Mizuho Capital Markets LLC

# Consolidated Statement of Financial Condition

September 30, 2022

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## Contents

# Mizuho Capital Markets LLC
# Consolidated Statement of Financial Condition

September 30, 2022
*(In Thousands)*

(Unaudited)

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 1,597,662 |
| Collateralized agreements: | |
| Securities borrowed | 1,160,750 |
| Securities purchased under agreements to resell | 2,256,041 |
| Securities owned, at fair value (including securities pledged of $3,317,424) | 10,269,421 |
| Derivatives | 3,199,739 |
| Receivables from brokers/dealers, clearing organizations and customers | 850,875 |
| Accrued interest and dividend receivable | 70,187 |
| Property, equipment, and leasehold improvements, net of accumulated depreciation of $58,014 | 85,522 |
| Other assets | 25,498 |
| Total assets | $ 19,515,695 |
| **Liabilities and member's equity** | |
| Short-term borrowings | 137,533 |
| Collateralized agreements: | |
| Securities loaned | 1,643,243 |
| Securities sold under agreements to repurchase | 628,410 |
| Securities sold, not yet purchased, at fair value | 2,361,524 |
| Derivatives | 5,241,474 |
| Payables to brokers/dealers, clearing organizations and customers | 3,073,312 |
| Accrued interest and dividend payable | 20,560 |
| Accrued expenses and other liabilities | 52,624 |
| Long-term debt | 4,708,805 |
| Total liabilities | $ 17,867,485 |
| Member's equity | 1,648,210 |
| Total liabilities and member's equity | $ 19,515,695 |

*The following table presents certain assets and liabilities of consolidated variable interest entities (VIEs), which are included in the Consolidated Statement of Financial Condition above. The assets in the table below include those assets that can only be used to settle obligations of consolidated VIEs, and are in excess of those obligations. Additionally, the assets in the table below include third-party assets of consolidated VIEs only and exclude intercompany balances that eliminate in consolidation. The liabilities in the table below include third-party liabilities of consolidated VIEs only and exclude intercompany balances that eliminate in consolidation. The liabilities also exclude amounts where creditors or beneficial interest holders have recourse to the general credit of the Company.*

| | |
|---|---|
| Securities owned, at fair value | $ 4,624,788 |
| Accrued interest receivable | 38,941 |
| Total assets of consolidated VIEs to be used to settle obligations of consolidated VIEs | $ 4,663,729 |
| **Liabilities on consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the Company:** | |
| Long-term debt | 4,767,050 |
| Accrued interest payable | 11,046 |
| Total liabilities on consolidated VIEs for which creditors or beneficial interest holders do not have recourse to the general credit of the Company | $ 4,778,096 |

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

# Mizuho Capital Markets LLC

## Notes to Consolidated Statement of Financial Condition

*(In Thousands)*

### 1. Organization and Description of Business

Mizuho Capital Markets LLC ("MCM" or the "Company"), a Delaware limited liability company, is a wholly-owned subsidiary of Mizuho Americas LLC ("MHA"). MHA is a bank holding company, which is wholly-owned by Mizuho Bank Ltd ("MHBK") and ultimately wholly-owned by Mizuho Financial Group, Inc. ("MHFG"). MHFG is a holding company listed on the Tokyo, Osaka, and New York Stock Exchanges that provides comprehensive financial services through its subsidiaries.

The Company is a dealer in interest rate swaps and options, foreign currency swaps, equity derivatives and other derivative products. MCM provides clearing services to its affiliates through a non-U.S. based clearinghouse that trades and clears derivative contracts. MCM participates in a Municipal Tender Option Bond ("TOB") program. MCM is dually registered Swap Dealer ("SD") with the Commodity Futures Trading Commission ("CFTC") and Security-Based Swaps Dealer ("SBSD") with the U.S. Securities and Exchange Commission ("SEC"). The Company is a member of LCH Clearnet ("LCH").

The Company's operations are managed by an affiliated entity, Mizuho Securities USA LLC ("MSUSA"). MSUSA's activities include securities and futures brokerage, origination and trading of debt and equity securities, and mergers and acquisitions ("M&A") advisory services. As part of this arrangement, the Company and MSUSA utilize common personnel and facilities with applicable reimbursement arrangements.

Mizuho Markets Americas LLC ("MMA") is a wholly-owned subsidiary of the Company which operates as an Over-the-Counter derivatives dealer. MMA participates in the purchase and sale of equity derivatives. The Company and MMA utilize common personnel and facilities with applicable reimbursement agreements.

### 2. Summary of Significant Accounting Policies

*Consolidation*

The Consolidated Statement of Financial Condition includes the accounts of the Company, its wholly-owned subsidiary, MMA, and other entities in which the Company has a controlling financial interest. All material intercompany transactions have been eliminated.

*Basis of presentation*

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

### 2. Summary of Significant Accounting Policies (continued)

*Use of estimates*

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

*Variable Interest Entities (VIEs)*

An entity is a VIE if it meets either of the criteria outlined in Accounting Standards Codification (ASC) Topic 810, Consolidation. The criteria are (i) the entity has equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (ii) the entity has equity investors that cannot make significant decisions about the entity's operations or that do not absorb their proportionate share of the entity's expected losses or expected returns.

The Company consolidates a VIE when it has both the power to direct the activities that most significantly affect the VIE's economic performance and a right to receive benefits or the obligation to absorb losses of the entity that could be potentially significant to the VIE. In addition to variable interests held in consolidated VIEs, the Company has variable interests in other VIEs that are not consolidated because the Company is not the primary beneficiary. The Company monitors all unconsolidated VIEs to assess whether any events have occurred to cause its primary beneficiary status to change. Refer to Note 15 for additional details on variable interest entities.

*Cash and cash equivalents*

The Company defines cash equivalents as highly liquid investments with initial maturities of three months or less, that are not used for trading purposes. At September 30, 2022, the Company had cash equivalents of $1,597,662, consisting of money market funds.

