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U.S. SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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

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

SEC FILE NO.  
8-00422

REPORT FOR THE PERIOD BEGINNING 01/01/12 AND ENDING 12/31/12  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER:

Credit Suisse Securities (USA) LLC and Subsidiaries

Official Use Only  
FIRM ID NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS:

(Do not use P.O. Box No.)

11 Madison Avenue

(No. and Street)

New York

New York

10010-3629

(City)

(State)

(Zip Code)

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

Paul O'Keefe

(212) 538-3501

(Area Code -- Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

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

KPMG LLP

345 Park Avenue

New York

New York

10154

(ADDRESS) Number and Street

City

State

CHECK ONE:

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

Zip Code  
SECURITIES AND EXCHANGE COMMISSION  
RECEIVED  
MAR 01 2013  
REGISTRATIONS BRANCH

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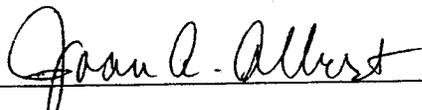
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STATE OF NEW YORK                    )  
COUNTY OF NEW YORK                )     SS:

I, Paul O'Keefe, being duly authorized and sworn, affirm that I am an officer of Credit Suisse Securities (USA) LLC, and, to the best of my knowledge and belief, the accompanying consolidated financial statements and supplemental schedules of the Company for the year ended December 31, 2012 are true and correct. I further affirm that neither the Company nor any director or principal officer has any proprietary interest in any account classified solely as that of a customer.

  
\_\_\_\_\_  
Paul O'Keefe  
Managing Director

Subscribed and sworn to before me  
This 28th day of February, 2013.

  
\_\_\_\_\_  
Notary Public

**JOAN A. ALBERT**  
**Notary Public, State of New York**  
**Reg. No. 01AL6222641**  
**Certificate Filed in New York County**  
**Commission Expires May 24, 20**14



**Credit Suisse Securities (USA) LLC and Subsidiaries  
(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**

**Consolidated Statement of Financial Condition  
As of December 31, 2012  
And Report of Independent Registered Public Accounting Firm  
And Supplemental Report  
On Internal Control**

**PUBLIC DOCUMENT**

**(Pursuant to Rule 17a-5 (e) (3) under the Securities Exchange Act of 1934)**



**KPMG LLP**  
345 Park Avenue  
New York, NY 10154-0102

## **Report of Independent Registered Public Accounting Firm**

Member of  
Credit Suisse Securities (USA) LLC and Subsidiaries:

We have audited the accompanying consolidated statement of financial condition of Credit Suisse Securities (USA) LLC and Subsidiaries (a wholly-owned subsidiary of Credit Suisse (USA), Inc.) as of December 31, 2012, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.10 of the Commodity Exchange Act, and the related notes to the consolidated statement of financial condition (the financial statement).

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statement referred to above presents fairly in all material respects, the financial position of Credit Suisse Securities (USA) LLC and Subsidiaries as of December 31, 2012, in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**

February 28, 2013

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Consolidated Statement of Financial Condition**  
**December 31, 2012**  
**(In millions)**

**ASSETS**

Cash and cash equivalents.....	\$ 580
Collateralized short-term financings, of which \$77,459 is reported at fair value:	
Securities purchased under agreements to resell.....	61,406
Securities borrowed.....	78,442
Receivables:	
Customers.....	14,685
Brokers, dealers and others.....	9,015
Financial instruments owned, at fair value (of which \$51,806 was encumbered):	
U.S. government and agencies.....	61,843
Corporate debt.....	13,329
Equities.....	46,707
Derivatives contracts.....	501
Commercial paper.....	28
Other.....	556
Net deferred tax asset.....	371
Capitalized software and office facilities at cost (net of accumulated depreciation and amortization of \$1,308).....	1,061
Goodwill.....	520
Loans receivable from parent and affiliates.....	710
Other assets and deferred amounts, of which \$1,888 is reported at fair value and from consolidated VIEs.....	2,411
<b>Total assets.....</b>	<b><u>\$ 292,165</u></b>

See accompanying notes to consolidated statement of financial condition.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Consolidated Statement of Financial Condition**  
**December 31, 2012**  
**(In millions)**

**LIABILITIES AND MEMBER'S EQUITY**

Short-term borrowings.....	\$ 8,472
Collateralized short-term financings, of which \$110,458 is reported at fair value:	
Securities sold under agreements to repurchase.....	115,665
Securities loaned.....	29,352
Payables:	
Customers.....	41,887
Brokers, dealers and others.....	7,137
Financial instruments sold not yet purchased, at fair value:	
U.S. government and agencies.....	14,949
Corporate debt.....	2,615
Equities.....	2,832
Derivatives contracts.....	390
Other.....	531
Obligation to return securities received as collateral, at fair value.....	38,225
Accounts payable and accrued expenses.....	2,178
Other liabilities, of which \$562 reported at fair value and \$1 is from consolidated VIEs....	4,076
Subordinated and other long-term borrowings, of which \$1,539 is reported at fair value and from consolidated VIEs.....	<u>12,180</u>
 Total liabilities.....	 <u>280,489</u>
 Member's equity:	
Member's contributions.....	11,275
Accumulated earnings.....	703
Accumulated other comprehensive loss.....	<u>(302)</u>
 Total member's equity.....	 <u>11,676</u>
 Total liabilities and member's equity.....	 <u>\$ 292,165</u>

See accompanying notes to consolidated statement of financial condition.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition**  
**December 31, 2012**

**1. Organization and Summary of Significant Accounting Policies**

**The Company**

Credit Suisse Securities (USA) LLC and Subsidiaries (the "Company") is a wholly owned subsidiary of Credit Suisse (USA), Inc. (the "Parent Company" or "CS USA") and an indirect wholly owned subsidiary of Credit Suisse Holdings (USA), Inc. ("CS Holdings"), whose ultimate parent is Credit Suisse Group AG ("CSG").

The consolidated statement of financial condition include the accounts of the Company and its wholly owned subsidiary, Special Situations Holdings, Inc. – Westbridge, as well as, all Variable Interest Entities ("VIEs") where the Company is the primary beneficiary. See Note 5 for more information regarding the Company's consolidation of VIEs.

The Company, as a U.S. registered broker-dealer, provides a variety of capital raising, market making, advisory and brokerage services for its government, financial institution, high-net-worth individuals and corporate clients and affiliates. It is also a primary dealer in U.S. government securities and an underwriter, placement agent and dealer for money market instruments, commercial paper, mortgage and other asset-backed securities, as well as a range of debt, equity and other convertible securities of corporations and other issuers.

The accompanying consolidated statement of financial condition has been prepared from the separate records maintained by the Company and may not necessarily be indicative of the financial condition that would have existed if the Company had been operated as an unaffiliated entity.

**Significant Accounting Policies**

*Basis of financial information.* To prepare the consolidated statement of financial condition in accordance with accounting principles generally accepted in the United States of America ("US GAAP"), management must make estimates and assumptions. The reported amounts of assets and liabilities affected by these estimates and assumptions, the most significant of which are discussed in the notes to the consolidated statement of financial condition. Estimates, by their nature, are based on judgment and available information. Therefore, actual results could differ materially from these estimates. All material intercompany balances and transactions have been eliminated.

*Cash and cash equivalents.* Cash and cash equivalents include all demand deposits held in banks and certain highly liquid investments with original maturities of 90 days or less, other than those held for sale in the ordinary course of business.

*Collateralized short-term financings.* The Company enters into transactions involving securities sold under agreements to repurchase ("repurchase agreements") and securities purchased under agreements to resell ("resale agreements") and securities borrowed and securities loaned transactions as part of the Company's matched-book activities to accommodate clients, finance the Company's trading inventory, obtain securities for settlement and earn interest spreads. Repurchase and resale agreements and securities loaned and securities borrowed transactions are accounted for as financing transactions, which are recorded on a settlement date basis.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**1. Organization and Summary of Significant Accounting Policies (Continued)**

Certain repurchase agreements and resale agreements that primarily represent matched-book activities are carried at fair value. The remaining repurchase agreements and resale agreements are carried at contract amounts that reflect the amounts at which the securities will be subsequently repurchased or resold. Interest on repurchase and resale agreements is accrued and is included in the consolidated statement of financial condition in receivables from and payables to brokers, dealers and others. The Company takes possession of the securities purchased under resale agreements and obtains additional collateral when the market value falls below the contract value. The Company nets certain repurchase agreements and resale agreements with the same counterparty in the consolidated statement of financial condition when all of the criteria under US GAAP have been met.

Certain securities loaned and securities borrowed transactions that represent matched-book activities are carried at fair value. The remaining securities borrowed and securities loaned that are cash-collateralized are included in the consolidated statement of financial condition at amounts equal to the cash advanced or received. If securities received in a securities lending transaction as collateral may be sold or repledged, they are recorded at the fair value of the collateral received as financial instruments owned in the consolidated statement of financial condition and a corresponding obligation to return the security is recorded. For securities borrowing and lending transactions, the Company deposits or receives cash or securities collateral in an amount generally in excess of the market value of securities borrowed or lent. The Company monitors the fair value of securities borrowed and loaned on a daily basis with additional collateral obtained as necessary.

*Receivables from customers/Payables to customers.* Receivables from and payables to customers include amounts due on regular way securities transactions, margin transactions and commodities futures. Securities owned by customers, including those that collateralize margin or similar transactions are not reflected in the consolidated statement of financial condition.

*Receivables from brokers, dealers and others/Payables to brokers, dealers and others.* Receivables from brokers, dealers and others include amounts receivable for securities not delivered by the Company to a purchaser by the settlement date ("fails to deliver"), omnibus receivables, receivables from clearing organizations, other non-customer receivables, margin deposits, accrued dividends and interest and amounts related to futures contracts. Payables to brokers, dealers and others include amounts payable for securities not received by the Company from a seller by the settlement date ("fails to receive"), payables to clearing organizations, amounts related to futures contracts transacted on behalf of customers, other non-customer payables, and accrued dividends and interest. In addition, the net receivable or payable arising from unsettled regular-way trades is included in receivables from brokers, dealers and others or payables to brokers, dealers and others.

*Fair value of financial instruments.* Substantially all of the Company's financial instruments are carried at fair value. See Note 2 for more information.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**1. Organization and Summary of Significant Accounting Policies (Continued)**

*Securitization.* The Company securitizes residential mortgage-backed securities ("RMBS"), commercial mortgage-backed securities ("CMBS"), agency mortgage-backed securities and asset-backed securities ("ABS"). Before recording a securitization as a sale the Company must assess whether that transfer is accounted for as a sale of the assets. Transfers of assets may not meet sale requirements if the assets have not been legally isolated from the Company and/or if the Company's continuing involvement is deemed to give it effective control over the assets. If the transfer is not deemed a sale, it is instead accounted for as a secured borrowing, with the transferred assets as collateral. The Company may retain interests in these securitized assets in connection with its underwriting and market-making activities. Retained interests in securitized financial assets are included at fair value in financial instruments owned in the consolidated statement of financial condition. The fair values of retained interests are determined using either prices of comparable securities observed in the market or the present value of estimated future cash flow valuation techniques that incorporate assumptions that market participants customarily use in their estimates of values including prepayment speeds, credit losses and discount rates. See Note 5 for more information.

*Derivative contracts.* All derivative contracts are carried at fair value with realized and unrealized gains and losses and interest flows included in principal transactions-net in the consolidated statement of comprehensive income. The fair value amounts associated with derivative instruments are reported net by counterparty across products, provided a legally enforceable master netting agreement exists and such provisions are stated in the master netting agreement. The fair value amounts recognized for derivative instruments as well as the fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral, are reported net.

*Capitalized software and office facilities.* Office facilities are carried at cost and are depreciated on a straight-line basis over their estimated useful life of three to seven years. Leasehold improvements are amortized over the lesser of the useful life of the improvement or term of the lease. The Company capitalizes costs relating to the acquisition, installation and development of software with a measurable economic benefit, but only if such costs are identifiable and can be reliably measured. The Company depreciates capitalized software costs on a straight-line basis over the estimated useful life of the software, generally not exceeding three years, taking into consideration the effects of obsolescence, technology, competition and other economic factors. At December 31, 2012, the net balance of capitalized software was \$685 million.

*Goodwill and identifiable intangible assets.* Goodwill represents the amount by which the purchase price exceeds the fair value of the net tangible and intangible assets of an acquired company on the date of acquisition. Goodwill and indefinite-lived intangible assets are reviewed annually for impairment. Based on the results of the Company's year-end annual review it was determined that goodwill was not impaired. Intangible assets that do not have indefinite lives, principally client relationships, are amortized over their useful lives and reviewed for impairment. Intangible assets are included in other assets and deferred amounts in the consolidated statement of financial condition. See Note 7 for more information.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**1. Organization and Summary of Significant Accounting Policies (Continued)**

*Consolidation of VIEs.* The Company consolidates VIEs for which it has both the power to direct the activities that most significantly affect the economics of the VIE and has potentially significant benefits or losses in the VIE. See Note 5 for more information.

*Projected benefit obligation.* The calculation of the expense and liability associated with the defined benefit pension plans requires an extensive use of assumptions, which include the discount rate, expected return on plan assets and rate of future compensation increases as determined by us. The Company determines these assumptions based upon currently available market and industry data and historical performance of the plans. The Company also consults with an independent actuarial firm to assist in selecting appropriate assumptions and valuing its related liabilities. The actuarial assumptions used by us may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of the participants. Any such differences could have a significant impact on the amount of pension expense recorded in future years.

The Company uses the projected unit credit actuarial method to determine the present value of its projected benefit obligations (PBO) and the current and past service costs or credits related to its defined benefit and other postretirement benefit plans. Certain key assumptions are used in performing the actuarial valuations. These assumptions must be made concerning the future events that will determine the amount and timing of the benefit payments and thus require significant judgment and estimates by management. Among others, assumptions have to be made with regard to discount rates, expected return on plan assets and salary increases.

*Income taxes.* The Company is included in the consolidated federal income tax return filed by CS Holdings and certain state and local income tax returns filed by CS Holdings and CS USA. CS Holdings allocates federal income taxes to its subsidiaries on a separate return basis and any state and local income taxes on a pro rata basis, pursuant to a tax sharing arrangement.

The Company uses the asset and liability method in providing for income taxes which requires that deferred income taxes be recorded and adjusted for the future tax consequences of events that have been recognized in the consolidated statement of financial condition or tax returns, based upon enacted tax laws and rates. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. The state and local deferred tax asset represents the net deferred tax asset in the consolidated statement of financial condition. The federal deferred tax asset calculated each year is settled through the intercompany accounts subsequent to the balance sheet date and was included in other liabilities in the consolidated statement of financial condition. See Note 16 for more information.

