of open short option contracts | (693,206) |
| Net equities with other FCMs: | |
| Net liquidating equity | 1,822 |
| Total amount in segregation | 3,042,055 |
| Excess (deficiency) funds in segregation | 252,048 |
| Management Target Amount for Excess funds in segregation | 125,000 |
| Excess (deficiency) funds in segregation over (under) Management Target Amount Excess | \$ 127,048 |

There are no material differences between the above computation and the corresponding computation included in the Company's unaudited Form X-17a-5 filing dated May 30, 2018.

This report is deemed confidential in accordance with Rule 17a-5(e) (3) under the Securities Exchange Act of 1934 and CFTC Regulation 1.10(g)

Mizuho Securities USA LLC

Schedule VI: Statement of Secured Amounts and Funds Held in Separate Accounts Pursuant to Commission Regulation 30.7

March 31, 2018
(In Thousands)

Foreign futures and foreign options secured amounts

Amounts to be set aside in separate Regulation 30.7 accounts:

Net ledger balance:

| | |
|---|------------|
| Cash | \$ 512,717 |
| Securities (at market) | 2,863 |
| Net unrealized profit (loss) in open futures contracts traded on a foreign board of trade | 37,397 |
| Exchange-traded options: | |
| Market value of open option contracts purchased on a foreign board of trade | 42,538 |
| Market value of open contracts granted (sold) on a foreign board of trade | (33,173) |
| Net equity (deficit) | 562,342 |
| Accounts liquidating to a deficit and accounts with debit balances | - |
| Amount required to be set aside as the security amount – Net Liquidating Equity Method | 562,342 |
| Greater of amount required to be set aside pursuant to foreign jurisdiction (above) | \$ 562,342 |

There are no material differences between the above computation and the corresponding computation included in the Company's unaudited Form X-17a-5 filing dated May 30, 2018.

Mizuho Securities USA LLC

Schedule VI (continued): Statement of Secured Amounts and Funds Held in Separate Accounts Pursuant to Commission Regulation 30.7

March 31, 2018

(In Thousands)

Funds deposited in separate Regulation 30.7 accounts:

Cash in banks:

| | |
|---|----------------|
| Banks located in the United States | \$ 11,608 |
| Other banks qualified under Regulation 30.7 | 357,385 |
| | <u>368,993</u> |

Securities:

| | |
|---|----------------|
| In safekeeping with located in the United States | 146,682 |
| In safekeeping with other banks qualified under Regulation 30.7 | - |
| | <u>146,682</u> |

Equities with registered futures commission merchants:

| | |
|--|---------------|
| Cash | 25,097 |
| Unrealized gain (loss) on open futures contracts | 4,749 |
| Value of short option contracts | - |
| | <u>29,846</u> |

Amounts held by clearing organizations of foreign boards of trade:

| | |
|---|---------------|
| Cash | 40,021 |
| Securities | 2,863 |
| Amount due to (from) clearing organizations – daily variation | 37,857 |
| Value of long option contracts | 2,732 |
| | <u>83,473</u> |

Amounts held by members of foreign boards of trade:

| | |
|--|---------------|
| Cash | 31,348 |
| Unrealized gain (loss) on open futures contracts | 20,676 |
| Value of long option contracts | 6,634 |
| | <u>58,658</u> |

| | |
|---|------------------|
| Total funds in separate section 30.7 accounts | <u>687,652</u> |
| Excess (deficiency) set Aside Funds for Secured Amount | <u>125,310</u> |
| Management Target Amount for Excess | <u>70,000</u> |
| Excess (deficiency) funds in separate 30.7 account over (under) Management Target | <u>\$ 55,310</u> |

There are no material differences between the above computation and the corresponding computation included in the Company's unaudited Form X-17a-5 filing dated May 30, 2018.