*Collateralized agreements*

The Company's collateralized agreements include securities purchased under agreements to resell ("resale agreements"), securities sold under agreements to repurchase ("repurchase agreements"), and securities borrowed and loaned transactions. Resale agreements or repurchase agreements are collateralized by U.S. government securities, municipal securities, and corporate debt. The Company records resale and repurchase agreements at contract price, plus accrued interest. The amounts reported for resale and repurchase agreements approximate fair value as these are

## 2. Summary of Significant Accounting Policies (continued)

generally short term in nature and interest rate movements have not resulted in a material change in fair value.

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

At September 30, 2022, the Company had obtained securities as collateral with a fair value of $4,926,746 which could be re-pledged under secured financing agreements. To satisfy MCM's collateral requirements with a clearinghouses and other counterparties, $785,034 of such securities was re-pledged.

In securities borrowed transactions, the Company is required to deposit cash or other collateral with the lender in an amount generally in excess of the market value of securities borrowed. In securities loaned transactions, the Company receives collateral in the form of cash or securities in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned on a daily basis and obtains or returns additional collateral as necessary.

At September 30, 2022, the Company received securities as collateral, for derivative transactions amounting to $1,921,628, none of which was re-pledged.

The Company also enters into forward-starting collateralized financing agreements. These agreements represent off-balance sheet transactions until their start date, at which time they will be recorded as financing transactions in the Consolidated Statement of Financial Condition. At September 30, 2022, the Company had forward-starting agreements totaling to $2,905,309 with a start date of October 1, 2022.

*Fair value measurements*

The Company reports certain assets and liabilities at fair value on the Consolidated Statement of Financial Condition in accordance with ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820"). The Company has made an election under the "Fair Value Option" ("FVO") in ASC 825, *Financial Instruments* ("ASC 825"), which allows the Company to irrevocably elect fair value as the initial and subsequent measurement attribute for most financial assets and liabilities on an instrument-by-instrument basis.

### *2. Summary of Significant Accounting Policies (continued)*

*Securities transactions*

Securities owned and securities sold, not yet purchased, are recorded on a trade date basis at fair value. Fair value is generally based upon quoted market prices, where available. When quoted market prices are not available, the Company uses other market data, such as transacted prices for the same or similar securities. Related interest amounts, including accrued interest, are included in accrued interest and dividend receivable or accrued interest and dividend payable on the Consolidated Statement of Financial Condition.

*Derivative financial instruments*

The Company recognizes all derivative financial instruments in the Consolidated Statement of Financial Condition as either assets or liabilities at fair value. Transactions in derivative instruments are recorded on a trade-date basis. In accordance with ASC 815, *Derivatives and Hedging* ("ASC 815"), the Company nets certain derivative contracts, and eligible collateral, with the same counterparty in the Consolidated Statement of Financial Condition. The Company does not apply hedge accounting as defined in ASC 815; therefore, certain of the disclosures required under ASC 815 are generally not applicable with respect to these financial instruments.

The fair values of derivative assets and liabilities traded in the over-the-counter ("OTC") market are determined using quantitative models that require the use of multiple market inputs including interest rates, prices and indices to generate continuous yield or pricing curves and volatility factors, which are used to value the positions. The majority of market inputs are actively quoted and can be validated through external sources including brokers, market transactions and third-party pricing services. The fair values of derivative assets and liabilities traded on exchanges are determined using exchange prices. Refer to Note 6 for additional details of fair value measurements.

The Company applies the disclosure requirements for derivative instruments prescribed in ASC 815, which requires companies to disclose how derivative instruments (and any related hedged items) are accounted for, their location and amounts in a company's Consolidated Statement of Financial Condition. The disclosures required by ASC 815 are included in Note 3.

*Property and equipment*

Property and equipment are carried at cost and depreciated on a straight-line basis, over their estimated useful lives, ranging from three to ten years. Software costs are amortized on a straight-line basis, over their estimated useful lives. The Company's gross balance on the Consolidated

### 2. Summary of Significant Accounting Policies (continued)

Statement of Financial Condition at September 30, 2022 includes $143,536 in information technology.

*Interest and dividends*

The Company generally earns interest on cash and cash equivalents, securities borrowed, securities owned, amounts pledged as collateral, amounts with clearing organizations, and on resale agreements. The Company pays interest on amounts received as collateral, securities loaned, repurchase agreements, securities sold, not yet purchased, and other borrowings. Related interest amounts, including accrued interest, are included in accrued interest and dividends receivable or accrued interest and dividends payable on the Consolidated Statement of Financial Condition.

Dividends are accrued on securities owned and sold, not yet purchased on ex-dividend date. Related dividend amounts, including accrued dividend, are included in accrued interest and dividend receivable or accrued interest and dividend payable on the Consolidated Statement of Financial Condition.

*Foreign exchange*

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

*Income taxes*

The Company accounts for income taxes in accordance with ASC 740, *Income Taxes* ("ASC 740"). ASC 740 prescribes the method to account for uncertainty in income tax positions taken or expected to be taken in a tax return by applying a "more-likely-than-not" ("MLTN") criteria as to whether a tax position will be sustained upon examination, based on the technical merits of the position. Accordingly, the Company assesses this likelihood based on the facts, circumstances, and information available at the end of each period. A tax position that meets the MLTN recognition threshold is measured initially and subsequently as the largest amount of tax benefit that will likely be realized upon settlement with a taxing authority that has full knowledge of all the relevant information. The measurement of unrecognized tax benefits is adjusted when new information is available, or when an event occurs that requires a change. Deferred tax expenses or benefits are recognized in the Consolidated Statement of Financial Condition at amounts expected to be realized for the changes in deferred tax liabilities ("DTLs") or assets ("DTAs") between years. The Company recognizes the current and deferred tax consequences of all transactions in the Consolidated Statement of Financial Condition using the provisions of the currently enacted tax laws.

