

**Credit Suisse Securities (USA) LLC and Subsidiaries**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Unaudited Consolidated Statement of Financial Condition**  
**June 30, 2022**

**CREDIT SUISSE SECURITIES (USA) LLC AND SUBSIDIARIES**  
**(A wholly owned subsidiary of Credit Suisse (USA), Inc.)**  
**Consolidated Statement of Financial Condition**  
**June 30, 2022**  
**(In millions)**

<b>ASSETS</b>	
Cash and cash equivalents .....	\$ 631
Collateralized financings:	
Securities purchased under agreements to resell, of which \$26,922 is reported at fair value ..	42,019
Securities borrowed, of which \$1,574 is reported at fair value .....	6,209
Securities received as collateral, at fair value (\$313 of which was encumbered) .....	321
Financial instruments owned, at fair value (\$2,705 of which was encumbered):	
Debt instruments, of which \$79 is from consolidated VIEs .....	9,510
Equity instruments .....	1,919
Derivative contracts .....	222
Brokerage receivables:	
Customers .....	1,042
Brokers, dealers and others .....	3,118
Deferred tax asset .....	667
Intangibles .....	12
Other assets and deferred amounts, of which \$148 is reported at fair value and \$69 is from consolidated VIEs .....	3,125
Total assets .....	\$ 68,795

See accompanying notes to consolidated statement of financial condition.

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**LIABILITIES AND MEMBER'S EQUITY**

Short-term borrowings.....	\$ 200
Collateralized financings:	
Securities sold under agreements to repurchase, of which \$15,382 is reported at fair value...	18,359
Securities loaned, of which \$186 is reported at fair value.....	4,181
Obligation to return securities received as collateral, at fair value.....	321
Financial instruments sold not yet purchased, at fair value:	
Debt instruments.....	2,049
Equity instruments.....	377
Derivative contracts.....	340
Brokerage payables:	
Customers.....	1,519
Brokers, dealers and others.....	3,435
Subordinated and other long-term borrowings, of which \$142 is reported at fair value and is from consolidated VIEs.....	22,071
Other liabilities, of which \$144 reported at fair value.....	3,413
Total liabilities.....	<u>56,265</u>
Member's equity:	
Member's contributions.....	14,172
Accumulated loss.....	(1,476)
Accumulated other comprehensive loss.....	<u>(166)</u>
Total member's equity.....	<u>12,530</u>
Total liabilities and member's equity.....	<u>\$ 68,795</u>

See accompanying notes to consolidated statement of financial condition.

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## 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 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 includes 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 10 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 governments, financial institutions, corporate clients and affiliates. It is 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 or the results of its operations that would have existed if the Company had been operated as an unaffiliated entity.

### Significant Accounting Policies

*Basis of financial information.* The consolidated statement of financial condition is prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

*Use of estimates.* Management is required to make estimates and assumptions, including but not limited to, the fair value measurements of certain financial assets and liabilities, the evaluation of variable interest entities, recognition of deferred tax assets, goodwill, pension liabilities, legal and tax uncertainties, as well as various contingencies. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated statement of financial condition. While management evaluates its estimates and assumptions on an ongoing basis, actual results could differ materially from management's estimates. Market conditions may increase the risk and complexity of the judgments applied in these estimates.

*Principles of consolidation.* Intercompany balances and transactions have been eliminated.

*Foreign currency translation.* Transactions denominated in currencies other than the functional currency of the Company are recorded by remeasuring them in the functional currency of the Company using the foreign exchange rate on the date of the transaction. As of the dates of the statement of financial condition, monetary assets and liabilities, such as receivables and payables, are reported using the year-end spot foreign

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exchange rates. Non-monetary assets and liabilities are recorded using the historic exchange rate.

*Fair value measurement and option.* The fair value measurement guidance establishes a single authoritative definition of fair value and sets out a framework for measuring fair value. The fair value option creates an alternative measurement treatment for certain financial assets and financial liabilities. The fair value option can be elected at initial recognition of the eligible item or at the date when the Company enters into an agreement which gives rise to an eligible item. If not elected at initial recognition, the fair value option can be applied to an item upon certain triggering events that give rise to a new basis of accounting for that item. The application of the fair value option to a financial asset or a financial liability does not change its classification on the consolidated statement of financial condition and the election is irrevocable.