The Company uses a two-step approach in recognizing and measuring its uncertain tax benefits whereby it is first determined if the tax position is more likely than not to be sustained under examination. If the tax position meets the more likely than not threshold, the position is then measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. For more information on the Company's accounting for uncertainty in income taxes, see Note 16.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**1. Organization and Summary of Significant Accounting Policies (Continued)**

**RECENTLY ADOPTED ACCOUNTING STANDARDS**

**ASC Topic 350 – Intangibles – Goodwill and Other**

In September 2011, the FASB issued ASU 2011-08, “Testing Goodwill for Impairment” (“ASU 2011-08”), an update to ASC Topic 350 – Intangibles – Goodwill and Other. The amendments in ASU 2011-08 permit an entity to qualitatively assess whether the fair value of the reporting unit is less than the carrying amount. Based on the qualitative assessment, if an entity determines that it is more likely than not that the fair value of the reporting unit is less than the carrying amount, then the entity must perform step one of the goodwill impairment test by calculating the fair value of the reporting unit and comparing the fair value to the carrying amount of the reporting unit. If the carrying amount of the reporting unit exceeds its fair value, then the entity is required to perform the second step of the goodwill impairment test to measure the amount of the impairment loss, if any. ASU 2011-08 was required to be applied prospectively for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 on January 1, 2012 did not have an impact on the Company’s statement of financial condition.

**ASC Topic 360 – Property, Plant and Equipment**

In December 2011, the FASB issued ASU 2011-10, “Derecognition of in Substance Real Estate – a Scope Clarification, a consensus of the FASB Emerging Issues Task Force” (“ASU 2011-10”), an update to ASC Topic 360 – Property, Plant and Equipment. The ASU specifies that the guidance in ASC Subtopic 360-20, Property, Plant and Equipment – Real Estate Sales, would apply to an entity that ceases to have a controlling financial interest in a subsidiary that is in substance real estate as a result of default on the subsidiary’s non-recourse debt. The adoption of ASU 2011-10 on July 1, 2012 did not have an impact on the Company’s statement of financial condition.

**ASC Topic 820 – Fair Value Measurement**

In May 2011, the FASB issued ASU 2011-04, “Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in US GAAP and International Financial Reporting Standards (“IFRSs”) (“ASU 2011-04”), an update to ASC Topic 820 – Fair Value Measurement.” The amendments in ASU 2011-04 include clarifications about the application of existing fair value measurement requirements and changes to principles for measuring fair value. ASU 2011-04 also requires additional disclosures about fair value measurements. The adoption of ASU 2011-04 on January 1, 2012 did not have an impact on the Company’s statement of financial condition. See Note 2 for further information.

**ASC Topic 860 – Transfers and Servicing**

In April 2011, the FASB issued ASU 2011-03, “Reconsideration of Effective Control for Repurchase Agreements” (“ASU 2011-03”), an update to ASC Topic 860 – Transfers and Servicing. Current guidance prescribes when an entity may or may not recognize a sale upon the transfer of financial assets subject to repurchase agreements. That determination is based, in part, on whether the entity has maintained effective control over the transferred financial assets. ASU 2011-03 removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets. The adoption of ASU 2011-03 on January 1, 2012 did not have an impact on the Company’s statement of financial condition.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**1. Organization and Summary of Significant Accounting Policies (Continued)**

**STANDARDS TO BE ADOPTED IN FUTURE PERIODS**

**ASC Topic 210 – Balance Sheet**

In December 2011, the FASB issued ASU 2011-11, “Disclosures about Offsetting Assets and Liabilities” (“ASU 2011-11”), an update to ASC Topic 210 – Balance Sheet. In January 2013, the FASB issued ASU 2013-01, “Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities” (“ASU 2013-01”), an update to ASC Topic 210 – Balance Sheet. ASU 2013-01 clarifies the scope of ASU 2011-11. ASU 2011-11, as clarified, requires enhanced disclosures about and derivative financial instruments, including embedded derivatives, repurchase agreements and reverse repurchase agreements and securities borrowing and securities lending transactions that are either (i) offset in accordance with section 210-20-45 or section 815-10-45 or (ii) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either section 210-20-45 or section 815-10-45. The disclosures will enable users to evaluate the effect or potential effect of netting arrangements on an entity’s financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in scope of this update. ASU 2013-01 and ASU 2011-11 are effective for interim and annual reporting periods beginning on or after January 1, 2013. The adoption of ASU 2013-01 and ASU 2011-11 on January 1, 2013 did not have an impact on the Company’s consolidated statement of financial condition.

**2. Fair Value of Assets and Liabilities**

The fair value of the majority of the Company’s assets and liabilities is based on quoted prices in active markets or observable inputs. These instruments include U.S. government and agency securities, commercial paper, most investment-grade corporate debt, most high-yield debt securities, exchange traded and certain over-the-counter (“OTC”) derivative instruments, certain mortgage-backed and asset-backed securities, certain resale agreements and securities borrowed transactions, certain repurchase agreements and securities loaned transactions and listed equity securities.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

In addition, the Company holds financial instruments for which no prices are available, and/or which have little or no observable inputs. For these instruments the determination of fair value requires subjective assessment and varying degrees of judgment depending on liquidity, concentration, pricing assumptions, the current economic and competitive environment and the risks affecting the specific instrument. In such circumstances, valuation is determined based on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These instruments include certain investment-grade corporate debt securities, certain high-yield debt securities, distressed debt securities, certain equity securities, certain collateralized debt obligations ("CDOs"), certain OTC derivatives, certain mortgage-backed and certain asset-backed securities. Valuation techniques for certain of these instruments are described more fully below.

Deterioration of the financial markets could significantly impact the fair value of these financial instruments and the Company's consolidated statement of financial condition.

The fair value of financial assets and liabilities is impacted by factors such as benchmark interest rates, prices of financial instruments issued by third parties and index prices or rates. In addition, valuation adjustments are an integral part of the valuation process when market prices are not indicative of the credit quality of a counterparty, and are applied to debt instruments. The impact of changes in a counterparty's credit spreads (known as credit valuation adjustments) is considered when measuring the fair value of assets and the impact of changes in the Company's own credit spreads (known as debit valuation adjustments) is considered when measuring the fair value of its liabilities. The adjustments also take into account contractual factors designed to reduce the Company's credit exposure to a counterparty, such as collateral held and master netting agreements.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

**Fair Value Hierarchy**

The levels of the fair value hierarchy are defined as follows:

*Level 1:* Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. This level of the fair value hierarchy provides the most reliable evidence of fair value and is used to measure fair value whenever available.

*Level 2:* Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. These inputs include: (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly; (c) inputs other than quoted prices that are observable for the asset or liability or (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means.

*Level 3:* Inputs that are unobservable for the asset or liability. These inputs reflect the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability (including assumptions about risk). These inputs are developed based on the best information available in the circumstances, which include the Company's own data. The Company's own data used to develop unobservable inputs are adjusted if information indicates that market participants would use different assumptions.

**Quantitative Disclosures of Fair Values**

The following is a tabular presentation of fair value of assets and liabilities for instruments measured at fair value on a recurring basis. In the table below RMBS is primarily comprised of agency RMBS, which are included in US government and agencies on the consolidated statement of financial condition. The remaining RMBS as well as corporates, CMBS and other collateralized debt obligations are included in Corporate debt on the consolidated statement of financial condition. Foreign government instruments are included in Other financial instruments owned on the consolidated statement of financial condition.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

**Fair value of assets and liabilities**

December 31, 2012	Quoted prices in active markets for identical assets or liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Total at fair value
	(In millions)			
<b>Assets</b>				
Resale agreements and securities borrowed transactions.....	\$ -	\$ 77,459	\$ -	\$ 77,459
Cash instruments:				
Debt instruments:				
Commercial mortgage-backed securities (CMBS).....	-	4,514	614	5,128
Corporates.....	-	8,590	146	8,736
Foreign government.....	286	248	-	534
Other collateralized debt obligations (CDO).....	-	2,053	82	2,135
Residential mortgage-backed securities (RMBS).....	-	32,122	656	32,778
US government and agencies.....	25,757	643	-	26,400
Other debt instruments.....	-	11	34	45
Total debt instruments.....	26,043	48,181	1,532	75,756
Equity instruments.....				
Accommodation and food services.....	361	-	-	361
Arts, entertainment, and recreation.....	393	1	54	448
Construction.....	536	14	2	552
Finance and insurance.....	10,292	136	9	10,437
Health care and social assistance.....	1,486	11	-	1,497
Information.....	4,196	108	10	4,314
Management of companies and enterprises.....	162	45	41	248
Manufacturing.....	12,535	147	12	12,694
Mining, quarrying, and oil and gas extraction.....	4,858	25	26	4,909
Other services (except public administration).....	888	30	2	920
Professional, scientific, and technical services.....	3,317	113	-	3,430
Real estate and rental and leasing.....	1,523	17	69	1,609
Retail trade.....	2,237	14	14	2,265
Transportation and warehousing.....	1,199	48	5	1,252
Utilities.....	1,046	64	10	1,120
Other equity instruments.....	638	2	11	651
Total equity instruments.....	45,667	775	265	46,707
Total cash instruments.....	\$ 71,710	\$ 48,956	\$ 1,797	\$ 122,463

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

December 31, 2012	Quoted prices in active markets for identical assets or liabilities (level 1)	Significant other observable inputs (level 2)	Significant unobservable inputs (level 3)	Total at fair value
Assets (Continued)	(In millions)			
<b>Derivative contracts:</b>				
Interest rate products.....	\$ 587	\$ 106	\$ 4	\$ 697
Foreign exchange products.....	-	15	-	15
Equity/index-related products.....	159	21	5	185
Netting(1).....				(396)
Total derivatives contracts.....	746	142	9	501
Other assets.....	-	1,592	296	1,888
<b>Total assets at fair value</b>	<b>\$ 72,456</b>	<b>\$ 128,149</b>	<b>\$ 2,102</b>	<b>\$ 202,311</b>
<b>Liabilities</b>				
<b>Repurchase agreements and securities loaned</b>				
transactions.....	\$ -	\$ 110,458	\$ -	\$ 110,458
Obligation to return securities received as collateral.....	33,869	4,356	-	38,225
<b>Cash instruments:</b>				
<b>Debt instruments:</b>				
Commercial mortgage-backed securities.....	-	359	-	359
Corporates.....	-	2,253	-	2,253
Foreign government.....	285	245	-	530
Residential mortgage-backed securities.....	-	10	-	10
US government and agencies.....	14,943	-	-	14,943
Total debt.....	15,228	2,867	-	18,095
<b>Equity instruments:</b>				
Finance and insurance.....	1,070	36	-	1,106
Manufacturing.....	632	17	-	649
Mining, quarrying, and oil and gas extraction.....	259	25	-	284
Other equity instruments.....	758	35	-	793
Total equity instruments.....	2,719	113	-	2,832
Total cash instruments.....	17,947	2,980	-	20,927
<b>Derivative contracts:</b>				
Interest rate products .....	583	76	3	662
Foreign exchange products .....	-	17	-	17
Equity/index-related products .....	92	14	-	106
Netting(1).....				(395)
Total derivatives contracts.....	675	107	3	390
Other liabilities.....	-	2	560	562
Subordinated and other long-term borrowings.....	-	1,288	251	1,539
<b>Total liabilities at fair value</b>	<b>\$ 52,491</b>	<b>\$ 119,191</b>	<b>\$ 814</b>	<b>\$ 172,101</b>

(1) Derivative contracts are reported on a gross basis by level. The impact of netting represents an adjustment related to counterparty and cash collateral netting.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

Excluded from the previous table are transactions that did not meet the criteria under US GAAP to qualify for sale accounting. As of December 31, 2012 the Company held \$1 million in transactions that did not meet sale accounting which were included in other assets and deferred amounts in the consolidated statement of financial condition and are carried at cost.

**Transfers between Level 1 and Level 2**

December 31, 2012	Transfers out of level 1 to level 2	Transfers to level 1 out of level 2
	(In millions)	
<b>Assets</b>		
Debt instruments (1) (2).....	\$ 25,122	\$ 54
Equity instruments.....	33	10
Derivatives contracts (2).....	-	10
<b>Total assets at fair value.....</b>	<b>\$ 25,155</b>	<b>\$ 74</b>
<b>Liabilities</b>		
Equity instruments.....	\$ 1	\$ 2
Derivatives contracts (2).....	-	85
<b>Total liabilities at fair value.....</b>	<b>\$ 1</b>	<b>\$ 87</b>

(1) Transfers out of level 1 to level 2 were primarily in RMBS as pricing inputs became less observable during the year ended December 31, 2012.

(2) Transfers to level 1 out of level 2 were primarily in debt and derivative instruments as they moved closer to maturity and pricing inputs became more observable during the year ended December 31, 2012.

All transfers between level 1 and level 2 are reported through the last day of the reporting period.

**Qualitative Disclosures of Valuation Techniques**

CSG has implemented and maintains a valuation control framework, which is supported by policies and procedures that define the principles for controlling the valuation of the Company's financial instruments. Product Control and Risk Management create, review and approve significant valuation policies and procedures. The framework includes three main internal processes (i) valuation governance; (ii) independent price verification and significant unobservable inputs review; and (iii) a cross-functional pricing model review. Through this framework, the Company concludes on the reasonableness of the fair value of its financial instruments.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

On a monthly basis, meetings are held for each business line with senior representatives of the Front Office and Product Control to discuss independent price verification results, valuation adjustments, and other significant valuation issues. On a quarterly basis, a review of significant changes in the fair value of financial instruments is undertaken by Product Control and conclusions are reached regarding the reasonableness of those changes. Additionally, on a quarterly basis, meetings are held for each business line with senior representatives of the Front Office, Product Control, Risk Management, and Financial Accounting to discuss independent price verification results, valuation issues, business and market updates, as well as a review of significant changes in fair value from the prior quarter, significant unobservable inputs and prices used in valuation techniques, and valuation adjustments.

The results of these meetings are aggregated for presentation to CSG's Valuation and Risk Management Committee (VARMC) and the Audit Committee. The VARMC, which is comprised of Executive Board members of CSG and the heads of the business and control functions, meets to review and ratify valuation review conclusions, and to resolve significant valuation issues for the Company. Oversight of the valuation control framework is through specific and regular reporting on valuation directly to the CSG's Executive Board through the VARMC.