### 2. Summary of Significant Accounting Policies (continued)

***Recent Accounting Pronouncements***

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, Financial Instruments – Credit Losses (Topic 326: Measurement of Credit Losses on Financial Instruments). This ASU requires a financial asset measured at amortized cost basis to be presented at the net amount expected to be collected, using the Current Expected Credit Losses ("CECL") model in measuring credit losses, and enhancement of disclosures regarding credit risk. Under the CECL model, expected credit losses will be measured using historical experience, current conditions, and reasonable and supportable forecasts. Subsequently, the FASB issued ASU 2019-11, 2019-04, for codification improvements related to ASU 2016-13. This ASU affects loans, debt securities, net investments in leases and off-balance-sheet credit exposures, as well as any other financial assets that are not excluded from the scope and have the contractual right to receive cash. This ASU will be applicable for the Consolidated Statement of Financial Condition issued for fiscal years beginning after December 15, 2022. The Company is currently evaluating the impact of this ASU on its Consolidated Statement of Financial Condition.

### 3. Financial Instruments

*Derivative financial instruments*

The Company transacts in derivative instruments to meet the financing and hedging needs of customers and to manage exposure to market and interest rate risk in connection with normal trading activities. These derivative instruments mainly include interest rate contracts, foreign exchange contracts, OTC option related contracts, equity derivatives, exchange-traded options and other contracts. These instruments involve, to varying degrees, elements of credit, interest rate, and currency risk.

Interest rate contracts include interest rate swaps and forward rate agreements. Such agreements generally involve the exchange of fixed and floating rate interest payments without the exchange of underlying principal amounts.

Foreign exchange contracts include spot and forward contracts, non-deliverable forwards, cross currency swaps, as well as foreign exchange options. The Company's foreign exchange contracts are settled by exchanging the currency amounts specified under the contracts.

**3. Financial Instruments (continued)**

OTC option related contracts include interest rate caps and floors, swaptions and call spread options. Interest rate caps and floors are agreements to make periodic payments for interest rate differentials between an agreed-upon interest rate and reference rate. Swaptions are agreements granting the option to enter into an interest rate swap at a future date. The call spread is a relatively simple derivative structure that can alter the structure of a convertible bond from the perspective of the issuer. A call spread overlay is the use of the call spread option strategy by issuers of convertible bonds. By overlaying a call spread option over a convertible bond the issuer can synthetically alter the exercise price of the convertible bond.

Equity derivatives consist of equity forwards. Equity forwards are comprised of a delayed delivery of equity securities at a specified future date and price. Such equity forwards are bilateral and face the counterparty directly.

TRS contracts include payments based on a set rate in exchange for a return on an underlying asset, which are primarily municipal securities.

Other contracts include Credit Default Swaps (“CDS”) and exchange traded contracts. CDS consist of index and single name products. CDS are used to protect against the risk of default on a set of debt obligations issued by a specified reference entity or entities. The Company enters into CDS to mitigate credit risk on its OTC derivative portfolio. Exchange traded contracts allow the holder to purchase or sell financial instruments for cash at a specified price and within a specified period of time. When the Company is a seller of options, the Company receives a premium at the outset and then bears the risk of unfavorable changes in the price of the financial instruments underlying the option.

The following table summarizes the notional and fair value amounts of derivative instruments outstanding as of September 30, 2022. Fair value balances are presented net of derivative valuation adjustments, but prior to the application of counterparty and cash collateral netting. Total derivative assets and liabilities are adjusted on an aggregate basis to take into effect the legally enforceable master netting agreements with netting due to cash collateral received or paid.

*(In Thousands)*

### 3. Financial Instruments (continued)

| | | Fair value | |
|---|---|---|---|
| | Notional Amount | Derivative Receivables | Derivative payables |
| Interest rate contracts | 7,927,415,871 | $ 113,501,193 | $ 113,911,223 |
| Foreign exchange contracts | 328,067,433 | 9,642,688 | 10,378,516 |
| OTC option-related contracts | 185,315,726 | 2,483,648 | 2,400,300 |
| Total Return Swaps | 7,595,427 | 450,651 | 12,799 |
| Equity Derivatives | 2,395,871 | - | 410,806 |
| Other contracts | 103,850,540 | 264,392 | 260,595 |
| **Offset in the Consolidated Statement of Financial Condition** | | | |
| Counterparty Netting | | (117,161,402) | (117,161,402) |
| Cash Collateral Netting | | (5,981,431) | (4,971,363) |
| | 8,554,640,867 | $ 3,199,739 | $ 5,241,474 |

*Valuation adjustments*

Valuation adjustments are integral to determining the fair value of derivative portfolios and are achieved by developing and calibrating sophisticated pricing models to determine the fair value and appropriate exit price. The Company utilizes a valuation methodology that incorporates various valuation adjustments (“XVA”) in the valuation of open derivative trades.

XVA is comprised of credit valuation adjustment (“CVA”), which accounts for the counterparty credit risk inherent in the uncollateralized portion of derivative portfolios, funding cost adjustment (“FCA”), which accounts for the impact to the Company’s funding cost on uncollateralized derivative trades and associated with balance sheet assets and funding benefit adjustment (“FBA”), which accounts for the impact to the Company’s funding cost on uncollateralized derivative trades and associated with balance sheet liabilities. Market-based inputs are generally used when

## 3. Financial Instruments (continued)

calibrating valuation adjustments to market-clearing levels. For derivatives that include significant unobservable inputs, the Company makes model or exit price adjustments to account for the valuation uncertainty present in the transaction.

The portfolio is made up of equity option trades that have vega risk exposures. Due to the growth of the portfolio, the Company has to take additional bid or offer liquidity reserves for these trades to reflect fair value on these trades. Implicit valuation adjustments arise when positions are valued directly to bid or offer levels, the valuation implicitly containing the mid to bid/offer valuation adjustment. The books and records prices are mid-market values, and additional liquidity reserves are taken on these trades to get to exit fair values in the market.