*Cash and cash equivalents.* Cash and cash equivalents include all demand deposits held in banks, including demand deposits held at affiliate branches, 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. As of June 30, 2022, there is \$276 million restricted cash segregated for regulatory purposes under the Commodity Exchange Act Sections 4d(2) and 4d(F).

*Resale and repurchase agreements.* Purchases of securities under agreements to resell (resale agreements) and securities sold under agreements to repurchase (repurchase agreements) do not constitute economic sales and are therefore treated as collateralized financing transactions, which are carried in the consolidated statement of financial condition at the amount of cash disbursed or received, respectively. Resale agreements are recorded as collateralized assets while repurchase agreements are recorded as liabilities. The underlying securities sold continue to be recognized in trading assets. The fair value of securities to be repurchased and resold is monitored on a daily basis, and additional collateral is obtained as needed to protect against credit exposure.

Assets and liabilities recorded under these agreements are accounted for on one of two bases, the accrual basis or the fair value basis. Certain repurchase agreements and resale agreements that primarily represent matched-book activities are fair value elected. 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. The Company takes possession of the securities purchased under resale agreements and obtains additional collateral when the market value falls below the contract value. Accrued interest income and expense are recorded in the same manner as under the accrual method in other assets and liabilities, respectively in the consolidated statement of financial condition.

Repurchase and resale agreements may be netted if they are with the same counterparty, have the same maturity date, settle through the same qualifying clearing institution and subject to a right of offset allowed by a legally enforceable master netting agreement or a central counterparty's clearing rules.

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*Securities lending and borrowing transactions.* 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 as collateral in a securities lending and borrowing transaction may be sold or repledged, they are recorded as securities received as collateral in the consolidated statement of financial condition and a corresponding obligation to return the security is recorded. Securities lending transactions against non-cash collateral in which the Company has the right to resell or repledge the collateral received are recorded at the fair value of the collateral initially received. Certain securities loaned and securities borrowed transactions that represent matched-book activities are carried at fair value. 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.

Accrued interest income and expense are recorded in the same manner as under the accrual method in other assets and liabilities in the consolidated statement of financial condition.

*Financial instruments owned.* Financial instruments owned include debt securities, marketable equity instruments and derivative instruments, which are carried at fair value and classified as held for trading purposes based on management's intent. Regular-way security transactions are recorded on a trade date basis.

*Derivative contracts.* All derivative contracts are carried at fair value. 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. The Company may enter into transactions that have non-regular way settlement terms, which if all requirements are met, are treated as non-regular-way accounting derivatives during the period from trade date to settlement date. See Notes 3 and 7 for more information.

*Credit losses on financial instruments measured at amortized cost.* The credit loss requirements apply to financial assets measured at amortized cost as well as certain off-balance sheet credit exposures, such as irrevocable loan commitments and similar instruments. The credit loss requirements are based on a forward-looking, lifetime current expected credit loss (CECL) model by incorporating reasonable and supportable forecasts of future economic conditions available at the reporting date. The estimation and application of forward-looking information requires quantitative analysis and significant judgement. The CECL amounts are estimated over the contractual term of the financial assets taking into account the effect of prepayments. This requires considerable judgment over how changes in macroeconomic factors (MEFs) as well as changes in forward-looking borrower-specific characteristics will affect the CECL amounts.

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The Company measures expected credit losses of financial assets on a collective (pool) basis when similar risk characteristics exist. For financial assets which do not share similar risk characteristics, expected credit losses are evaluated on an individual basis. CECL amounts are probability-weighted estimates of potential credit losses based on historical frequency, current trends and conditions as well as forecasted MEFs, such as interest rates, gross domestic product (GDP) and unemployment rates. An allowance for credit losses is deducted from the amortized cost basis of the financial asset. Provisions for off-balance sheet credit exposures are recognized as a provision in other liabilities in the consolidated statement of financial condition. The allowance for credit losses and provisions for off-balance sheet credit exposures were immaterial as of June 30, 2022.

The Company applied the collateral maintenance practical expedient to its collateralized financing arrangements, including securities borrowed and resale agreements, along with its customer margin loans reported in brokerage receivables from customers in the consolidated statement of financial condition, which are subject to collateral maintenance provisions where the borrower is required to continually adjust the amount of collateral securing the financial asset as a result of changes in the fair value of the collateral. When the fair value of the collateral is less than the amortized cost basis of the financial assets, the Company evaluates whether an allowance for credit losses is necessary for the unsecured amount of the amortized cost basis, limited to the difference between the fair value of the collateral at the reporting date and the amortized cost basis of the financial assets. As of June 30, 2022, the Company has recorded specific provisions of \$36 million related to customer margin loans.