One of the key components of the governance process is the segregation of duties between Front Office and Product Control, wherein Front Office is responsible for the measuring of inventory at fair value on a daily basis, while Product Control is responsible for independently reviewing and validating those valuations on a periodic basis. Front Office values the inventory using, wherever possible, observable market data which may include executed transactions, dealer quotes, or broker quotes for the same or similar instruments. Product Control values this inventory using independently sourced data that also includes executed transactions, dealer quotes, and broker quotes.

Product Control utilizes independent pricing service data as part of their review process. Independent pricing service data is analyzed to ensure that it is representative of fair value including validation of the data back to executed transactions or executable broker quotes, review of contributors to ensure they are active market participants, and review of statistical data to ensure it is sufficiently consistent and utilizes pricing challenges. The analysis also includes understanding the sources of the pricing service data and any models or assumptions used in determining the results. The purpose of the review is to judge the quality and reliability of the data for fair value measurement purposes and its appropriate level of usage within the Product Control independent valuation review.

For certain financial instruments the fair value is estimated in full or in part using valuation techniques based on assumptions that are not supported by market observable prices, rates, or other inputs. In addition, there may be uncertainty about a valuation, which results from the choice of valuation technique or model used, the assumptions embedded in those models, the extent to which inputs are not market observable, or as a consequence of other elements affecting the valuation technique or model. Model calibration is performed when significant new market information becomes available or at a minimum on a quarterly basis as part of the business review of significant unobservable inputs for level 3 instruments. For models that have been deemed to be significant to the overall fair value of the financial instrument, model validation is performed as part of the periodic review of the related model.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

CSG performs a sensitivity analysis of its significant level 3 financial instruments. This sensitivity analysis estimates a fair value range by changing the related significant unobservable inputs value. This sensitivity analysis is an internal mechanism to monitor the impact of reasonable alternative inputs or prices for level 3 financial instruments. Where a model-based technique is used to determine the fair value of the level 3 financial instrument, an alternative input value is utilized to derive an estimated fair value range. Where a price-based technique is used to determine the fair value of the level 3 financial instruments, Front Office professional judgment is used to estimate a fair value range.

For level 3 assets and liabilities with a significant unobservable input of prepayment rate and price, in general, an increase in the significant unobservable input would increase the fair value. For level 3 assets with a significant unobservable input of default rate, discount rate, loss severity, and capitalization rate, in general, an increase in the significant unobservable input would decrease the fair value. An increase in the related significant unobservable input for level 3 liabilities would have the inverse impact on fair value.

There are no material interrelationships between the significant unobservable inputs for the financial instruments. As the significant unobservable inputs move independently, generally an increase or decrease in one significant unobservable input will have no impact on the other significant unobservable inputs.

The following information on the various financial instruments should be read in conjunction with the quantitative disclosures of valuation techniques table.

**Resale agreements and securities borrowed**

Securities purchased under resale agreements and securities sold under repurchase agreements are measured at fair value using discounted cash flow analysis. Future cash flows are discounted using observable market interest rate repurchase/resale curves for the applicable maturity and underlying collateral of the instruments. As such, both securities purchased under resale agreements and securities sold under repurchase agreements are included in level 2 of the fair value hierarchy.

Securities purchased under resale agreements are usually fully collateralized or over collateralized by government securities, money market instruments, corporate bonds, or other debt instruments. In the event of counterparty default, the collateral service agreement provides the Company with the right to liquidate the collateral held.

**Cash instruments**

The Company's cash instruments consist of interest-bearing securities and equity securities. Interest-bearing securities include debt securities, residential and commercial mortgage-backed and other asset-backed securities and CDOs. Equity securities include common equity shares, preferred equity shares and convertible bonds.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

**Corporates**

Corporate bonds are priced to reflect current market levels either through recent market transactions or broker or dealer quotes. Where a market price for the particular security is not directly available, valuations are obtained based on yields reflected by other instruments in the specific or similar entity's capital structure and adjusting for differences in seniority and maturity, benchmarking to a comparable security where market data is available (taking into consideration differences in credit, liquidity and maturity), or through the application of cash flow modeling techniques utilizing observable inputs, such as current interest rate curves and observable CDS spreads. The significant unobservable input is price.

**CMBS, RMBS and CDO securities**

Fair values of RMBS, CMBS and other CDO may be available through quoted prices, which are often based on the prices at which similarly structured and collateralized securities trade between dealers and to and from customers. Fair values of RMBS, CMBS and other CDO for which there are no significant observable inputs are valued using price. Price may not be observable for fair value measurement purposes for many reasons, such as the length of time since the last executed transaction for the related security, usage of a price from a similar but not exact instrument, or usage of a price from an indicative quote. Fair values determined by price may include discounted cash flow models using the inputs prepayment rates, default rates, loss severity and discount rates.

For most structured debt securities, determination of fair value requires subjective assessment depending on liquidity, ownership concentration, and the current economic and competitive environment. Valuation is determined based on management's own assumptions about how market participants would price the asset. Collateralized debt, bonds and loan obligations are split into various structured tranches, and each tranche is valued based upon its individual rating and the underlying collateral supporting the structure. Values are derived by using valuation models based on either prices of comparable securities observed in the market or discounted cash flows.

**Equity**

The majority of the Company's positions in equity securities are traded on public stock exchanges, for which quoted prices are readily and regularly available. Fair values of preferred shares are determined by their yield and the subordination relative to the issuer's other credit obligations. Convertible bonds are generally valued using observable pricing sources. For a small number of convertible bonds no observable prices are available and valuation is determined using models, for which the key inputs include stock price, dividend rates, credit spreads, prepayment rates and equity market volatility.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

**Derivatives contracts**

Derivatives held for trading purposes or used in hedge accounting relationships, including energy and commodity derivatives, include both OTC and exchange-traded derivatives. The fair values of exchange-traded derivatives are typically derived from the observable exchange prices and/or observable inputs. Some observable exchange prices may not be considered executable at the reporting date and may have been adjusted for liquidity concerns. For those instruments where liquidity adjustments have been made to the exchange price, such as long-dated option contracts, the instrument has been included in level 2 of the fair value hierarchy.

Fair values of OTC derivatives are determined on the basis of either industry standard models or internally developed proprietary models. Both model types use various observable and unobservable inputs in order to determine fair value. The inputs include those characteristics of the derivative that have a bearing on the economics of the instrument. The determination of the fair value of many derivatives involves only a limited degree of subjectivity because the required inputs are observable in the marketplace, while more complex derivatives may use unobservable inputs that rely on specific proprietary modeling assumptions.

Where observable inputs (prices from exchanges, dealers, brokers or market consensus data providers) are not available, attempts are made to infer values from observable prices through model calibration (spot and forward rates, mean reversion, benchmark interest rate curves and volatility inputs for commonly traded option products). For inputs that cannot be derived from other sources, estimates from historical data may be made. OTC derivatives, where the majority of the value is derived from market observable inputs are categorized as level 2 instruments, while those where the majority of value is derived from unobservable inputs are categorized as level 3 of the fair value hierarchy.

For further information on the fair value of derivatives see Note 6.

**Other assets**

The Company's other assets include assets of VIEs and mortgage securitizations that do not meet the criteria for sale accounting treatment under US GAAP. The fair value of assets and liabilities of VIEs and mortgage securitizations that do not meet the criteria for sale treatment under US GAAP are determined based on the quoted prices for securitized bonds, where available, or on cash flow analyses for securitized bonds, when quoted prices are not available.

**Other liabilities**

Included in other liabilities are Partner Asset Facility Units ("PAFs") and other deferred compensation plans which are measured at fair value. The value of the PAFs liabilities are based on the contractual terms, as well as, the performance of a pool of financial instruments held by the Company and its affiliates, with substantially all assets held by affiliates. Significant unobservable inputs are price and capitalization rate.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

**Subordinated long-term borrowings**

The Company's subordinated long-term debt represents the long-term borrowings in VIEs that were consolidated. The fair value of long-term borrowings of consolidated VIEs is determined based on the quoted prices for securitized bonds, where available, or on cash flow analyses for securitized bonds, when quoted prices are not available. The significant unobservable input for subordinated long-term borrowings is price.

**Quantitative disclosures of valuation techniques**

The following table provides a representative range of minimum and maximum values of each significant unobservable input for material level 3 assets and liabilities by the related valuation technique.

<b>December 31, 2012</b>	<b>Fair Value (In millions)</b>	<b>Valuation Technique</b>	<b>Unobservable Input</b>	<b>Minimum Value</b>	<b>Maximum Value</b>
<b>Assets</b>					
Commercial mortgage backed securities	\$ 614	Discounted cash flow	Default rate, in %	0.0%	40.0%
		Discounted cash flow	Discount rate, in %	2.0%	35.0%
		Discounted cash flow	Loss severity, in %	0.0%	90.0%
		Discounted cash flow	Prepayment rate, in %	0.0%	10.0%
Corporates	\$ 146	Market comparable	Price, in %	0.0%	115.8%
Other collateralized debt obligations	\$ 82	Discounted cash flow	Default rate, in %	0.0%	25.0%
		Discounted cash flow	Discount rate, in %	2.0%	35.0%
		Discounted cash flow	Loss severity, in %	0.0%	100.0%
		Discounted cash flow	Prepayment rate, in %	0.0%	40.0%
Residential mortgage backed securities	\$ 656	Discounted cash flow	Default rate, in %	0.0%	25.0%
		Discounted cash flow	Discount rate, in %	2.0%	50.0%
		Discounted cash flow	Loss severity, in %	0.0%	100.0%
		Discounted cash flow	Prepayment rate, in %	0.0%	55.0%
Other assets	\$ 296	Market comparable	Price, in %	0.0%	86.6%
<b>Liabilities</b>					
Other liabilities	\$ 453	Market comparable	Price, in %	0.0%	101.0%
	107	Discounted cash flow	Discount rate, in %	4.9%	7.0%
Subordinated long-term borrowings	\$ 251	Market comparable	Price, in %	0.0%	86.6%

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

**Qualitative discussion of the ranges of significant unobservable inputs**

The following sections provide further information about the ranges of significant unobservable inputs included in the table above. The level of aggregation and diversity within the financial instruments disclosed in the table above result in certain ranges of significant inputs being wide and unevenly distributed across asset and liability categories.

*Discount rate.* The discount rate is the rate of interest used to calculate the present value the expected cash flows of a financial instrument. There are multiple factors that will impact the discount rate for any given financial instrument including the coupon on the instrument, the term, and the underlying risk of the expected cash flows. For example, two instruments of similar term and expected cash flows may have significantly different discount rates because the coupons on the instruments are different.

*Default rate and loss severity.* For financial instruments backed by residential real estate or other assets, diversity within the portfolio is reflected in a wide range for loss severity due to varying levels of default. The lower end of the range represents high performing or government guaranteed collateral with a low probability of default or guaranteed timely payment of principal and interest while the higher end of the range relates to collateral with a greater risk of default.

*Prepayment rate.* Prepayment rates may vary from collateral pool to collateral pool, and are driven by a variety of collateral specific factors, including the type and location of the underlying borrower, the remaining tenor of the obligation and the level and type (e.g. fixed or floating) of interest rate being paid by the borrower.

**Fair Value Option**

The Company elected fair value for certain of its consolidated statement of financial condition captions as follows:

*Repurchase agreement and resale agreement transactions and securities borrowed and securities loaned:* The Company has elected to account for certain repurchase and resale agreements and securities borrowed and securities loaned transactions at fair value. These activities are managed on a fair value basis, thus fair value accounting for these instruments is deemed more appropriate for reporting purposes. Most repurchase agreement and resale agreement transactions and securities borrowed and securities loaned are priced based on observable inputs and quoted prices. However certain repurchase agreement and resale agreement transactions require subjective assessment and varying degrees of judgment based on management's own assumptions, primarily interest rates.

*Subordinated and other long-term borrowings:* Long-term borrowings include long-term borrowings of VIEs that were consolidated. The Company elected fair value option for these transactions. The fair value of long-term borrowings of consolidated VIEs is determined based on the quoted prices for securitized bonds, where available, or on cash flow analyses for securitized bonds, when quoted prices are not available.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

*Other assets and liabilities:* Included in other assets are the assets of consolidated VIEs and the fair value is determined based on the quoted prices for securitized bonds, where available, or on cash flow analyses for securitized bonds, when quoted prices are not available. Also included in other assets and liabilities are forward agreements to enter into resale agreements. These forward resale agreement transactions require subjective assessment and varying degrees of judgment based on management's own assumptions, primarily interest rates. These activities are managed on a fair value basis, thus fair value accounting for these instruments is deemed more appropriate for reporting purposes.

In the ordinary course of business, the Company receives collateral in connection with its resale agreements and securities borrowed transactions and generally repledges the collateral received in connection with its repurchase agreements and securities lending transactions. As a result of the collateralized nature of these transactions, credit risk does not have an impact on fair value. The credit risk does not impact fair value for other assets, as there is no counterparty risk consideration that goes into the pricing of these assets. For subordinated and other long-term borrowings the credit risk does not impact fair value because the debt holders of the consolidated CDOs and other VIEs have recourse to the assets in these CDOs and other VIEs and not to the Company.

**Difference between the fair value and the aggregate unpaid principal balances**

<b>December 31, 2012</b>	<b>Of which at fair value</b>	<b>Aggregate unpaid principal</b>	<b>Difference between aggregate fair value and unpaid principal</b>
<b>Financial instruments</b>		<b>(In millions)</b>	
Resale agreements and securities-borrowed transactions.....	\$ 77,459	\$ 77,044	\$ 415
Other assets.....	1,888	3,774	(1,886)
Repurchase agreements and securities-lending transactions.....	110,458	110,441	17
Other liabilities.....	1	6	(5)
Subordinated and other long-term borrowings.....	1,539	3,291	(1,752)

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**2. Fair Value of Assets and Liabilities (Continued)**

**Leveling of Assets and Liabilities Not at Fair Value Where a Fair Value is Disclosed**

The following table provides the carrying value and fair value of financial instruments which are not carried at fair value in the consolidated statement of financial condition. The disclosure excludes all non-financial instruments such as lease transactions, real estate, premises and equipment, equity method investments and pension and benefit obligations.