*Offsetting assets and liabilities*

For those derivative activities transacted under legally enforceable master netting agreements, the Company has the right, in the event of default by the counterparty, to liquidate collateral and to offset receivables and payables with the same counterparty. For purposes of the Consolidated Statement of Financial Condition, and in accordance with ASC 210-20, *Offsetting*, and ASC 815 *Derivatives and Hedging*, the Company offsets derivative assets, liabilities, and cash collateral, except on initial margin, held with the same counterparty where it has such a legally enforceable master netting agreement. The netted amount of cash collateral received and paid was $5,981,431 and $4,971,363, respectively, at September 30, 2022.

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

The following table presents derivative instruments and securities financing agreements. Derivative instruments are included in derivative assets and derivative liabilities on the Consolidated Statement of Financial Condition as of September 30, 2022. Securities financing agreements are included on the Consolidated Statement of Financial Condition in securities purchased under agreements to resell/securities sold under agreement to repurchase and securities borrowed/securities loaned. Balances are presented on a gross basis, prior to the application of counterparty and collateral netting.

*(In Thousands)*

### 3. Financial Instruments (continued)

| ASSETS | (a) Gross Amounts of Recognized Assets | (b) Gross Amounts Offset in the Consolidated Statement of Financial Condition (2) | (c)=(a)-(b) Net Amounts of Assets Presented in the Consolidated Statement of Financial Condition | (d) Gross Amounts Not Offset in the Consolidated Statement of Financial Condition (1): Financial Instruments (3) | (d) Collateral Received (4) | (e)=(c)-(d) Net Amount |
|---|---|---|---|---|---|---|
| Derivatives | $ 126,342,573 | $ 123,142,834 | $ 3,199,739 | $ 131,485 | $ 534,188 | $ 2,534,066 |
| Securities Borrowed | 1,160,750 | - | 1,160,750 | 1,160,750 | - | - |
| Resale agreements | 4,927,126 | 2,671,085 | 2,256,041 | - | 2,256,041 | - |

| LIABILITIES | (a) Gross Amounts of Recognized Liabilities | (b) Gross Amounts Offset in the Consolidated Statement of Financial Condition (2) | (c)=(a)-(b) Net Amounts of Liabilities Presented in the Consolidated Statement of Financial Condition | (d) Gross Amounts Not Offset in the Consolidated Statement of Financial Condition (1): Financial Instruments (3) | (d) Collateral Delivered (4) | (e)=(c)-(d) Net Amount |
|---|---|---|---|---|---|---|
| Derivatives | $ 127,374,240 | $ 122,132,765 | $ 5,241,474 | $ 131,485 | $ 191,202 | $ 4,918,787 |
| Securities Loaned | 1,643,243 | - | 1,643,243 | 1,160,750 | 482,492 | - |
| Repurchase agreements | 3,299,495 | 2,671,085 | 628,410 | - | 628,410 | - |

(1) For some counterparties, the financial instruments and collateral not net on the Consolidated Statement of Financial Condition may exceed the net asset recognized. Where this is the case, the total amounts reported in these two columns are limited to the balance of the net assets recognized. As a result, a net amount is reported even though the Company, on an aggregate basis has received securities collateral with a total fair value that is greater than the funds provided to counterparties.

*(In Thousands)*

### 3. Financial Instruments (continued)

(2) Amounts relate to master netting agreements, which have been determined by the Company to be legally enforceable in the event of default and where certain other criteria are met in accordance with applicable offsetting guidance or clearing organization agreements.
(3) These represent assets/liabilities with the same counterparties that are not presented net on the Consolidated Statement of Financial Condition because all U.S. GAAP netting criteria were not met.
(4) These represent collateral values received on net assets recognized after consideration of liabilities with the same counterparties/collateral values delivered on net liabilities recognized after consideration of assets with the same counterparties (note (3)).

The following table presents the Company's gross obligation disaggregated by the class of collateral pledged and the remaining maturity of securities sold under agreements to repurchase at September 30, 2022:

| | Remaining Contractual Maturity of Agreements | | |
|---|---|---|---|
| | **Open** | **Overnight** | **Total** |
| **Securities sold under agreements to repurchase** | | | |
| *Collateral pledged:* | | | |
| Municipal securities | $ 627,649 | $ - | $ 627,649 |
| U.S. Treasury securities | - | 2,670,705 | 2,670,705 |
| Total | $ 627,649 | $ 2,670,705 | $ 3,298,354 |
| | | | |
| **Securities loaned** | | | |
| *Collateral pledged:* | | | |
| Equities | 1,643,243 | - | 1,643,243 |
| Total | $ 1,643,243 | $ - | $ 1,643,243 |

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

Securities owned include proprietary positions that have been pledged as collateral to counterparties on terms which permit the counterparties to sell or re-pledge the securities to others, as well as financing the TOB business which secures tax-exempt revenue. Securities sold, not yet purchased, represent the Company's obligation to acquire the securities at then prevailing market prices, which may differ from the amount reflected on the Consolidated Statement of Financial Condition.

*(In Thousands)*

### 4. Securities Owned and Securities Sold, Not Yet Purchased, at Fair Value (continued)

The following table presents the Company's securities owned and securities sold, not yet purchased disaggregated by type of security as of September 30, 2022:

| | Owned | Sold, not yet purchased |
|---|---|---|
| Municipal securities | $ 3,565,525 | $ - |
| U.S. Treasury securities | 2,422,007 | 1,245,404 |
| Corporate debt | 1,976,004 | - |
| Equity securities | 2,182,069 | 1,116,120 |
| Foreign Sovereign | 123,816 | - |
| Total | $10,269,421 | $ 2,361,524 |

### 5. Risk Management

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

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

*Credit risk management*

Credit risk is the risk of loss from a counterparty's failure to meet its obligations. The Company's derivatives transactions are with financial and non-financial institutions. The risk of default depends on the creditworthiness of the counterparty. Credit risk is managed by entering into master netting agreements, which would reduce the maximum amount of loss. For financial and non-financial institutions with which collateral agreements have not been established, the Company assumes the counterparty risk. However, some of those counterparties provide a parent guarantee under an ISDA Master Agreement or letters of credit to manage the Company's credit risk. With respect to collateralized financing transactions, the Company continually monitors the value and adequacy of the collateral pledged by its counterparties.