Mizuho Securities USA LLC

Schedule VII: Statement of Cleared Swaps Customer Segregation Requirements and Funds in Cleared Swaps Customer Accounts Under 4D(F) of the CEA

March 31, 2018

(In thousands)

Cleared Swaps Customer Requirements

Net ledger balance:

| | | |
|--|----|-------|
| Cash | \$ | 2,819 |
| Securities (at market) | | - |
| Net unrealized loss in open cleared swaps | | (3) |
| Cleared swaps options: | | |
| Add market value of open cleared swaps option contracts purchased | | - |
| Deduct market value of open cleared swaps option contracts granted (sold) | | - |
| Net equity (deficit) | | 2,816 |
| Accounts liquidating to a deficit and accounts with debit balance – gross amount | | - |
| Less: amount offset by customer owned securities | | - |
| Amount required to be segregated for cleared swaps customers | | 2,816 |

Funds in Cleared Swaps Customer Segregated Accounts

Deposited in cleared swaps customer segregated accounts at banks:

| | |
|--|-----------|
| Cash | 23,608 |
| Securities representing investments of cleared swaps customers' funds (at market) | - |
| Securities held for particular cleared swaps customers in lieu of cash (at market) | - |
| Margins on deposit with derivatives clearing organizations in cleared swaps customer segregated amounts: | |
| Cash | 9,454 |
| Securities representing investments of customers' funds (at market) | - |
| Securities held for particular customers or option customers in lieu of cash (at market) | - |
| Net settlement from (to) derivatives clearing organizations | - |
| Cleared swaps options: | |
| Value of open cleared swaps long option contracts | - |
| Value of open cleared swaps short option contracts | - |
| Net equities with other FCMs | - |
| Cleared swaps customer funds on hand | - |
| Total amount in cleared swaps customer segregation | 33,062 |
| Excess (deficiency) funds in cleared swaps customer segregation | 30,246 |
| Management Target Amount for Excess funds in cleared swaps segregated accounts | 15,000 |
| Excess (deficiency) funds in cleared swaps customer segregated accounts over (under) | |
| Management Target Excess | \$ 15,246 |

There are no material differences between the above computation and the corresponding computation included in the Company's unaudited Form X-17a-5 filing dated May 30, 2018.

Mizuho Securities USA LLC

Schedule VIII: Reconciliation of Unaudited FOCUS to Statement of Financial Condition

March 31, 2018

(In Thousands)

| | Unaudited FOCUS | Reclassifications | Statement of Financial Condition |
|--|----------------------|---------------------|--|
| Assets | | | |
| Cash and cash equivalents | \$ 156,961 | \$ 988 | \$ 157,949 |
| Cash and securities segregated for regulatory purposes | 843,811 | 2,242,048 | 3,085,859 |
| Collateralized agreements: | | | |
| Securities purchased under agreements to resell | 15,154,281 | (1,892,875) | 13,261,406 |
| Securities borrowed | 1,836,319 | — | 1,836,319 |
| Securities owned, at fair value | 11,430,886 | (350,080) | 11,080,806 |
| Receivables from brokers/dealers, clearing organizations and customers | 704,583 | 548,195 | 1,252,778 |
| Receivable from affiliates | 18,835 | — | 18,835 |
| Accrued interest and dividends receivable | 56,712 | (11,802) | 44,910 |
| Clearing and other deposits | 855,708 | (613,175) | 242,533 |
| Property, equipment, and leasehold improvements, net of accumulated depreciation and amortization | 52,858 | — | 52,858 |
| Exchange memberships, at cost | 5,345 | 1,807 | 7,152 |
| Prepaid expenses | — | 16,669 | 16,669 |
| Other assets | 130,684 | (99,059) | 31,625 |
| Total assets | <u>\$ 31,246,983</u> | <u>\$ (157,284)</u> | <u>\$ 31,089,699</u> |
| Liabilities and member's equity | | | |
| Short-term borrowings | \$ 1,165,000 | \$ — | \$ 1,165,000 |
| Collateralized agreements: | | | |
| Securities sold under agreements to repurchase | 18,924,951 | — | 18,924,951 |
| Securities loaned | 1,556,466 | — | 1,556,466 |
| Securities sold, not yet purchased, at fair value | 4,147,849 | — | 4,147,849 |
| Payables to brokers/dealers, clearing organizations and customers | 3,879,196 | (69,006) | 3,810,190 |
| Accrued interest and dividends payable | — | 41,115 | 41,115 |
| Accrued expenses and other liabilities | 348,781 | (129,393) | 219,388 |
| | <u>30,022,243</u> | <u>(157,284)</u> | <u>29,864,959</u> |
| Subordinated borrowings | 400,000 | — | 400,000 |
| Member's equity | 824,740 | — | 824,740 |
| Total liabilities and member's equity | <u>\$ 31,246,983</u> | <u>\$ (157,284)</u> | <u>\$ 31,089,699</u> |