December 31, 2012	Carrying Value	Fair value			Total
		Level 1	Level 2	Level 3	
(In millions)					
<b>Assets</b>					
Cash and Cash Equivalents.....	\$ 580	\$ 580	\$ -	\$ -	\$ 580
Resale agreements and securities borrowed transactions.....	62,389	-	62,389	-	62,389
Receivables: Customers.....	14,685	-	14,685	-	14,685
Receivables: Brokers, dealers and other.....	9,015	-	9,015	-	9,015
Net deferred tax asset.....	371	-	371	-	371
Loans receivable from parent and affiliates (1)....	710	408	302	-	710
Other assets and deferred amounts.....	377	-	156	10	166
<b>Total Assets.....</b>	<b>\$ 88,127</b>	<b>\$ 988</b>	<b>\$ 86,918</b>	<b>\$ 10</b>	<b>\$ 87,916</b>
<b>Liabilities</b>					
Short-term borrowings (1).....	\$ 8,472	\$ 164	\$ 8,308	\$ -	\$ 8,472
Repurchase agreements and securities loaned transactions.....	34,559	-	34,559	-	34,559
Payables: Customers.....	41,887	-	41,887	-	41,887
Payables: Brokers, dealers and other.....	7,137	-	7,137	-	7,137
Accounts payable and accrued expenses.....	1,501	-	1,501	-	1,501
Other liabilities.....	2,382	-	2,381	1	2,382
Long-term borrowings.....	10,641	-	10,694	-	10,694
<b>Total Liabilities.....</b>	<b>\$ 106,579</b>	<b>\$ 164</b>	<b>\$ 106,467</b>	<b>\$ 1</b>	<b>\$ 106,632</b>

(1) Amounts in Level 1 relate to short term deposits and cash overdrafts, which are similar to cash.

For the majority of these financial instruments the carrying value approximates fair value due to the relatively short period of time between their origination and expected realization, as well as minimal credit risk inherent in these instruments.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**3. Related Party Transactions**

The Company relies on other CSG entities for financing. In the ordinary course of business, the Company enters into significant financing and operating transactions with affiliated companies.

The following table sets forth the Company's related party assets and liabilities as of December 31, 2012:

<b>ASSETS</b>	
	<b>(In millions)</b>
Securities purchased under agreements to resell.....	\$ 9,295
Securities borrowed.....	20,547
Receivables from brokers, dealers and others.....	3,139
Corporate debt.....	74
Derivatives contracts.....	16
Net deferred tax asset.....	371
Loans receivable from parent and affiliates.....	710
Total assets.....	<u>\$ 34,152</u>
 <b>LIABILITIES</b>	
Short-term borrowings.....	\$ 8,261
Securities sold under agreements to repurchase.....	20,179
Securities loaned.....	25,045
Payables to customers.....	3,141
Payables to brokers, dealers and others.....	4,508
Corporate debt.....	2
Derivatives contracts.....	27
Obligation to return securities received as collateral.....	38,225
Taxes payable (included in Other liabilities).....	981
Intercompany payables (included in Other liabilities).....	1,377
Subordinated and other long-term borrowings.....	10,641
Total liabilities.....	<u>\$ 112,387</u>

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**3. Related Party Transactions (Continued)**

Certain of the Company's directors, officers and employees and those of the Company's affiliates maintain margin accounts with the Company in the ordinary course of business. The Company from time to time and in the ordinary course of business, enters into, as principal, transactions involving the purchase or sale of securities from or to such directors, officers and employees and members of their immediate families.

The Share Plan provides for the grant of equity-based awards to Company employees based on CSG shares pursuant to which employees of the Company may be granted shares or other equity-based awards for services performed. CS Holdings purchases shares directly and indirectly from CSG to satisfy these awards, but CS Holdings does not require reimbursement from the Company; therefore, amounts associated with these awards are considered a capital contribution to the Company and credited to paid-in-capital. Amounts contributed by CS Holdings relating to equity-based awards for the year ended December 31, 2012 were \$710 million, net of dividend equivalents and taxes.

The Company is included in the consolidated federal income tax return and combined state and local income tax returns filed by CS Holdings and CS USA. See Note 16 for more information.

As part of the normal capital management process, the Company concluded that there was sufficient excess regulatory capital and paid a \$1.0 billion dividend along with a \$1.0 billion return of capital to CS USA during the year ended December 31, 2012.

The Company acquired assets of \$30 million from a CSG affiliate and recorded the difference between the value of the net assets transferred and the proceeds paid as a reduction to retained earnings of \$3 million, net of tax, during the year ended December 31, 2012.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**4. Receivables from/Payables to Brokers, Dealers and Others**

Amounts receivable from and payable to brokers, dealers and others as of December 31, 2012 consist of the following:

	<u>Receivables</u>	<u>Payables</u>
	(In millions)	
Unsettled regular way securities trades.....	\$ 1,721	\$ -
Fails to deliver/fails to receive.....	1,655	1,497
Omnibus receivables/payables.....	1,698	-
Receivables from/payables to clearing organizations.....	2,375	153
Accrued dividends and interest.....	707	498
Other non-customer receivables/payables.....	-	4,342
Other.....	859	647
<b>Total.....</b>	<b>\$ 9,015</b>	<b>\$ 7,137</b>

The Company clears certain of its proprietary and customer transactions through other broker-dealers on a fully disclosed basis. The amounts receivable from/payable to clearing organizations primarily relate to unsettled trades and deposits from customers held at clearing organizations and are collateralized by securities owned by the Company. See Note 5 for more information.

**5. Transfers of Financial Assets and Variable Interest Entities**

As part of the Company's financing and securities settlement activities, the Company uses securities as collateral to support various secured financing sources. If the counterparty does not meet its contractual obligation to return securities used as collateral, the Company may be exposed to the risk of reacquiring the securities at prevailing market prices to satisfy its obligations. The Company controls this risk by monitoring the market value of financial instruments pledged each day and by requiring collateral levels to be adjusted in the event of excess market exposure.

The following table sets forth the assets pledged by the Company and the collateral received by the Company as of December 31, 2012:

	<u>December 31,</u>
	<u>2012</u>
	(In millions)
Fair value of the financial instruments pledged and assigned as collateral by the Company ...	\$ 87,798
of which was encumbered.....	51,806
Fair value of the collateral received by the Company with the right to sell or repledge .....	243,352
of which was sold or repledged.....	126,892

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**5. Transfers of Financial Assets and Variable Interest Entities (Continued)**

**Securitization Activities**

In the normal course of business, the Company enters into transactions with, and makes use of, special purpose entities ("SPEs"). An SPE is an entity in the form of a trust or other legal structure designed to fulfill a specific limited need of the company that organized it and is generally structured to isolate the SPEs assets from creditors or other entities, including the Company. The principal uses of SPEs are to obtain liquidity by transferring certain of the Company's financial assets and to create investment products for clients. SPEs typically qualify as VIEs. At each balance sheet date VIEs are reviewed for events that may trigger reassessment of the entities' classification.

The majority of the Company's securitization activities involve mortgage-related securities and are predominantly transacted using SPEs. In a typical securitization, the SPE purchases assets financed by proceeds received from the SPE's issuance of debt instruments. These assets and liabilities are recorded on the balance sheet of the SPE and not reflected on the Company's consolidated statement of financial condition, unless either the Company sold the assets to the entity and the criteria under US GAAP for sale accounting was not met or the Company consolidates the SPE.

The Company purchases RMBS and CMBS for the purpose of securitization and sells these securities to SPEs. These SPEs issue RMBS, CMBS and ABS, that are collateralized by the assets transferred to the SPE and that pay a return based on the returns on those assets. Investors in these mortgage-backed securities typically have recourse to the assets in the SPEs, unless a third-party guarantee has been received to further enhance the credit worthiness of the assets. The investors and the SPEs have no recourse to the Company's assets. The Company is an underwriter of, and makes a market in, these securities.

Re-securitizations comprised a portion of the Company's deal volume within its RMBS securitization business during the year ended December 31, 2012. In these transactions, certificates from existing RMBS securitizations are pooled and transferred into separate securitization trusts, which then issue new certificates. Re-securitizations are carried out to meet specific investor needs.

Securitization transactions are assessed for appropriate accounting treatment of the assets transferred by the Company. The Company's and its clients' investing or financing needs determine the structure of each transaction, which in turn determines whether sale accounting and subsequent derecognition of the transferred assets applies. Certain transactions may be structured to include derivatives or other provisions that prevent sale accounting.

When the Company transfers assets into an SPE, it must assess whether that transfer is accounted for as a sale of the assets. Transfers of assets may not meet sale requirements if the assets have not been legally isolated from the Company and/or if the Company's continuing involvement is deemed to give it effective control over the assets. If the transfer is not deemed a sale, it is instead accounted for as a secured borrowing, with the transferred assets as collateral.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**5. Transfers of Financial Assets and Variable Interest Entities (Continued)**

**Continuing involvement in transferred financial assets**

The Company may have continuing involvement in the financial assets that are transferred to an SPE, regardless of whether the transfer was accounted for as a sale or a secured borrowing, which may take several forms, including, but not limited to recourse and guarantee arrangements and beneficial interests (i.e., are the rights to receive all or portions of specified cash inflows received by an SPE, including, but not limited to, senior and subordinated shares of interest, principal, or other cash inflows to be "passed through" or "paid-through" and residual interests, whether in the form of debt or equity) as recorded on the Company's consolidated statement of financial condition at fair value. The carrying value and maximum exposure as of December 31, 2012 resulting from agreements to provide support to SPEs is included in the section titled 'Carrying amount of non-consolidated VIE assets and liabilities where the Company is not considered the primary beneficiary'.

The Company's exposure resulting from continuing involvement in transferred financial assets is generally limited to its beneficial interests, typically held by the Company in the form of instruments issued by the respective SPEs that are senior, subordinated or residual tranches. These instruments are held by the Company in connection with underwriting or market-making activities and are included in financial instruments owned in the consolidated statement of financial condition at fair value.

Investors usually have recourse to the assets in the SPE and often benefit from other credit enhancements. The SPE may also enter into a derivative contract in order to convert the yield of the underlying assets to match the needs of the SPE investors, or to limit or change the credit risk of the SPE.

**Principal amounts outstanding and total assets of SPEs resulting from continuing involvement**

As of December 31, 2012, for RMBS/ABS, CMBS and CDO, the total principal amount outstanding of assets held by SPEs to which the Company transferred assets and has continuing involvement with was \$44.1 billion, \$6.3 billion and \$4.9 billion, respectively, of which \$41.5 billion, \$6.3 billion and \$4.9 billion, respectively, was transferred by the Company. For RMBS the difference between the principal amount outstanding and the total assets transferred by the Company represents collateral contributed to the SPEs by third parties. As of December 31, 2012, the Company's continuing involvement was primarily with SPEs.

The fair values of the assets or liabilities that result from any continuing involvement are determined using fair value estimation techniques, such as the present value of estimated future cash flows that incorporate assumptions that market participants customarily use in these valuation techniques. The fair value of the assets or liabilities that result from any continuing involvement does not include any benefits from financial instruments that the Company may utilize to economically hedge the inherent risks.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**5. Transfers of Financial Assets and Variable Interest Entities (Continued)**

Key economic assumptions used in measuring the fair value of beneficial interests at the time of transfer during the year ended December 31, 2012

	<u>RMBS/ABS</u>	<u>CMBS<sup>(1)</sup></u>
	(Dollars in millions)	
Fair value of assets.....	\$ 3,365	\$ 1,009
of which level 1.....	\$ -	\$ -
of which level 2.....	\$ 2,638	\$ 745
of which level 3.....	\$ 727	\$ 264
Weighted-average life, in years.....	3.8	7.8
Prepayment speed assumption (rate per annum), in %.....	10.7% - 34.9%	0.0% - 15.0%
Cash flow discount rate (rate per annum), in %.....	0.0% - 25.7%	1.4% - 10.7%
Expected credit losses (rate per annum), in %.....	0.0% - 25.1%	0.6% - 9.1%

(1) To deter prepayment, commercial mortgage loans typically have prepayment protection in the form of prepayment lockouts and yield maintenance.

The table below provides the sensitivity analysis of key economic assumptions used in measuring the fair value of beneficial interests held in SPEs as of December 31, 2012:

	<u>As of December 31, 2012</u>
	<u>RMBS/ABS</u>
	(Dollars in millions)
Fair value of assets and liabilities.....	\$ 2,597
of which non-investment grade.....	\$ 76
Weighted-average life, in years.....	\$ 5
Prepayment speed assumption (rate per annum), in %.....	0.0% - 26.7%
Impact on fair value from 10% adverse change.....	\$ (27)
Impact on fair value from 20% adverse change.....	\$ (52)
Cash flow discount rate (rate per annum), in %.....	0.0% - 37.4%
Impact on fair value from 10% adverse change.....	\$ (87)
Impact on fair value from 20% adverse change.....	\$ (110)
Expected credit losses (rate per annum), in %.....	0.0% - 34.5%
Impact on fair value from 10% adverse change.....	\$ (80)
Impact on fair value from 20% adverse change.....	\$ (95)

These sensitivities are hypothetical and do not reflect economic hedging activities. Changes in fair value based on a 10% or 20% variation in assumptions generally cannot be extrapolated because the relationship of the change in assumption to the change in fair value may not be linear. Also, the effect of a variation in a particular assumption on the fair value of the beneficial interests is calculated without changing any other assumption. In practice, changes in one assumption may result in changes in other assumptions (for example, increases in market interest rates may result in lower prepayments and increased credit losses), which might magnify or counteract the sensitivities.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**5. Transfers of Financial Assets and Variable Interest Entities (Continued)**

**Variable Interest Entities**

As a normal part of its business, the Company engages in various transactions that include entities which are considered VIEs and are broadly grouped into two primary categories: CDOs and financial intermediation. VIEs are SPEs that typically either lack sufficient equity to finance their activities without additional subordinated financial support or are structured such that the holders of the voting rights do not substantively participate in the gains and losses of the entity. VIEs may be sponsored by the Company, unrelated third parties or clients. Such entities are required to be assessed for consolidation, requiring the primary beneficiary to consolidate the VIE. The assessment requires an entity to determine whether it has the power to direct the activities that most significantly affect the economics of the VIE and has potentially significant benefits or losses in the VIE. In addition, determination of the primary beneficiary must be re-evaluated on an on-going basis.

Application of the accounting requirements for consolidation of VIEs may require the exercise of significant management judgment. In the event consolidation of a VIE is required, the exposure to the Company is limited to that portion of the VIE's assets attributable to any beneficial interest held by the Company prior to any risk management activities to economically hedge the Company's net exposure.

Transactions with VIEs are generally executed to facilitate securitization activities or to meet specific client needs, such as providing liquidity or investing opportunities, and, as part of these activities, the Company may hold interests in the VIEs. Securitization-related transactions with VIEs involve selling or purchasing assets. Typically, the VIE's assets are restricted in nature in that they are held primarily to satisfy the obligations of the entity.

As a consequence of these activities, the Company holds variable interests in VIEs. Such variable interests consist of financial instruments issued by VIEs and which are held by the Company. In general, investors in consolidated VIEs do not have recourse to the Company in the event of a default, except where a guarantee was provided to the investors.