*(In Thousands)*

**5. Risk Management (continued)**

The distribution of the Company's credit risk (excluding transactions with affiliates and clearinghouses) by region and by using the lower of Standard & Poor's, Moody's or equivalent rating category was as follows:

| Region | | Carrying Value |
|---|---|---|
| North America | 93.99% | $ 2,407,073 |
| Europe | 2.19% | 56,108 |
| Others | 3.47% | 88,878 |
| Japan | 0.35% | 8,880 |

| Credit ratings | |
|---|---|
| AAA/Aaa | 1.07% |
| AA/Aa | 5.00% |
| A | 24.39% |
| BBB/Baa | 57.32% |
| BB and below/Ba and below | 12.22% |

The Company partially mitigates its credit exposure against uncollateralized counterparties by purchasing CDS.

*Market risk management*

Market risk is the potential loss the Company may incur because of changes in the market value of a particular instrument. All financial instruments, including derivatives and securities, are subject to market risk. A number of factors, including the size, duration, composition and diversification of positions, the absolute and relative levels of interest rates, foreign currency exchange rates, market volatility and illiquidity determines the Company's exposure to market risk. The Company manages market risk by setting risk limits and by economically hedging its exposure to risk factors.

### 5. Risk Management (continued)

*Operational risk management*

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

### 6. Fair Value Measurements

The Company applies the methods of calculating fair value defined in ASC 820, *Fair Value Measurements and Disclosure,* to value its financial assets and liabilities, where applicable. ASC 820 defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date" or an "exit price."

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

*Fair value hierarchy*

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

The three categories are as follows:

> Level 1- Assets and liabilities whose values are based on unadjusted quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include U.S. Treasury Bills, on-the-run U.S. Treasury securities and Exchange-Traded contracts.

**6. Fair Value Measurements (continued)**

Level 2 - Assets and liabilities whose values are based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. If no quoted market prices are available, the fair values of OTC derivative contracts in this category are determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Level 2 assets and liabilities include off-the-run U.S. Treasury securities, municipal securities, corporate debt, foreign exchange contracts, interest rate swaps, OTC options, and CDS.

Level 3 - Assets and liabilities whose values are based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose values are determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Level 3 assets and liabilities consist of call spread options.

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

*Valuation techniques*

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

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

Derivative contracts can be exchange-traded or OTC. The Company classifies exchange-traded contracts typically within Level 1 of the fair value hierarchy. OTC derivatives that trade in liquid markets, such as forwards, swaps, and options, are classified within Level 2 of the fair value

*(In Thousands)*

### 6. Fair Value Measurements (continued)

hierarchy when all of the significant inputs can be corroborated to market evidence. If quoted market prices are not available, fair value is based upon internally developed valuation models that use current market-based or independently sourced market parameters, such as interest rates, currency rates, credit spreads, and option volatilities. Such models are often based on a discounted cash flow analysis.

The following table presents the Company's major categories of assets and liabilities that are measured at fair value on a recurring basis using the above fair value hierarchy at September 30, 2022:

| Description | Level 1 | Level 2 | Level 3 | Counterparty and Cash Collateral Netting | Balance as of September 31, 2022 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Securities owned, at fair value | | | | | |
| Municipal securities | $ - | $ 3,565,526 | $ - | $ - | $ 3,565,526 |
| U.S. Treasury securities | 121,510 | 2,300,497 | - | - | 2,422,007 |
| Foreign Sovereign | - | 123,816 | - | - | 123,816 |
| Corporate debt | - | 1,976,004 | - | - | 1,976,004 |
| Equity securities | 2,182,068 | - | - | - | 2,182,068 |
| Derivatives | - | 126,241,897 | 100,676 | (123,142,834) | 3,199,739 |
| | $2,303,578 | $134,207,740 | $100,676 | $ (123,142,834) | $ 13,469,160 |
| **Liabilities** | | | | | |
| Securities sold, not yet purchased, at fair value | | | | | |
| U.S. Treasury securities | $ 896,037 | $ 349,366 | $ - | $ - | $ 1,245,403 |
| Equity securities | 1,116,121 | - | - | - | 1,116,121 |
| Derivatives | - | 127,088,555 | 285,684 | (122,132,765) | 5,241,474 |
| | $2,012,158 | $ 127,437,921 | $ 285,684 | $ (122,132,765) | $ 7,602,998 |

*Significant Unobservable Input*

The following table presents the valuation technique covering the majority of Level 3 inventory and the most significant unobservable input used in Level 3 fair value measurements.

| | Category | Principal Valuation Technique | Significant Unobservable Valuation Input | Min | Max | Weighted Average |
|---|---|---|---|---|---|---|
| Derivatives | Equity-Related Contracts | Model-based | Equity volatility | 36% | 92% | 56% |

**6. Fair Value Measurements (continued)**

*Uncertainty of Fair Value Measurements Relating to Unobservable Inputs*

Valuation uncertainty arises when there is insufficient or disperse market data to allow a precise determination of the exit value of a fair-valued position or portfolio in today's market. This is especially prevalent in Level 3 fair value instruments, where uncertainty exists in valuation inputs that may be both unobservable and significant to the instrument's (or portfolio's) overall fair value measurement. The uncertainties associated with key unobservable inputs on the Level 3 fair value measurements may not be independent of one another. In addition, the amount and direction of the uncertainty on a fair value measurement for a given change in an unobservable input depends on the nature of the instrument as well as whether the Company holds the instrument as an asset or a liability. For certain instruments, the pricing, hedging and risk management are sensitive to the correlation between various inputs rather than on the analysis and aggregation of the individual inputs. The following section describes the most significant unobservable input used by the Company in Level 3 fair value measurements.