Financial assets measured at amortized cost that are not eligible for the collateral maintenance practical expedient consist of receivables due from customers recorded in the consolidated statement of financial condition, receivables due from broker-dealers and clearing organizations, unsettled trades and securities failed to deliver, recorded in receivables from brokers, dealers and others on the consolidated statement of financial condition, as well as any unsecured amounts for instruments applying the practical expedient. For financial assets measured at amortized cost basis that are not eligible for the collateral maintenance practical expedient, the Company estimates expected credit losses over the life of the financial assets as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts.

The Company estimates credit losses on certain off-balance sheet credit exposures over the contractual period of a present obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. Other than the estimation of the probability of funding on such arrangements, the allowance for credit losses is estimated in a manner similar to the methodology used for funded credit exposures and as such, the Company estimates expected credit losses over the life of the instruments as of the reporting date based on relevant information about past events, current conditions, and reasonable and supportable forecasts.

The Company continually monitors collections and payments from its clients and maintains an allowance for doubtful accounts. The allowance is based on an estimate the amount of potential credit losses in existing receivables. The Company determines this allowance based on a review of aging schedules and past due balances, and considers the short-term nature of credit exposure, counterparty credit quality, historical experience and current customer and economic conditions.

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*Goodwill and identifiable intangible assets.* Goodwill and indefinite-lived intangible assets are reviewed annually for impairment or more frequently if a trigger event is identified.

*Impairment on non-financial assets.* The Company evaluates premises and equipment for impairment at least annually and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The impairment assessment is performed for an individual asset or, where applicable, a group of assets for which largely separate cash flows can be identified. Recognition of an impairment on such assets establishes a new cost base, which is not adjusted for subsequent recoveries in value.

*Income taxes.* The Company is included in the consolidated federal and certain state and local income tax (SALT) returns filed by CS Holdings. CS Holdings allocates federal income tax and SALT to its subsidiaries on a modified separate company basis, pursuant to a tax sharing arrangement. Tax benefits related to carryforwards are recorded only to the extent they could be used currently or in the future to reduce consolidated federal or SALT expense.

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 Company follows the guidance regarding the accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. 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. Sustainable income tax positions are then measured to determine the amount of benefit eligible for recognition in the financial statements. Each such sustainable income tax position is measured at the largest amount of benefit that is more likely than not to be realized upon ultimate settlement.

*Brokerage receivables and brokerage payables.* The Company recognizes receivables and payables from transactions in financial instruments purchased from and sold to customers, banks and broker-dealers. In order to conduct trades with an exchange or a third-party bank, the Company is required to maintain a margin. This is usually in the form of cash and deposited in a separate margin account with the exchange or broker. If available information indicates that it is probable that a brokerage receivable is impaired, an allowance is established. Write-offs of brokerage receivables occur if the outstanding amounts are considered uncollectible.

Receivables from and payables to customers include amounts due on regular way securities transactions, margin transactions and futures. Securities owned by customers, including those that collateralize margin or similar transactions are held for clients on an agency or fiduciary capacity by the Company, are not assets of the Company and are not reflected in the consolidated statement of financial condition. Receivables from and payables to customers are recorded at amortized cost net of any allowances for credit losses.



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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 (excluding cash collateral receivables relating to initial margin with exchanges which are included in other assets on the statement of financial condition), and other non-customer receivables, which are primarily 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 and other non-customer payables, which are primarily amounts related to futures contracts. 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, as well as settlement payments of the mark-to-market variation margin from settled-to-market derivative contracts. Receivables from brokers, dealers and others and payables to brokers, dealers and others are recorded at amortized cost net of any allowances for credit losses.

*Subordinated and other long-term borrowings.* The Company carries long-term borrowings of certain VIEs, principally residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS), which are consolidated under US GAAP at fair value. The Company carries its subordinated and long-term borrowings with affiliates on an accrual basis. See Notes 3, 10 and 12 for more information.

*Securitization.* The Company securitizes primarily RMBS and CMBS. 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, vendor prices 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 10 for more information.