The total assets of consolidated and non-consolidated VIEs for which the Company has involvement represent the total assets of the VIEs even though the Company's involvement may be significantly less due to interests held by third-party investors. The asset balances for unconsolidated VIEs where the Company has involvement represent the most current information available to the Company regarding the remaining principal balance of cash assets owned. In most cases, the asset balances represent an amortized cost basis without regard to impairments in fair value, unless fair value information is readily available.

The Company's maximum exposure to loss is different from the carrying value of the assets of the VIE. This maximum exposure to loss consists of the carrying value of the Company's variable interests held as trading assets and the notional amount of guarantees to VIEs, rather than the amount of total assets of the VIEs. The maximum exposure to loss does not reflect the Company's risk management activities, including effects from financial instruments that the Company may utilize to economically hedge the risks inherent in these VIEs. The economic risks associated with VIE exposures held by the Company, together with all relevant risk mitigation initiatives, are included in the Company's risk management framework.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**5. Transfers of Financial Assets and Variable Interest Entities (Continued)**

Except as described below, the Company has not provided financial or other support to consolidated or non-consolidated VIEs that it was not contractually required to provide.

**Collateralized Debt Obligations**

The Company engages in CDO transactions to meet client and investor needs, earn fees and sell financial assets. As part of its structured finance business, the Company has variable interests in several CDOs. VIEs issue CDOs to fund the purchase of assets such as investment-grade and high-yield corporate debt instruments.

Typically, the collateral manager in a managed CDO is deemed to be the entity that has the power to direct the activities that most affect the economics of the entity. In a static CDO this power role is more difficult to analyze and may be the sponsor of the entity or the credit default swap counterparty. CDOs provide credit risk exposure to a portfolio of ABS (cash CDOs). The CDO entities may have actively managed (open) portfolios or static or unmanaged (closed) portfolios.

The beneficial interests issued by these VIEs are payable solely from the cash flows of the related collateral and third-party creditors of these VIEs do not have recourse to the Company in the event of default.

The Company's exposure in these CDO transactions is typically limited to interests retained in connection with its underwriting or market-making activities. Unless the Company has been deemed to have power over the entity and its interests in the entity are potentially significant, the Company is not the primary beneficiary of the vehicle and does not consolidate the entity. The Company's maximum exposure to loss does not include any effects from financial instruments used to economically hedge the risks of the VIEs.

**Financial Intermediation**

The Company has involvement with VIEs in its role as a financial intermediary on behalf of clients. The Company considers the likelihood of incurring a loss equal to the maximum exposure to be remote because of the Company's risk mitigation efforts, including, but not limited to, economic hedging strategies and collateral arrangements. The Company's economic risks associated with consolidated and non-consolidated VIE exposures arising from financial intermediation, together with all relevant risk mitigation initiatives, are included in the Company's risk management framework.

*Securitizations*

In its financial intermediation activities, the Company acts as underwriter and market maker to VIEs related to certain securitization transactions. The Company believes its maximum loss exposure is generally equal to the carrying value of the beneficial interest held. The Company's maximum exposure to loss does not include any effects from financial instruments used to economically hedge the risks of the VIEs.

Typically, the servicer of the assets in the VIE will be deemed to have the power that most significantly affects the economics of the entity. When a servicer or its related party also has an economic interest that has the potential to absorb a significant portion of the gains and/or losses, it will be deemed the primary beneficiary and consolidate the vehicle. The Company typically consolidates securitization vehicles when it has holdings stemming from its role as underwriter and an affiliate is the servicer.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**5. Transfers of Financial Assets and Variable Interest Entities (Continued)**

The Company may have relationships with such VIEs as a result of other business activities. The maximum exposure to loss consists of the fair value of instruments which are held by the Company. The Company's maximum exposure to loss does not include any effects from financial instruments used to economically hedge the risk of the VIEs.

**Consolidated and non-consolidated VIEs**

Where the Company is considered the primary beneficiary, the table below provides the carrying amount of the assets and liabilities of the consolidated VIEs.

**Carrying amount of consolidated VIE assets and liabilities where the Company is considered the primary beneficiary.**

December 31, 2012	<b>Carrying Value</b>
	(In millions)
<b>Total assets of consolidated VIEs by asset type</b>	
Other assets.....	\$ 1,888
<b>Total assets of consolidated VIEs by asset type.....</b>	<b>\$ 1,888</b>
<b>Liabilities</b>	
Other liabilities.....	\$ 1
Subordinated and other long-term borrowings.....	1,539
<b>Total liabilities.....</b>	<b>\$ 1,540</b>
December 31, 2012	<b>Carrying Value</b>
	(In millions)
<b>Total assets of consolidated VIEs by type of VIE</b>	
<b>Financial Intermediation</b>	
Securitization.....	\$ 1,887
<b>CDO.....</b>	1
<b>Total assets of consolidated VIEs.....</b>	<b>\$ 1,888</b>

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**5. Transfers of Financial Assets and Variable Interest Entities (Continued)**

Carrying amount of non-consolidated VIE assets and liabilities where the Company is not considered the primary beneficiary.

For VIEs where the Company holds a variable interest or is the sponsor of a VIE, but is not consolidating the VIE, the table below provides carrying values of the VIE's assets and liabilities as recorded in the Company's consolidated statement of financial condition.

As of December 31, 2012			
Assets			
	Financial instruments owned	Loans	Other Assets
	(In millions)		
<b>Carrying value of variable interest:</b>			
CDOs.....	\$ 50	\$ -	\$ -
Total.....	\$ 50	\$ -	\$ -
<b>Financial Intermediation</b>			
Securizations.....	\$ 2,189	\$ 4	\$ -
Other.....	3	-	2
Total.....	\$ 2,192	\$ 4	\$ 2

As of December 31, 2012, the total assets of non-consolidated CDO VIEs and financial intermediation VIEs, were \$7.8 billion and \$93.6 billion, respectively. As of December 31, 2012, the Company's maximum exposure to loss from non-consolidated CDOs was \$50 million and the maximum exposure to loss from non-consolidated financial intermediation VIEs was \$2.2 billion, which approximates the carrying value of the Company's variable interest in VIEs.

**6. Derivative Contracts**

Derivatives are generally either privately negotiated OTC contracts or standard contracts transacted through regulated exchanges. The Company uses derivative contracts for trading and economic hedging purposes and to provide products for clients. Economic hedges arise when the Company enters into derivative contracts for its own risk management purposes, but the contracts entered into do not qualify for hedge accounting treatment. These derivatives include options, forwards, and futures. Derivative contracts are carried at fair value.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**6. Derivative Contracts (Continued)**

*Options*

The Company writes option contracts specifically designed to meet customer needs, for trading purposes or for economic hedging purposes. The options do not expose the Company to credit risk because the Company, not its counterparty, is obligated to perform. At the beginning of the contract period, the Company receives a cash premium. During the contract period, the Company bears the risk of unfavorable changes in the value of the financial instruments underlying the options. To manage this market risk, the Company purchases or sells cash or derivative financial instruments on a proprietary basis. Such purchases and sales may include debt and equity securities, forward and futures contracts, swaps and options.

The Company also purchases options to meet customer needs, for trading purposes or for economic hedging purposes. With purchased options, the Company gets the right, for a fee, to buy or sell the underlying instrument at a fixed price on or before a specified date. The underlying instruments for these options include fixed income securities, equities and interest rate instruments or indices. The counterparties to OTC option contracts are reviewed to determine whether they are creditworthy.

*Forwards and Futures*

In the normal course of business, the Company's customer and trading activities include executing, settling and financing various securities and financial instrument transactions. To execute these transactions, the Company purchases and sells (including "short sales") securities, and purchases and sells forward contracts primarily related to U.S. Government and agencies, corporate debt and mortgage-backed securities. In addition, the Company enters into futures contracts on equity-based indices and other financial instruments, as well as options on futures contracts.

Because forward contracts are subject to the credit worthiness of the counterparty, the Company is exposed to credit risk. To mitigate this credit risk, the Company limits transactions with specific counterparties, reviews credit limits, requires certain customers and counterparties to maintain margin collateral and adheres to internally established credit extension policies.

For futures contracts and options on futures contracts, the change in the market value is settled with a clearing broker or exchange in cash each day. As a result, the credit risk with the clearing broker is limited to the net positive change in the market value for a single day, which is recorded in receivables from brokers, dealers and others in the consolidated statement of financial condition.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**6. Derivative Contracts (Continued)**

**Fair value of derivative instruments**

The table below represents gross derivative fair values, segregated by type of contract. Notionals have also been provided as an indication of the volume of derivative activity within the Company.

	<u>Notional amount</u>	<u>Fair value assets</u>	<u>Fair value liabilities</u>
<b>As of December 31, 2012</b>			
		(In millions)	
Forwards.....	\$ 579,001	\$ 692	\$ 652
Options bought and sold (OTC).....	5,963	5	10
Futures.....	61,992	-	-
Options bought and sold (exchange traded).....	1,822	-	-
<b>Interest rate products.....</b>	<b>648,778</b>	<b>697</b>	<b>662</b>
Forwards.....	4,540	15	17
Futures.....	3	-	-
<b>Foreign exchange products.....</b>	<b>4,543</b>	<b>15</b>	<b>17</b>
Futures.....	930	-	-
<b>Precious metal products.....</b>	<b>930</b>	<b>-</b>	<b>-</b>
Forwards.....	3,433	29	24
Futures.....	10,895	-	-
Options bought and sold (exchange traded).....	9,716	156	82
<b>Equity/index-related products.....</b>	<b>24,044</b>	<b>185</b>	<b>106</b>
Futures.....	639	-	-
<b>Other products.....</b>	<b>639</b>	<b>-</b>	<b>-</b>
<b>Total gross derivatives contracts.....</b>	<b>678,934</b>	<b>897</b>	<b>785</b>
Impact of counterparty netting (1).....	-	(395)	(395)
Impact of cash collateral netting(1).....	-	(1)	-
<b>Total derivatives contracts.....</b>	<b>\$ 678,934</b>	<b>\$ 501</b>	<b>\$ 390</b>

(1) Derivative contracts are reported on a net basis in the consolidated statement of financial condition. The impact of netting represents an adjustment related to counterparty and cash collateral netting.

These financial instruments are included as derivative contracts in financial instruments owned/sold not yet purchased, respectively, in the consolidated statement of financial condition. Financial instruments related to futures contracts are included in receivables from brokers, dealers and others and payables to brokers, dealers and others, respectively, in the consolidated statement of financial condition.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**6. Derivative Contracts (Continued)**

**Managing the risks**

As a result of the Company's broad involvement in financial products and markets, its trading strategies are correspondingly diverse and exposures are generally spread across a diversified range of risk factors and locations. CSG uses a value at risk ("VaR") and economic capital limit structure to limit overall risk-taking. The level of risk is further restricted by a variety of specific limits, including controls over trading exposures. Also as part of its overall risk management, CSG holds a portfolio of economic hedges. Hedges are impacted by market movements, similar to other trading securities, and may result in gains or losses on the hedges which offset losses or gains on the portfolios they were designed to economically hedge. CSG specifically risk manages its trading positions with regards to market and credit risk. For market risk the Company uses tools capable of calculating comparable exposures across its many activities, as well as focused tools that can specifically model unique characteristics of certain instruments or portfolios.

The principal risk management measurement methodology for trading assets accounted for at fair value is value at risk. To mitigate the credit risk on these products and to transfer the risk into the capital markets, securities are held as collateral.

**7. Goodwill and Identifiable Intangible Assets**

As of December 31, 2012, the Company had \$520 million of goodwill in the consolidated statement of financial condition. Goodwill is the cost of an acquired company in excess of the fair value of net assets at the acquisition date. There was no impairment of goodwill during the year ended December 31, 2012.

As of December 31, 2012, the Company had intangible assets of \$20 million which are included in other assets and deferred amounts in the consolidated statement of financial condition. The following table sets forth the gross carrying amount, accumulated amortization, and net carrying amount of intangible assets as of December 31, 2012:

	Weighted average amortization period (In years)	Gross carrying amount	Accumulated amortization (In millions)	Net carrying amount
Client relationships.....	20	\$ 11	\$ (7)	\$ 4
<b>Total definite-lived intangible assets.....</b>		<b>11</b>	<b>(7)</b>	<b>4</b>
<b>Total indefinite-lived intangible assets.....</b>		<b>\$ 16</b>	<b>\$ -</b>	<b>\$ 16</b>
<b>Total intangible assets.....</b>				<b>\$ 20</b>

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**8. Subordinated and Other Long-Term Borrowings**

As of December 31, 2012, the Company's outstanding subordinated borrowings were as follows:

	<u>(In millions)</u>
Subordinated Debt Agreement:	
Due March 31, 2016.....	\$ 6,000
Equity Subordinated Agreement:	
Due December 31, 2013.....	<u>1,500</u>
Total subordinated borrowings .....	7,500
Long-term borrowings from an affiliate 2.3% - 5.1%, due various dates through 2021 .....	3,141
Other long-term borrowings 3.1% - 10.8%, due various dates through 2051(1).....	<u>1,539</u>
Total subordinated and long-term borrowings.....	<u>\$ 12,180</u>

(1) Other long-term borrowings represent the long-term borrowings in those VIEs consolidated under US GAAP.

The Company has a \$6.0 billion subordinated debt agreement and a \$1.5 billion equity subordinated agreement with the Parent Company, which matures on March 31, 2016 and December 31, 2013, respectively. The above subordinated agreements are at floating interest rates of 3 month LIBOR plus 90 bps and 1 month LIBOR plus 100 bps, respectively. The weighted average effective interest rate for these subordinated borrowings as of December 31, 2012 was 1.5%.

The subordinated borrowings under these subordinated agreements qualify as regulatory capital and the agreements include all statutory restrictions specified by the Uniform Net Capital Rule 15c3-1, under the Securities Exchange Act of 1934 ("the Exchange Act"), including restrictive covenants relating to additional subordinated borrowings and to minimum levels of net capital, as defined, and consolidated member's equity.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**9. Leases and Commitments**

The following table sets forth the Company's minimum operating lease commitments as of December 31, 2012:

<u>Twelve months ending December 31,</u>	<u>(In millions)</u>
2013.....	\$ 52
2014.....	47
2015.....	47
2016.....	47
2017.....	18
Thereafter .....	-
Total(1).....	<u>\$ 211</u>

(1) Excludes sublease revenue of \$22 million and executory costs such as insurance, maintenance and taxes of \$85 million.