*Volatility*

Volatility represents the speed and severity of market price changes and is a key factor in pricing options. Volatility generally depends on the tenor of the underlying instrument and the strike price or level defined in the contract. Volatilities for certain combinations of tenor and strike price are not observable and need to be estimated using alternative methods, such as using comparable instruments, historical analysis or other sources of market information. This leads to uncertainty around the final fair value measurement of instruments with unobservable volatilities.

*Transfers into/out of Level 3*

During the fiscal year, the Company entered into Level 3 positions. There have been no transfers into or out of Level 3 for the year ended September 30, 2022.

*(In Thousands)*

### 7. Receivables from and Payables to brokers/dealers, clearing organizations and customers

Receivables from and payables to brokers/dealers, clearing organizations and customers at September 30, 2022 consist of the following:

| | Receivables | Payables |
|---|---|---|
| Receivables and payables for trades pending settlement | $ 463,854 | $ 595,813 |
| Variation margin | 189,231 | 539,605 |
| Initial margin | 49,239 | 1,906,762 |
| Receivables from and payables to clearing organizations and brokers | 135,210 | 27,335 |
| Futures margin | 9,469 | - |
| Other | 3,872 | 3,797 |
| Total | $ 850,875 | $ 3,073,312 |

Receivables and payables for trades pending settlement are determined by the contract prices of securities to be delivered or received by the Company. If a counterparty fails to deliver securities pending settlement to the Company, the Company may be required to purchase identical securities on the open market. Trades pending settlement at September 30, 2022 were settled without a material effect on the Company's Consolidated Statement of Financial Condition.

Variation margin balances represent excess net variation margin resulting from changes in the fair value of derivatives as well as variation margin not eligible for offsetting.

Initial margin is a returnable deposit required when opening new positions at clearing organizations. The receivable is the balance due from exchanges, clearinghouses, brokers or customers. The payable is the balance due to customers for initial margin related to trades the Company cleared on their behalf.

Receivable from clearing organizations and brokers includes LCH default fund as well as other receivables. It is the requirement of MCM to provide funding to be utilized in the event of default.

## 8. Borrowings

*Short-term borrowings*

On September 30, 2022, the Company had short-term borrowings comprised of unsecured revolving loans and bank overdrafts totaling $137,533 with interest rates at 1.79%

Additionally, the Company had short dated floating rate certificates (“floaters”), issued by TOB trusts as part of the Company’s TOB program. At September 30, 2022, the Company had short-term borrowings of $58,245, with interest rates at 3.34%. The contractual maturities of short-term debt subsequent to September 30, 2022 occur in December 2022 as well as in February 2023. Interest rates may be fixed, or may reset periodically, based on SIFMA index plus a credit spread. As there is a weekly put option, the Company believes the carrying value of the notes approximates fair value. Refer to Note 15 for further detail on the Company’s TOB program.

*Long-term debt*

Long-term debt consists of long dated floaters, issued by TOB trusts as part of the Company’s TOB program. At September 30, 2022, the Company had borrowings of $4,708,805, with interest rates ranging from 0.58% to 3.49%. The contractual maturities of long-term debt range from 2024 to 2061.

## 9. Related-Party Transactions

In the normal course of business, the Company transacts with affiliated companies as part of its trading, clearing, financing, and general operations. At September 30, 2022, the Consolidated Statement of Financial Condition included the following balances with affiliates:

*(In Thousands)*

## 9. Related-Party Transactions (continued)

| **Consolidated Statement of Financial Condition** | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 419,108 |
| Collateralized agreements: | |
| Securities borrowed | 1,160,750 |
| Securities purchased under agreements to resell | 7,920 |
| Derivatives | 46,432 |
| Receivables from brokers/dealers, clearing organizations and customers | 421,178 |
| Other assets | 20,099 |
| | |
| **Liabilities** | |
| Short-term borrowings | 75,000 |
| Collateralized agreements: | |
| Securities loaned | 1,643,243 |
| Securities sold under agreements to repurchase | 627,442 |
| Derivatives | 117,585 |
| Payables to brokers/dealers, clearing organizations and customers | 2,,277,058 |
| Accrued interest payable | 473 |
| Accrued expenses and other liabilities | 19,726 |

*Cash and cash equivalents*

At September 30, 2022, the cash and cash equivalent balance is with MHBK.

*Collateralized agreements*

At September 30, 2022, the collateralized agreements balances are mostly comprised of securities borrowed, securities loaned, and repurchase agreements with MSUSA. These transactions are presented net in the Consolidated Statement of Financial Condition. The Company charges interest or fees to affiliates at the contracted rates stipulated in the resale and repurchase agreements.

*Derivatives*

MCM clears derivatives for affiliates and may enter into bilateral transactions with affiliates. The Company utilizes other affiliates for brokerage and clearing services and is charged a fee for these services.

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

Receivables are comprised primarily of balances due from affiliates who have direct access to derivatives markets to which the Company does not and excess variation margin posted by MCM. Payables are comprised primarily of balances due to affiliates who do not have direct access to derivatives markets to which the Company has access and excess variation margin received by MCM.

### 9. Related-Party Transactions (continued)

*Accrued expenses and other liabilities*

Accrued expenses and other liabilities primarily consist of balances due to MSUSA. In its role as Manager of MCM, MSUSA has paid certain reimbursable costs on behalf of MCM during the year.

*Borrowings from affiliates*

The Company had uncommitted lines of credit with a total limit of $3,084,000 at September 30, 2022, with MHBK, and $3,800,000 with Mizuho Markets Cayman LP.

*Guarantees from affiliates*

The Company has a guarantee from MHBK on its negative exposure on derivatives transactions with counterparties. At September 30, 2022, $5,707,688 was utilized. The Company has a $5,024 guarantee fee liability that the Company would incur over the remaining term of its portfolio if guarantees were utilized based on an annual daily average balance, recorded under accrued expenses and other liabilities in the Consolidated Statement of Financial Condition. The Company has a $45,000 guarantee from MHBK for a long-term lease obligation, which has not been drawn down.

*Principal Transactions*

The Company acts as a clearing broker to its affiliates where all transactions executed by the affiliate are cleared with LCH. The trades are offset against hedges with external counterparties and result in no material risk of loss to the Company.

*Affiliate receivable / payable*

The Company provides clearing services for its affiliates and would have affiliate receivables associated with such service. The Company and its affiliates share various resources for which they also share the associated costs. These are costs allocated to the Company for research, sales commissions, personnel expenses and other operational support and services, primarily from Mizuho Americas Services LLC ("MAS") and MSUSA. The Company would have affiliate payables associated with such shared services.

*(In Thousands)*

### 10. Income Taxes

MCM is a single member limited liability company, and as such, is a disregarded entity owned by MHA for U.S. corporation income tax purposes.

At September 30, 2022, MCM had a net DTL of $9,244 consisting of a gross DTA of $4,236 and a gross DTL of $13,480. The resulting net liability is included accrued expenses and other liabilities in the Consolidated Statement of Financial Condition. The gross DTA relates primarily to timing differences for rent liabilities and accrued expenses. The gross DTL results primarily from tax depreciation in excess of book depreciation.

The difference between taxes at the U.S. federal statutory rate and the effective rate is primarily due to the effects of state and local taxes and permanent adjustments related to federally tax-exempt municipal interest income.

The following table summarizes the change in the Company's unrecognized tax benefits from April 1, 2022 to September 30, 2022:

| | | |
|---|---|---|
| Balance as of April 1, 2022 | $ | 1,454 |
| Increases related to prior year tax positions | | - |
| Balance as of September 30, 2022 | $ | 1,454 |

At September 30, 2022, the Company's net unrecognized tax benefits were $1,958, which includes interest and penalties of $882 and would affect its effective tax rate, if recognized.

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

MCM is routinely examined by various tax authorities. The Company believes it has adequately provided for any potential adjustments from any audits and any adverse results would not have a material impact on the Company's unrecognized tax benefit balance within the next twelve months. MHA's Federal income tax returns beginning with tax year ended March 31, 2019 remain subject to examination by the Internal Revenue Service. Tax years from 2010 through 2021 remain subject to examination by the state and local tax authorities. Tax years from 2011 to 2014 are currently under New York State examination. Tax years from 2010 to 2012 are currently under New York City examination.

**10. Income Taxes (continued)**

MCM is routinely examined by various tax authorities. The Company believes it has adequately provided for any potential adjustments from any audits and any adverse results would not have a material impact on the Company's unrecognized tax benefit balance within the next twelve months. MHA's Federal income tax returns beginning with tax year ended March 31, 2019 remain subject to examination by the Internal Revenue Service. Tax years from 2011 through 2021 remain subject to examination by the state and local tax authorities. Tax years from 2011 to 2014 are currently under New York State examination.

Pursuant to the Tax Sharing Agreement by and among Mizuho related companies, MCM files and is included in various combined and unitary state and local tax returns. Beginning October 1, 2017, MCM files and is included in the combined MHA federal tax return. The Company calculates the provision for income taxes by using a separate return method, with modifications. Under this method, the Company assumes it is filing a separate return with the taxing authorities, thereby reporting taxable income or loss and paying the applicable tax to or receiving the appropriate refund from the lead filer(s). The current tax provision is the amount of tax payable or refundable on the basis of a hypothetical current year separate return with modifications. Deferred taxes are provided on temporary differences and on any carry-forwards that can be claimed on its hypothetical tax return(s). The Company assessed the need for a valuation allowance on the basis of the projected separate return results, with additional consideration for the consolidated group's capacity. At September 30, 2022, MCM had income tax receivables of $2,726 and income tax payables of $9,473 due from and to affiliates, which were recorded under other assets and accrued expenses and other liabilities in the Consolidated Statement of Financial Condition.

**11. Employee Benefit Plans**

*Defined benefit plan*

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

*(In Thousands)*

### 11. Employee Benefit Plans (continued)

*Post-retirement welfare plan*

Retirees of the Company who qualify for the Mizuho Bank (USA) post retirement welfare plan. Health care plan benefits commence upon retirement from the Company and end at the age of eligibility for coverage under Medicare or upon coverage of participants by another plan. Participants become eligible for plan benefits if they retire after reaching age 55 with 10 or more years of service. Once the employee becomes eligible for Medicare, the retiree medical insurance becomes the secondary plan. Employee contributions to this plan vary by a combination of age and tenure. This plan is a continuation of the active employee medical in which the Company pays substantially all eligible medical expenses. The Company does not currently fund this health care plan; benefits are paid as incurred. No assets have been segregated and restricted to provide for plan benefits. The Company accounts for its participation in those plans as a participation in a multiemployer plan in accordance with ASC 715-30, *Compensation*.

### 12. Leases

The Company's lessee arrangements consist of non-cancelable operating leases for office space. Upon the adoption of ASC 842, the Company recognized right-of-use assets and lease liabilities, which are recognized based on the present value of the remaining lease payments, discounted using the Company's increment borrowing rates. The Company assesses the right-of-use assets for impairment whenever circumstances indicate that the carrying amount may not be recoverable. At September 30, 2022, the Company's right-of-use assets is zero and the amounts related to leases on the Consolidated Statement of Financial Condition are as follows:

| | **Amount** |
|---|---|
| Other assets – ROU assets | $ - |
| Other liabilities and accrued expenses – Lease liabilities | 7,560 |
| Weighted average: | |
| Remaining lease terms, in years | 3.58 |
| Discount rate | 2.97% |

*(In Thousands)*

### 12. Leases (continued)

At September 30, 2022, the future minimum rental payments for the Company's operating leases with initial terms in excess of one year, as follows:

| Year ending September 30: | Amount |
|---|---|
| 2023 | $ 2,320 |
| 2024 | 2,127 |
| 2025 | 2,320 |
| 2026 | 1,160 |
| Total undiscounted cash flows | 7,927 |
| Less: Implied Interest | (367) |
| Amount on balance sheet | $ 7,560 |

Rentals are subject to periodic escalation charges and do not include amounts payable for insurance, taxes and maintenance.