The following table sets forth the Company's commitments, including the current portion as of December 31, 2012:

	<u>Commitment Expiration Per Period</u>				<u>Total commitments</u>
	<u>Less than 1 year</u>	<u>1-3 years</u>	<u>4-5 years</u>	<u>Over 5 years</u>	
	(In millions)				
Forward agreements (1).....	\$ 12,414	\$ -	\$ -	\$ -	\$ 12,414
Total commitments.....	<u>\$ 12,414</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,414</u>

(1) Represents commitments to enter into securities purchased under agreements to resell and agreements to borrow securities including \$26 million with a related party.

The Company used \$1.5 million in standby letters of credit as of December 31, 2012, in order to satisfy counterparty collateral requirements.

The Company had no capital lease obligations as of December 31, 2012. For information about certain of the Company's additional commitments, see Note 10.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**10. Guarantees**

From time to time the Company enters into guarantee contracts as guarantor. US GAAP requires disclosure by a guarantor of its maximum potential payment obligations under certain of its guarantees to the extent that it is possible to estimate them. In addition, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligations undertaken in issuing such guarantee, including its ongoing obligation to stand ready to perform over the term of the guarantee in the event that certain events or conditions occur. With certain exceptions, these liability recognition requirements apply to any guarantees entered into or modified after December 31, 2002.

The guarantees may require the Company to make payments to the guaranteed party based on changes related to an asset, a liability or an equity security of the guaranteed party. The Company may also be contingently required to make payments to the guaranteed party based on another entity's failure to perform under an agreement, or the Company may have an indirect guarantee of the indebtedness of others, even though the payment to the guaranteed party may not be based on changes related to an asset, liability or equity security of the guaranteed party.

In addition, US GAAP covers certain indemnification agreements that contingently require the Company to make payments to the indemnified party based on changes related to an asset, liability or equity security of the indemnified party, such as an adverse judgment in a lawsuit or the imposition of additional taxes due to either a change in the tax law or an adverse interpretation of the tax law.

The following table sets forth the maximum quantifiable contingent liabilities and carrying amounts associated with guarantees as of December 31, 2012 by maturity:

	Amount of Guarantee Expiration Per Period				Total guarantee	Carrying amounts
	Less than 1 year	1-3 years	4-5 years	Over 5 years		
	(In millions)					
Credit guarantees.....	869	-	-	-	869	-
Derivatives.....	1,256	-	-	-	1,256	3
Total guarantees.....	<u>\$ 2,125</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,125</u>	<u>\$ 3</u>

**Credit Guarantees**

In the ordinary course of business the Company enters into contracts that would require it, as the guarantor, to make payments to the guaranteed party if a third party fails to pay under a credit obligation.

The Company has engaged a counterparty to carry cash and margin accounts of certain clients. The Company provides guarantees in the event a customer fails to meet any initial margin or maintenance call.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**10. Guarantees (Continued)**

**Derivatives**

As of December 31, 2012, the Company had \$1.3 billion of derivatives that were issued in the ordinary course of business and are considered guarantees, generally in the form of written put options. Derivative contracts that may be cash settled, and which the Company has no basis for concluding that it is probable that the counterparties held the underlying instruments at the inception of the contracts, are not considered guarantees.

For derivative contracts executed with counterparties that generally act as financial intermediaries, such as investment banks, hedge funds, commercial banks and security dealers, the Company has concluded that there is no basis to assume that these counterparties hold the underlying instruments related to the derivative contracts and, therefore, does not report such contracts as guarantees, as reflected in Note 6.

The Company manages its exposure to these derivatives by engaging in various economic hedging strategies to reduce its exposure. For some contracts the maximum payout is not determinable as interest rates could theoretically rise without limit. For these contracts, notional amounts are disclosed in the table above in order to provide an indication of the underlying exposure. In addition, the Company carries all derivatives at fair value in the consolidated statement of financial condition and has considered the performance triggers and probabilities of payment when determining those fair values. It is more likely than not that written put options that are in-the-money to the counterparty will be exercised, for which the Company's exposure is limited to the fair value reflected in the table.

**Other Guarantees**

The Company has certain guarantees for which its maximum contingent liability cannot be quantified. These guarantees are not reflected in the table above and are discussed below.

*Exchange and Clearinghouse Memberships*

The Company is a member of numerous securities exchanges and clearinghouses, and may, as a result of its membership arrangements, be required to perform if another member defaults. The Company has determined that it is not possible to estimate the maximum amount of these obligations and believes that any potential requirement to make payments under these arrangements is remote.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**11. Concentrations of Credit Risk**

As a securities broker and dealer, the Company is engaged in various securities trading and brokerage activities servicing a diverse group of domestic and foreign corporations, governments and institutional and individual investors. A substantial portion of the Company's transactions are executed with and on behalf of institutional investors, including other brokers and dealers, commercial banks, U.S. agencies, mutual funds, hedge funds and other financial institutions. These transactions are generally collateralized. Credit risk is the potential for loss resulting from the default by a counterparty of its obligations. Exposure to credit risk is generated by securities and currency settlements, contracting derivatives and forward transactions with customers and dealers, and the holding of bonds in inventory. The Company uses various means to manage its credit risk. The creditworthiness of all counterparties is analyzed at the outset of a credit relationship with the Company. These counterparties are subsequently reviewed on a periodic basis. The Company sets a maximum exposure limit for each counterparty, as well as for groups of counterparties. Furthermore, the Company enters into master netting agreements when feasible and demands collateral from certain counterparties or for certain types of credit transactions. As of December 31, 2012, the Company did not have any significant concentrations of credit risk.

The Company's customer securities activities are transacted either in cash or on a margin basis, in which the Company extends credit to the customer. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral to comply with various regulatory and internal guidelines. The Company monitors required margin levels each day and requires customers to deposit additional collateral, or reduce positions, when necessary.

**12. Net Capital Requirements**

The Company is a registered broker-dealer and registered futures commission merchant and, accordingly, is subject to the minimum net capital requirements of the Securities and Exchange Commission ("SEC"), the Commodities Futures Trading Commission ("CFTC") and the Financial Industry Regulatory Authority ("FINRA"). Under the alternative method permitted by SEC Rule 15c-3-1, the required net capital may not be less than 2% of aggregate debit balances arising from customer transactions. Under CFTC Regulation 1.17, the required minimum net capital requirement is 8% of the total risk margin requirement (as defined) for all positions carried in customer and non-customer accounts. FINRA may require a member firm to reduce its business if net capital is less than 4% of such aggregate debit items and may prohibit a firm from expanding its business if net capital is less than 5% of such aggregate debit items. As of December 31, 2012, the Company's net capital of approximately \$8.7 billion was 17.6% of aggregate debit balances and in excess of the SEC's minimum requirement by approximately \$7.2 billion.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**13. Cash and Securities Segregated Under Federal and Other Regulations**

As a registered broker-dealer, the Company is subject to the customer protection requirements of SEC Rule 15c3-3. The Company segregated U.S. Treasury securities with a market value of \$1.0 billion as of December 31, 2012 in a special reserve bank account exclusively for the benefit of customers as required by rule 15c3-3.

The Company is also required to perform a computation of reserve requirements for Proprietary Accounts of Introducing Brokers ("PAIB") pursuant to SEC Rule 15c3-3. As of December 31, 2012 the Company segregated U.S. Treasury securities with a market value of \$956 million in a special reserve bank account to meet the PAIB requirement.

As a futures commission merchant, the Company is required to perform computations of the requirements of Section 4d(2) and Regulation 30.7 under the Commodity Exchange Act. As of December 31, 2012 cash and securities aggregating \$10.3 billion were segregated in separate accounts exclusively for the benefit of customers.

**14. Share-Based Compensation and Other Benefits**

The Company participates in the Share Plan. The Share Plan provides for share awards, share units and share option awards to be granted to certain employees based on the fair market value of CSG shares at the time of grant.

**Share Awards**

**Phantom Share Awards**

Phantom Share awards were granted to certain employees as part their variable compensation. These awards replace other plans introduced in prior years, including Scaled Incentive Share Units ("SISUs") and Incentive Share Units ("ISUs"). Each share award granted entitles the holder of the award to receive one CSG share.

The following table presents the share award activities during the year ended December 31, 2012:

	<u>Number of share awards</u> (In millions)
Outstanding as of January 1, 2012.....	21
Granted.....	8
Settled.....	(5)
Forfeited.....	(1)
Outstanding as of December 31, 2012.....	<u>23</u>

The weighted-average fair value of the share awards granted during the year ended December 31, 2012 was \$24.39.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**14. Share-Based Compensation and Other Benefits (Continued)**

**Share Unit Awards**

**Incentive Share Units**

The Incentive Share Units ("ISUs") were the main form of share-based deferred compensation for all employees from 2006 to 2009. An ISU is similar to a share, but offers additional upside depending on the development of the CSG share price compared to predefined targets set at grant date. For each ISU granted, the employee will receive at least one CSG share ("ISU base unit") over a three-year vesting period and could receive additional shares ("ISU leverage unit") at the end of the three-year vesting period. The ISU leverage units granted in 2008 were settled in 2012 in accordance with the terms and conditions of the plan.

**Scaled Incentive Share Units**

The Scaled Incentive Share Units ("SISUs") is a share-based long-term incentive plan. SISUs were granted for the first time in January 2010 as part of 2009 variable compensation. SISUs are similar to ISUs except with four-year vesting and the leverage component contains an additional performance condition which could increase or decrease the number of any additional shares.

**Performance Share Awards**

Certain employees received a portion of their deferred variable compensation in the form of performance share awards ("PSAs"), which are subject to claw-back provisions. PSAs share awards also vest over three years, such that one third of the share awards vest on each of the three anniversaries of the date of the award. For certain employees the unvested performance share awards are subject to an adjustment in the event of a divisional loss or a negative CSG return on equity.

**Adjustable Performance Plan Awards**

As part of the 2012 compensation process, the Company executed a voluntary exchange offer, under which employees had the right to voluntarily convert all or a portion of their respective unvested Adjustable Performance Plan cash ("APPCs") awards into Adjustable Performance Plan Equity ("APPEs"). See Adjustable Performance Plan Awards under Cash Awards for more information.

The following table presents the share unit awards activities for the year ended December 31, 2012:

	ISU	SISU	PSA	APPE
	(In millions)			
Outstanding as of January 1, 2012.....	6	6	-	-
Granted.....	-	-	9	10
Settled.....	(3)	(2)	-	-
Forfeited.....	(1)	-	-	-
Outstanding as of December 31, 2012.....	<u>2</u>	<u>4</u>	<u>9</u>	<u>10</u>

The fair value of PSA and APPE share units granted during the year ended December 31, 2012 was \$25.50 and \$17.12, respectively.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**14. Share-Based Compensation and Other Benefits (Continued)**

**Share Option Awards**

Share option awards were granted as part of the Company's share-based program prior to 2004. The Company has since discontinued the practice of issuing options and the majority of the original grants have since vested. Share options were granted with an exercise price equal to the market price of CSG's shares on the date of grant and expire after ten years.

At January 1, 2012, there were 9 million outstanding share option awards that were decreased by 6 million of forfeitures during the year, resulting in 3 million outstanding share option awards as of December 31, 2012, all of which were exercisable.

**Cash Awards**

**Partner Asset Facility**

As part of the 2008 annual compensation process, the Company granted Partner Asset Facility ("PAF") units to senior employees. The PAF awards are indexed to, and represent a first-loss interest in, a specified pool of illiquid assets (the "Asset Pool") held by the Company and its affiliates, with substantially all assets held by affiliates. PAF awards, which have a contractual term of eight years, are fully vested. Compensation expense will be updated at each reporting period date to reflect any change in the underlying fair value of the PAF awards until the awards are finally settled.

Effective December 31, 2011, existing PAF holders were given a voluntary election to make a value for value exchange of their existing PAF awards for a new PAF award linked to an expanded portfolio of reference assets.

As part of the 2011 annual compensation process, the Company awarded a portion of deferred variable compensation to senior employees in the form of PAF II units. PAF II units are essentially fixed income structured notes that are exposed to a portion of the current risk that arises in the Company's affiliates' derivative activities, including both current and possible future swaps and other derivative transactions. The PAF II awards vested in the first quarter of 2012. The award holders are subject to non-compete and non-solicit provisions that result in cancellation of the award upon voluntary termination of employment for three years from the grant date. The PAF II units have a stated maturity of four years, but may be extended to nine years at the election of either the Company or the holders acting collectively. This election will not be made later than the end of the third year following the grant date.

**Restricted Cash Award**

The cash component of variable compensation is generally free from conditions. However, certain employees received the cash component of variable compensation in the form of a restricted cash award with ratable vesting over a two-year period and other restrictive covenants and provisions. These cash awards were paid in the beginning of 2011 and must be repaid by the employee, either in part or in full, if a claw-back event such as voluntary termination of employment or termination for cause occurs during the vesting period.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**14. Share-Based Compensation and Other Benefits (Continued)**

**Adjustable Performance Plan Awards**

An Adjustable Performance Plan award ("APP") is a deferred cash-based plan for certain employees. APP awards were granted for the first time in January 2010 as part of 2009 variable compensation. The company also granted APP awards in January 2011 as part of the deferred compensation for 2010 ("2010 APP") and amended certain features in the 2010 APP award. The 2009 APP awards are subject to a three-year, pro-rata vesting schedule, subject to early retirement rules, and the final value of the APP awards paid out to individual employees may be adjusted positively or negatively from the initial amount awarded on the grant date, and the value paid out each year for vested awards will reflect these adjustments. The 2010 APP awards are similar to the 2009 APP awards, except the pro-rata vesting will occur over a four year period.

**Plus Bond Awards**

As part of the 2012 annual compensation process, the Company awarded a portion of variable compensation to certain senior employees for services performed in 2012 in the form of Plus Bond ("PB") units. PB are cash-based awards linked to a portfolio of asset-backed securities, which provide the recipients with semi-annual coupon payments and a final settlement in 2016 in cash or shares at the Company's discretion, based on the initial award value after a first loss retained by CSG. The PB constitutes a transfer of risk from the Company to these employees.

**15. Employee Benefit Plans**

The Company provides retirement and post-retirement benefits to its U.S. and certain non-U.S. employees through participation in a defined benefit pension plan, a defined contribution savings and retirement plan and other plans.

**Pension Plans**

The Company participates in a non-contributory defined benefit pension plan (the "Qualified Plan") available to individuals employed before January 1, 2000. Effective January 1, 2004, compensation and credited service for benefit purposes were frozen for certain participants. Employees who no longer accrue benefits in the Qualified Plan participate in a savings and retirement plan similar to employees hired on or after January 1, 2000.

CSG applies sponsor accounting for accounting and reporting for defined benefit pension plans. The Company and other CSG entities participate in and contribute to the same plan and the assets held by the plan are not restricted or segregated and can be used to provide benefits to employees of any of the participating CSG entities. The Company has been designated to be the sponsor of the plan and records all liabilities.