### 13. Commitments and Contingencies

*Litigation*

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

*Clearing Organization Guarantees*

Associated with the Company's membership in LCH, the Company may be required to pay a proportionate share of the financial obligations of another member who may default on its obligations to the clearing organization. Any potential contingent liability under this membership agreement cannot be estimated and the Company believes any requirement to make payments is remote. The Company has not recorded any contingent liability in the Consolidated Statement of Financial Condition for this agreement. The Company has a swap guarantee fund deposited with the LCH.

### 13. Commitments and Contingencies (continued)

*Affiliate Guarantees*

In connection with the Company's membership in LCH, the Company acts in the capacity of "SwapClear Dealer Clearing Member" to affiliates that wish to clear transactions through LCH. In such capacity, the Company may be required to provide collateral or assume other trade-related responsibilities on behalf of affiliates.

### 14. Variable Interest Entities

The Company is involved with VIE's in the normal course of business. The Company's variable interest in VIEs include commitments, residual interest certificates, and certain fees in connection with municipal trusts.

*Municipal Tender Option Bond Trusts*

Municipal TOB trusts may hold fixed- or floating-rate, taxable or tax-exempt securities issued by state and local governments and municipalities, and are typically structured as a single-issuer entity whose assets are purchased from investors in the municipal securities market. These trusts finance the purchase of their municipal securities by issuing two classes of certificates: long-dated, floaters that are puttable pursuant to liquidity facility agreements and residual interest certificates ("residuals"). The floaters are purchased by third-party investors, typically tax-exempt money market funds. The residuals are purchased by original owners of the municipal securities that are being financed.

The Company is engaged in two types of TOB trusts: third party TOB trusts and MCM TOB trusts. Third party TOB trusts are those for which the residuals are purchased by customers of the Company, whereas the residuals issued by MCM TOB trusts are purchased by the Company. Often times, the Company commits to provide liquidity to third party TOB trusts. The maximum exposure to loss from these liquidity agreements was $693,326 and $424,399 at September 30, 2022 and 2021, respectively. If such a trust is unwound early due to an event other than a credit event on the underlying municipal bonds, any shortfall between the bond sale proceeds and the redemption price of the Floaters would be paid by the Company to the trust to consummate the redemption. In addition, the Company executes reimbursement agreements with the Residuals holders, which requires the holders to reimburse the Company for any payment made under the liquidity arrangement.

*(In Thousands)*

### 14. Variable Interest Entities (continued)

The Company may serve as a tender option provider or a credit enhancement provider for certain MCM TOB trusts. The tender option arrangement allows floater holders to pay their interests directly to the Company at any time, priced at par. At September 30, 2022, there were no municipal bonds subject to a credit guarantee provided by the Company.

The Company may serve as a voluntary advance provider to third party TOB trusts. In this capacity, the Company has the option to provide loan advances to the trust to purchase optionally tendered Floaters which have not been remarketed to new investors. As of September 30, 2022, the Company had no outstanding voluntary advances to third party TOB trusts.

The Company considers both third party TOB trusts and MCM TOB trusts VIEs. Third party TOB trusts are not consolidated in the Consolidated Statement of Financial Condition of the Company, as the power to direct the activities that most significantly impact the trusts' economic performance rests with the Residuals holders.

MCM TOB trusts are generally consolidated in the Consolidated Statement of Financial Condition of the Company because it holds the residual interest and thus has the unilateral power to cause sale of the trusts' bonds.

The table below presents the carrying amounts, and classification of assets and liabilities on the Company's Consolidated Statement of Financial Condition, which relate to its variable interests in significant unconsolidated VIEs, and the Company's maximum exposure to loss as well as total assets of the significant unconsolidated VIEs based on currently available information at September 30, 2022:

| | |
|---|---|
| **Assets on Consolidated Statement of Financial Condition related to significant unconsolidated VIEs (1):** | |
| Receivables from brokers/dealers, clearing organizations and customers | $ 1,715 |
| **Liabilities on Consolidated Statement of Financial Condition related to significant unconsolidated VIEs (1):** | |
| Maximum Exposure to Loss (2) | $ 693,326 |
| Total assets of significant unconsolidated VIEs | $ 808,935 |

*(In Thousands)*

### 14. Variable Interest Entities (continued)

(1) A significant unconsolidated VIE is an entity in which the Company has any variable interest or continuing involvement considered to be significant, regardless of the likelihood of loss.

(2) The Company's maximum exposure to loss from these VIEs is equal to the carrying amount of the securities.

### 15. Net Capital Requirements

MCM is dually registered as Swap Dealer ("SD") with the CFTC and Security-Based Swaps Dealer ("SBSD") with the SEC. MCM is subject to the capital and financial reporting requirements for swap dealers and major swap participants of the CFTC Rule 17 CFR 23.101 effective October 6, 2021, and net capital requirements for security-based swap dealers of the SEC Rule 18a-1 effective December 1, 2021. The Company qualifies for the Alternative Compliance Mechanism under the SEC Rule 18a-10 therefore is subject to only comply with the CFTC's net capital requirements in lieu of complying with the SEC capital rules. The Company have elected to follow the Bank Based Approach and is required to maintain minimum net capital, as defined, equivalent to the greatest of $20,000, 8% of Uncleared Swap Margin or 8% of Risk Weight Assets.

At September 30, 2022, the Company's net capital of $1,537,521 was $605,384 in excess of the required amount of $932,137:

| | | |
|---|---|---|
| Net Capital | $ | 1,537,521 |
| Minimum Net Capital Requirement | $ | 932,137 |
| Excess Net Capital | $ | 605,384 |

Advances to affiliates, repayment of subordinated liabilities, dividend payments, and other equity withdrawals are subject to certain limitations and other provisions of the SEC and other regulators.

**16. Subsequent events**

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

The Company evaluated all events subsequent to September 30, 2022, through November 30, 2022, the date on which the Consolidated Statement of Financial Condition is available to be issued. There were no material recognizable or non-recognizable subsequent events during this period.