Contributions to the Qualified Plan are made as required by the Internal Revenue Code and applicable law but not in excess of the amounts deductible by the Company for income tax purposes.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**15. Employee Benefit Plans (Continued)**

The Company also sponsors a savings and retirement plan, which is a defined contribution plan, with both a savings and a retirement component. All employees are eligible to participate in the savings component. In addition, individuals employed before January 1, 2000 who do not accrue benefits under the Qualified Plan and employees hired on or after January 1, 2000 participate in the retirement component and receive a retirement contribution. For the year ended December 31, 2012, the retirement contribution ranged from \$5,000 to \$20,000, determined based on an employee's base salary up to the IRS compensation limit, which was \$250,000 in 2012. Effective October 1, 2012 the contribution range was reduced to \$3,000 to \$10,000. The Company made payments of \$120 million to the defined contribution plan for the year ended December 31, 2012. The Company expects to make a total payment of \$80 million to the defined contribution plan during 2013.

The Company also provides a non-contributory, non-qualified, unfunded plan (the "Supplemental Plan"), which provides benefits to certain senior employees and Qualified Plan participants whose benefits may be limited by tax regulations. Benefits under these pension plans are based on years of service and employee compensation.

**Other Post-Retirement Plans**

The Company provides certain subsidized unfunded health-care benefits for eligible retired employees (the "Other Plans"). Employees hired prior to July 1, 1988 become eligible for these benefits if they meet minimum age and service requirements. The plan sponsor has the right to modify or terminate these benefits. As of December 31, 2012, the aggregate accumulated postretirement benefit obligation was \$197 million.

**Amounts Recognized in the Consolidated Statement of Financial Condition**

Amounts recognized in the consolidated statement of financial condition as of December 31, 2012 were as follows:

	Qualified	Supplemental and Other
	(In millions)	
Accrued benefit liability.....	\$ (361)	\$ (240)
Accumulated other comprehensive loss.....	429	77
Net amount recognized.....	<u>\$ 68</u>	<u>\$ (163)</u>

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**15. Employee Benefit Plans (Continued)**

The following table presents the pre-tax amounts recognized in accumulated other comprehensive loss as of December 31, 2012:

	<u>Qualified</u>	<u>Supplemental and Other</u>
	(In millions)	
Prior service costs (credits).....	\$ -	\$ (2)
Loss.....	429	79
	<u>\$ 429</u>	<u>\$ 77</u>

The estimated prior service costs, and losses that will be amortized from accumulated other comprehensive income into net periodic benefit cost during fiscal year 2013 are as follows:

	<u>Qualified</u>	<u>Supplemental and Other</u>
	(In millions)	
Prior service costs (credits).....	\$ -	\$ (1)
Loss.....	62	13
	<u>\$ 62</u>	<u>\$ 12</u>

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**15. Employee Benefit Plans (Continued)**

**Benefit Obligation and Plan Assets**

The following table reconciles the changes in the projected benefit obligation and the fair value of the plan assets for the Qualified Plan, the Supplemental Plan and the Other Plans. Amounts shown are as of the measurement date, which is December 31, 2012:

	Qualified	Supplemental and Other
	(In millions)	
<b>Change in Benefit Obligation</b>		
Projected benefit obligation as of beginning of period.....	\$ 1,175	\$ 228
Service cost.....	9	1
Interest cost.....	54	11
Settlements.....	-	-
Actuarial loss.....	66	9
Benefits paid.....	(60)	(9)
Amendments.....	-	-
Projected benefit obligation as of the end of period.....	<u>\$ 1,244</u>	<u>\$ 240</u>
<b>Change in Plan Assets</b>		
Fair value of assets as of the beginning of period.....	\$ 784	\$ -
Actual return on plan assets.....	99	-
Settlements.....	-	-
Employer contributions.....	60	9
Benefits paid.....	(60)	(9)
Fair value of assets as of the end of period.....	<u>\$ 883</u>	<u>\$ -</u>

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**15. Employee Benefit Plans (Continued)**

**Assumptions Used in Determining Costs and Obligations**

The following table presents the assumptions used in determining the net periodic benefit costs for the Qualified Plan, the Supplemental Plan and the Other Plans for the year ended December 31, 2012:

	<u>For the Year Ended</u> <u>December 31,</u> <u>2012</u>
<b>Qualified Plan</b>	
Discount rate.....	4.70%
Rate of compensation increase.....	3.95%
Expected rate of return(1).....	7.00%
<b>Supplemental Plan and Other Plans</b>	
Discount rate.....	4.70%
Rate of compensation increase.....	3.95%
Expected rate of return.....	N/A

(1) The expected long-term rate of return on plan assets is based on total return forecasts and volatility and correlating estimates. Where possible, similar, if not, related, approaches are followed to forecast returns for the various asset classes. For most asset classes, clearly specified multi-linear regression models to forecast returns are used or reliance is put on traditional models such as dividend discount and fair value models.

The assumptions used in determining the projected benefit obligation for the Qualified Plan and Supplemental Plan and the projected health-care postretirement benefit obligation for the Other Plans as of December 31, 2012 were:

	<u>2012</u>
<b>Projected benefit obligation</b>	
Discount rate.....	4.30%
Rate of compensation increase.....	4.15%
<b>Projected health-care postretirement benefit obligation</b>	
Discount rate.....	4.30%
Rate of compensation increase.....	N/A

The assumptions used to determine the benefit obligation as of the measurement date are also used to calculate the net periodic pension cost for the 12-month period following this date. The discount rate is one of the factors used to determine the present value as of the measurement date of the future cash outflows currently expected to be required to satisfy the benefit obligations when due. The assumption pertaining to salary increases is used to calculate the projected benefit obligation ("PBO"), which is measured using an assumption as to future compensation levels.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**15. Employee Benefit Plans (Continued)**

The expected long-term rate of return on plan assets, which is used to calculate the expected return on assets as a component of the net periodic pension cost, shall reflect the average rate of earnings expected on the funds invested or to be invested to provide for the benefits included in the PBO. In estimating that rate, appropriate consideration should be given to the returns being earned by the plan assets in the fund and the rates of return expected to be available for reinvestment.

The expected long-term rate of return on plan assets is based on total return forecasts, and volatility and correlation estimates. Where possible similar, if not related, approaches are followed to forecast returns for the various asset classes. For most asset classes clearly specified multi-linear regression models to forecast returns are used, while reliance is put on traditional models in the cases of equities such as dividend discount models and fair value models.

To estimate the expected long-term rate of return on equities a two-stage divided discount model is applied, which considers analyst consensus earnings to compute a market-implied equity risk premium. Dividends are estimated using market consensus earnings and the historical payout ratio. A subsequent scenario analysis is used to stress test the level of the return.

The expected long-term rate of return on fixed income reflects both accruing interest and price returns. The likely long-term relation existing between the total return and certain exogenous variables pre-defined by economic theory are explicitly used, which allows to directly link the fixed income total return forecasts to the macro-forecasts.

The expected long-term rate of return on private equity and hedge funds are estimated by using private equity and hedge fund benchmarks and indices. In both alternative investment classes, a set of factors tends to drive or explain returns. To capture these, multiple linear regression models with lagged returns are utilized. This methodology also lends itself to the fact that these alternative investments tend to be positively correlated with current and lagged stock returns.

The estimate regarding the long-term rate of return on real estate is based on error correction models. The underlying economic models respect both the rental and the capital market side of the direct real estate market. This allows for a replicable and robust forecasting methodology for expected returns on real estate equity, fund and direct market indices.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**15. Employee Benefit Plans (Continued)**

In determining the accumulated postretirement health-care benefit obligation and the net periodic postretirement costs for 2012, the Company assumed the following:

	<u>Pre-65 Retirees</u>	<u>Post-65 Retirees</u>	<u>Medicare Part D</u>
<b>Obligation - Assumed Health-Care Trend Rates at December 31, 2012</b>			
Initial health care trend rate.....	8.0%	7.0%	7.0%
Ultimate health-care trend rate.....	5.0%	5.0%	5.0%
Ultimate trend expected to be achieved.....	2020	2020	2020
<b>Cost-Assumed Health-Care Trend Rates for the year ended at December 31, 2012</b>			
Initial health care trend rate.....	9.0%	8.5%	9.0%
Ultimate health care trend rate.....	5.0%	5.0%	5.0%
Ultimate trend expected to be achieved.....	2020	2020	2020

Assumed health-care cost trend rates have a significant effect on the amounts reported for the health-care benefits. A 1% change in assumed health-care cost trend rates would have the following effects:

	<u>1% increase</u>	<u>1% decrease</u>
	(In millions)	
Effect on benefit obligation at end of year.....	\$ 30	\$ (25)
Effect on total of service and interest costs for year.....	\$ 1	\$ (1)

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**15. Employee Benefit Plans (Continued)**

**Investments**

The investment policies and strategies of the Qualified Plan are determined by a committee made up of the Company's senior management. The policy is based on long-term goals and is therefore not frequently revised. The investment goal is to create an asset mix that is adequate for future benefit obligations by creating a diversified investment portfolio, while managing various risk factors and maximizing the Qualified Plan's investment returns through use of related party and external fund managers and clearly defined strategies. Senior management regularly monitors actual allocation compared to the policy. The current asset allocation goal is to achieve an asset mix of approximately 40% in equities; 49% in fixed income securities; 10% in real estate and 1% in cash.

The following table presents the percentage of the fair value of the Qualified Plan assets as of December 31, 2012 by type of asset:

	<b>Qualified Plan</b>
	<b>2012</b>
<b>Asset Allocation:</b>	
Equity securities.....	40 %
Fixed income securities.....	42
Real estate.....	11
Cash.....	3
Alternative investments.....	4
Total.....	100 %

**Fair Value of Qualified Plan Assets**

The fair values of certain of the Qualified Plan's investments are based on quoted prices in active markets or observable inputs. These instruments include fixed income securities, cash and cash equivalents and equities.

In addition, the Qualified Plan holds financial instruments for which no prices are available, and which have little or no observable inputs. For these instruments the determination of fair value requires subjective assessment and varying degrees of judgment depending on liquidity, concentration, pricing assumptions, the current economic and competitive environment and the risks affecting the specific instrument. In such circumstances, valuation is generally determined based on assumptions that market participants would use in pricing the investments (including assumptions about risk). These instruments include investments in fixed income securities, real estate, private equity and alternative investments.

Deterioration of the financial markets could significantly impact the fair value of these financial instruments and the Qualified Plan's net assets and changes in net assets.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**15. Employee Benefit Plans (Continued)**

**Qualified Plan Assets Measured at Fair Value**

<b>December 31, 2012</b>	<b>Quoted prices in active markets for identical assets or liabilities (level 1)</b>	<b>Significant other observable inputs (level 2)</b>	<b>Significant unobservable inputs (level 3)</b>	<b>Total at fair value</b>
<b>Assets</b>	<b>(In millions)</b>			
Alternative investments.....	\$ -	\$ -	\$ 33	\$ 33
Cash and cash equivalents.....	-	25	-	25
Equity.....	-	355	-	355
Fixed income securities.....	-	294	74	368
Private equity.....	-	-	4	4
Real estate.....	-	-	98	98
<b>Total Qualified Plan assets at fair value...</b>	<b>\$ -</b>	<b>\$ 674</b>	<b>\$ 209</b>	<b>\$ 883</b>

**Qualitative Disclosures of Valuation Techniques**

Equities include shares of separately managed funds. The equity securities are generally based on inputs other than level 1 quoted prices that are observable directly or indirectly.

Fixed income securities primarily include investments in separately managed funds and are generally based on inputs other than level 1 quoted prices that are observable directly or indirectly. For fixed income securities for which market prices are not available, valuations are based on yields reflecting the perceived risk of the issuer and the maturity of the security, recent disposals in the market or other modeling techniques, which may involve judgment.

Alternative investments that are not directly quoted on a public stock exchange and/or for which a fair value is not readily determinable, are measured at fair value using net asset value ("NAV") as a practical expedient.

Private equity includes direct investments and investments in partnerships that make private equity and related investments in various portfolio companies and funds, and also fund of funds partnerships. Private equity securities are valued taking into account a number of factors such as the most recent round of financing involving unrelated new investors, earnings multiple analyses using comparable companies or discounted cash flow analyses. Private equity investments in third party managed funds are measured at fair value using the NAV provided by the fund.

Cash and cash equivalents include commingled funds for which fair value is determined based on inputs other than level 1 quoted prices.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**15. Employee Benefit Plans (Continued)**

Real estate includes indirect real estate, i.e. investments in real estate investment companies, trusts or mutual funds. Real estate investment companies, trusts and mutual funds, which are not directly quoted on a public stock exchange and/or for which a fair value is not readily determinable, are measured at fair value using NAV.

**Estimated Future Benefit Payments**

The estimated future benefit payments expected to be made by the Qualified Plan, Supplemental Plan and Other Plans are as follows:

	Qualified	Supplemental and Other	
	(In millions)		
2013.....	\$ 36	\$	10
2014.....	43		12
2015.....	49		12
2016.....	50		13
2017.....	58		15
Years 2018-2022.....	380		82

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**16. Income Taxes**

The Company is included in the consolidated federal income tax return filed by CS Holdings and certain state and local income tax returns filed by CS Holdings and CS USA. CS Holdings allocates federal income taxes to its subsidiaries on a separate return basis, and any state and local income taxes on a pro rata basis, pursuant to a tax sharing arrangement.

The Company is currently subject to ongoing tax audits and inquiries with the tax authorities in a number of jurisdictions. Although the timing of the completion of these audits is uncertain, it is reasonably possible that some of these audits and inquiries will be resolved within 12 months of December 31, 2012. The Company remains open to examination from either federal, New York State and New York City jurisdictions for the years 2006 and forward. The Company does not have any proposed settlements outstanding with any taxing jurisdictions and thus does not anticipate any material changes to its financial statements due to settlements.

Deferred tax assets and deferred tax liabilities are generated by the following temporary differences:

Deferred tax assets:	(In millions)
Financial instruments .....	\$ 59
Other liabilities and accrued expenses .....	577
Compensation and benefits .....	1,653
Total deferred tax assets .....	<u>2,289</u>
Deferred tax liabilities:	
Financial instruments .....	28
Investments .....	42
Other liabilities and accrued expenses .....	594
Total deferred tax liabilities .....	<u>664</u>
Net deferred tax asset .....	<u>\$ 1,625</u>

The net deferred tax asset as of December 31, 2012 was \$1.6 billion. As of December 31, 2012, the state and local deferred tax asset was \$371 million which represents the net deferred tax asset in the consolidated statement of financial condition. The federal deferred tax asset of \$1.3 billion is settled through the intercompany accounts at the balance sheet date and was included in other liabilities in the consolidated statement of financial condition.

No valuation allowance is recorded for the federal deferred tax asset of \$1.3 billion as the amounts were settled through the intercompany accounts. Based on anticipated future taxable income and tax planning strategies that would, if necessary, be implemented, the Company has not recorded a valuation allowance for its net state and local deferred tax assets of \$371 million as management believes that the state and local deferred tax assets as of December 31, 2012 are more likely than not to be realized. However, if estimates of future taxable income are reduced, the amount of the state and local deferred tax asset considered realizable could also be reduced.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**17. Legal Proceedings**

The Company is involved in a number of judicial, regulatory and arbitration proceedings concerning matters arising in connection with the conduct of its businesses, including those disclosed below. Some of these proceedings have been brought on behalf of various classes of claimants and seek damages of material and/or indeterminate amounts.

The Company accrues litigation provisions (including estimated fees and expenses of external lawyers and other service providers) and takes a charge to income in connection with certain proceedings when losses, additional losses or ranges of loss are probable and reasonably estimable. The Company reviews its legal proceedings each quarter to determine the adequacy of its litigation provisions and may increase or release provisions based on management's judgment and the advice of counsel. The establishment of additional provisions or releases of litigation provisions may be necessary in the future as developments in such proceedings warrant.

It is inherently difficult to determine whether a loss is probable or even reasonably possible or to estimate the amount of any loss or loss range for many of these matters. Estimates, by their nature, are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the proceeding, the progress of the matter, the advice of counsel, the Company's defenses and its experience in similar matters, as well as its assessment of matters, including settlements, involving other defendants in similar or related cases or proceedings. Factual and legal determinations, many of which are complex, must be made before a loss, additional losses or ranges of loss can be reasonably estimated for any proceeding.

After taking into account its litigation provisions, the Company believes, based on currently available information and advice of counsel, that the results of its legal proceedings, in the aggregate, will not have a material adverse effect on the Company's financial condition. However, in light of the inherent uncertainties of such proceedings, including those brought by regulators or other governmental authorities, the ultimate cost of resolving such proceedings may exceed current litigation provisions.

*Research-Related Litigation.* Putative class action lawsuits were filed against the Company in the wake of publicity surrounding the 2002 industry-wide governmental and regulatory investigations into research analyst practices, with *In re Credit Suisse – AOL Securities Litigation*, filed in the US District Court for the District of Massachusetts, being the remaining outstanding matter. The case was brought on behalf of a class of purchasers of common shares of the former AOL Time Warner Inc. (AOL) who have alleged that the Company's equity research coverage of AOL between January 2001 and July 2002 was false and misleading. In January 2012, the district court granted summary judgment in favor of the defendants upon its determination to preclude a plaintiff expert witness. In May 2012, the court denied the plaintiffs' motion for reconsideration. In November 2012, the plaintiffs filed an appeal and in January 2013, the defendants filed an opposition to plaintiffs' motion. On February 4, 2013, plaintiffs filed their reply brief and oral argument on the motion is scheduled for March 6, 2013.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**17. Legal Proceedings (Continued)**

*Enron-Related Litigation.* Two Enron-related actions remain pending against the Company and certain of its affiliates, both in the US District Court for the Southern District of Texas. In these actions, plaintiffs assert they relied on Enron's financial statements, and seek to hold the defendants responsible for any inaccuracies in Enron's financial statements.

*NCFE-Related Litigation.* Since February 2003, lawsuits have been pending against the Company and certain of its affiliates with respect to services that it provided to National Century Financial Enterprises, Inc. and its affiliates ("NCFE"). From January 1996 to May 2002, the Company acted as a placement agent for bonds issued by NCFE that were to be collateralized by health-care receivables and, in July 2002, as a placement agent for a sale of NCFE preferred stock. From December 2000 through November 2002, an affiliate of the Company acted as administrative agent for, and entered into participation agreements in, an asset-backed liquidity facility issued by NCFE that was also to be collateralized by health care receivables. NCFE filed for bankruptcy protection in November 2002. In these lawsuits, which were consolidated as a Multi-District Litigation in the US District Court for the Southern District of Ohio ("SDO") for pre-trial purposes, investors holding approximately \$1.9 billion face amount of NCFE's bonds and approximately \$12 million in preferred stock sued numerous defendants, including the founders and directors of NCFE, the trustees for the bonds, NCFE's auditors and law firm, the rating agencies that rated NCFE's bonds and NCFE's placement agents, including the Company. The lawsuits asserted claims for breach of contract, negligence, fraud and violation of federal and state securities laws and generally alleged that the Company and/or its affiliates knew or should have known that the health care receivables purportedly backing the bonds were either ineligible for the programs or non-existent. The Company and its affiliates filed motions to dismiss these cases. In December 2007, the SDO denied, in large part, the Company and its affiliates' motions to dismiss, allowing most of the investor claims to proceed against the Company and one affiliate. In February 2009, the Company and its affiliate filed motions for summary judgment seeking to dismiss the bond investors' remaining claims, and certain of the bond investors filed motions seeking summary judgment on their claims under Ohio's blue sky law. In December 2010, the SDO ruled in the Company's and its affiliate's favor on its motion and against those bond investor cross-motions for partial summary judgment with respect to claims under Ohio's blue sky law, and all Ohio blue sky claims were dismissed. In March 2012, the SDO issued a decision which granted in part, and denied in part, the Company's and its affiliate's remaining summary judgment motions in the bond investor lawsuits. The SDO dismissed several claims including the bond investors' claims for negligent misrepresentation, aiding and abetting breach of fiduciary duty, and unjust enrichment, as well as many of the bond investors' claims under the blue sky statutes of several states. However, the SDO allowed to continue several claims, including common law fraud, aiding and abetting fraud, conspiracy, and claims under federal securities laws and several states' blue sky laws, as well as the bond investors' demand for punitive damages.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**17. Legal Proceedings (Continued)**

In April 2012, the bond investor lawsuits were transferred back to the federal district courts in Arizona and New Jersey where they were initially filed. In July 2012, the US District Court for the District of Arizona granted the Company's motion to transfer venue to the US District Court for the Southern District of New York ("SDNY") for trial. In September 2012, the US District Court for the District of New Jersey granted the Company's and its affiliate's motion to transfer venue to the SDNY for trial. The bond investor lawsuits are now consolidated for trial. In October 2012, the SDO issued a decision which granted the Company's summary judgment motion to dismiss all the claims brought by the investor in NCFE preferred stock. In November 2012, that equity investor filed a notice of appeal of that decision to the US Court of Appeals for the Sixth Circuit. In November 2012, the SDNY issued an order providing that trial of the bond investor cases would begin April 1, 2013. In December 2012, the SDNY issued an order in the bond investor lawsuits directing all parties to engage in settlement discussions in advance of trial. In January 2013, the SDNY issued an order in the bond investor lawsuits holding that if the Company or its affiliate in the litigation, and NCFE's former CEO Lance Poulsen, the only other remaining defendant, are ultimately found liable on certain of the claims at trial, the remaining defendants, including the Company and/or its affiliate, would be jointly and severally liable for the losses relating to those claims, subject to an appropriate reduction for settlements entered into by the bond investors and former defendants. To date, the Company has settled one bond investor lawsuit. In that settlement, dated April 2009, the Company settled with the New York City Pension Fund plaintiffs for an amount covered by existing provisions.

*Refco-Related Litigation.* In March 2008, the Company was named, along with other financial services firms, accountants, lawyers, officers, directors and controlling persons, as a defendant in an action filed in New York State court by the Joint Official Liquidators of various SPhinX Funds and the trustee of the SphinX Trust, which holds claims that belonged to PlusFunds Group, Inc. (PlusFunds), the investment manager for the SPhinX Funds. The Company and certain other defendants subsequently removed the action to the SDNY. In November 2008, the Company filed a motion to dismiss the operative complaint. In February 2012, the court granted in part and denied in part the Company's motion to dismiss. In December 2012, the SDNY granted the Company's summary judgment motion to dismiss the remaining claims in the case. The SDNY has not yet issued a final judgment as to the Company, and the dismissal of the claims against the Company will be subject to appeal.

*Mortgage-Related Matters.* The Company and certain of its affiliates have received requests for information from certain regulators and/or government entities regarding the origination, purchase, securitization and servicing of subprime and non-subprime residential mortgages and related issues. The Company and its affiliates are cooperating with such requests.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Continued)**  
**December 31, 2012**

**17. Legal Proceedings (Continued)**

In November 2012, the Company and certain of its affiliates settled an administrative proceeding with the US Securities and Exchange Commission ("SEC"), which involved potential claims against them relating to settlements of claims against originators involving loans included in a number of their securitizations, by agreeing to pay approximately \$120 million. This settlement also covered allegations with respect to two residential mortgage-backed securities ("RMBS") issued in 2006 that the Company and such affiliates made misstatements in SEC filings regarding when they would repurchase mortgage loans from trusts if borrowers missed the first payment due. The Company and such affiliates agreed to an order, without admitting or denying the allegations, requiring them to cease and desist from violations of Section 17(a)(2) and (3) of the Securities Act of 1933 and requiring one such affiliate to cease and desist from violations of Section 15(d) of the Securities Exchange Act of 1934. A separate possible action, which involved potential claims against the Company relating to due diligence conducted for two mortgage-backed securitizations and corresponding disclosures, formally was closed by the SEC, without any enforcement action, on November 19, 2012.

Following an investigation, in November 2012, the New York Attorney General, on behalf of the State of New York, filed a civil action in the Supreme Court for the State of New York, New York County ("SCNY") against the Company and affiliated entities in their roles as issuer, sponsor, depositor and/or underwriter of RMBS transactions prior to 2008. The action, which references 64 RMBS issued, sponsored, deposited and underwritten by the Company and its affiliates in 2006 and 2007, alleges that the Company and its affiliates misled investors regarding the due diligence and quality control performed on the mortgage loans underlying the RMBS at issue, seeks an unspecified amount of damages, and is at an early procedural point.

The Company and/or certain of its affiliates have also been named as defendants in various civil litigation matters related to their roles as issuer, sponsor, depositor, underwriter and/or servicer of RMBS transactions. These cases include class action lawsuits and putative class action lawsuits, actions by individual investors in RMBS, actions by monoline insurance companies that guaranteed payments of principal and interest for certain RMBS, and repurchase actions by RMBS trusts or investors on behalf of trustees. Although the allegations vary by lawsuit, plaintiffs in the class and putative class actions and individual investor actions generally allege that the offering documents of securities issued by various RMBS securitization trusts contained material misrepresentations and omissions, including statements regarding the underwriting standards pursuant to which the underlying mortgage loans were issued; monoline insurers allege that loans that collateralize RMBS they insured breached representations and warranties made with respect to the loans at the time of securitization; and repurchase action plaintiffs generally allege breached representations and warranties in respect of mortgage loans and failure to repurchase such mortgage loans as required under the applicable agreements. In addition, a number of other entities have threatened to assert claims against the Company and/or its affiliates in connection with various RMBS issuances, and the Company and/or its affiliates have entered into agreements with some of those entities to toll the relevant statutes of limitations.

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Notes to the Consolidated Statement of Financial Condition (Concluded)**  
**December 31, 2012**

**17. Legal Proceedings (Continued)**

*Bank loan litigation.* The Company and other affiliates ("CS") are named as defendants in litigation filed in the US District Court for the District of Idaho by homeowners in four real estate developments, Tamarack Resort, Yellowstone Club, Lake Las Vegas and Ginn Sur Mer. CS arranged, and was the agent bank for, syndicated loans provided for all four developments, which have been or are now in bankruptcy or foreclosure. The litigation generally alleges that CS committed fraud by using an unaccepted appraisal method to overvalue the properties with the intention to have the borrowers take out loans they could not repay because it would allow CS to later push the borrowers into bankruptcy and take ownership of the properties. In May 2011, CS moved to dismiss the operative complaint in this matter; in March 2012, the court dismissed some of the claims while allowing others to remain. In September 2012, plaintiffs filed a motion for class certification. In December 2012, CS opposed that motion.

**18. Subsequent Events**

The Company has evaluated the potential for subsequent events from December 31, 2012 through the date of issuance of the financial statements on February 28, 2013.



**KPMG LLP**  
345 Park Avenue  
New York, NY 10154-0102

**Report of Independent Registered Public Accounting Firm  
on Internal Control Pursuant to Securities and Exchange Commission Rule 17a-5 and Commodity  
Futures Trading Commission Regulation 1.16**

Member of  
Credit Suisse Securities (USA) LLC and Subsidiaries:

In planning and performing our audit of the consolidated financial statements of Credit Suisse Securities (USA) LLC and Subsidiaries (the Company) (a wholly-owned subsidiary of Credit Suisse (USA), Inc.) as of and for the year ended December 31, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g), in the following:

1. Making the periodic computations of aggregate indebtedness (or aggregate debits) and net capital under Rule 17a-3(a)(11) and the reserve required by Rule 15c3-3(e);
2. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13;
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System; and
4. Obtaining and maintaining physical possession or control of all fully paid and excess margin securities of customers as required by Rule 15c3-3.

In addition, as required by Regulation 1.16 of the Commodity Futures Trading Commission (CFTC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding customer and firm assets. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Regulation 1.16, in making the following:

1. The periodic computations of minimum financial requirements pursuant to Regulation 1.17;
2. The daily computations of the segregation requirements of Section 4d(a)(2) of the Commodity Exchange Act and the regulations thereunder, and the segregation of funds based on such computations; and
3. The daily computations of the foreign futures and foreign options secured amount requirements pursuant to Regulation 30.7 of the CFTC.



The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraphs. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls, and of the practices and procedures referred to in the preceding paragraphs, and to assess whether those practices and procedures can be expected to achieve the SEC's and CFTC's previously mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) and Regulation 1.16(d)(2) list additional objectives of the practices and procedures listed in the preceding paragraphs.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the company's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first, second and third paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined previously.

We understand that practices and procedures that accomplish the objectives referred to in the second and third paragraphs of this report are considered by the SEC and CFTC to be adequate for their purposes in accordance with the Securities Exchange Act of 1934, the Commodity Exchange Act, and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second and third paragraphs of this report, were adequate at December 31, 2012, to meet the SEC's and CFTC's objectives.

This report is intended solely for the information and use of the Company's Member, management, the SEC, the CFTC, Financial Industry Regulatory Authority, Inc., National Futures Association, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 or Regulation 1.16 of the CFTC or both in their regulation of registered brokers and dealers and futures commission merchants, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 28, 2013