*Projected benefit obligation.* The Company uses the projected unit credit actuarial method to determine the present value of its projected benefit obligation (PBO) and the current and past service costs or credits related to its defined benefit and other post-retirement benefit plans. The measurement date used to perform the actuarial valuation is December 31<sup>st</sup>. 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 the Company's management. Among others, assumptions have to be made with regard to discount rates, expected return on plan assets and salary increases. The assumed discount rates reflect the rates at which the pension benefits could be effectively settled. These rates are determined based on yields of high-quality corporate bonds currently available and are expected to be available during the period to maturity of the pension benefits. The expected long-term rate of return on plan assets is determined on a plan basis, taking into account asset allocation, historical rate of return, benchmark indices for similar-type pension plan assets, long-term expectations of future returns and investment strategy. Health care cost trend rates are determined by reviewing external data and the Company's own historical trends for health care costs. Salary increases are

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determined by reviewing external data and considering internal projections. The funded status of the Company's defined benefit post-retirement and pension plans is recognized in the consolidated statement of financial condition.

**STANDARDS TO BE ADOPTED IN FUTURE PERIODS**

**ASC Topic 326 – Financial instruments – Credit losses**

In March 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2022-02, "Troubled Debt Restructurings and Vintage Disclosures" (ASU 2022-02), an update to Accounting Standards Codification (ASC) Topic 326 – Financial Instruments – Credit Losses. The amendments in ASU 2022-02 eliminate the accounting guidance for Troubled Debt Restructurings (TDRs) by creditors. The loan refinancing and restructuring guidance in ASC Topic 310 – Receivables will be applied to determine whether a modification results in a new loan or a continuation of an existing loan. The amendments enhance disclosure requirements for certain loan refinancings and restructurings when a borrower is experiencing financial difficulty and require disclosure of current period gross write-offs by year of origination for financing receivables and net investments in leases.

The amendments are effective for annual reporting periods beginning after December 15, 2022 and for the interim periods within those annual reporting periods. Early adoption is permitted, including in an interim period. The Company is currently evaluating the impact of the adoption of ASU 2022-02 on the Company's consolidated statement of financial condition.

**ASC Topic 820 – Fair Value Measurement**

In June 2022, the FASB issued Accounting Standards Update 2022-03, "Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions" (ASU 2022-03), an update to ASC Topic 820 – Fair Value Measurement. The amendments in ASU 2022-03 clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments require new disclosures related to equity securities subject to contractual sale restrictions, including the fair value of such equity securities, the nature and remaining duration of the corresponding restrictions and any circumstances that could cause a lapse in the restrictions.

The amendments are effective for annual reporting periods beginning after December 15, 2023 and for the interim periods within those annual reporting periods. Early adoption is permitted, including in an interim period. The Company is currently evaluating the impact of the adoption of ASU 2022-03 on the Company's consolidated statement of financial condition.

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## 2. Restructuring

In November 2021, CSG announced that the Board of Directors had unanimously agreed on a strategic direction and approved the introduction of a global business and regional matrix structure. As part of the announcement, the Company is exiting the prime services business in 2022. In connection with the implementation of the reorganization, the Company had a restructuring provision in other liabilities within the consolidated statement of financial condition as of June 30, 2022.

	<u>June 30, 2022</u>
	<u>(In millions)</u>
<b>Restructuring provision</b>	
Severance expenses .....	\$ 9
<b>Total restructuring provision</b> .....	<u><u>\$ 9</u></u>

## 3. Fair Value of Financial Instruments

### Fair Value Measurement

A significant portion of the Company's financial instruments are carried at fair value. Deterioration of the financial markets could significantly impact the fair value of these financial instruments. The fair value of the majority of the Company's financial instruments is based on quoted prices in active markets or observable inputs.

In addition, the Company holds financial instruments for which no prices are available; and which have few or no observable inputs. For these instruments, the determination of fair value requires subjective assessment and judgment depending on liquidity, 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 judgments about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

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, commodity prices, foreign exchange rate 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.

US GAAP permits a reporting entity to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position or paid to transfer a net short position for a particular risk exposure in an orderly transaction between market participants at the measurement date. As such, the Company continues to apply bid and offer adjustments to net portfolios of cash securities and/or derivative instruments to adjust the value of the net position from a midmarket price to the appropriate bid or offer level that would be realized under normal market conditions for the net long or net short position for a specific market risk. In addition, the Company reflects the net

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exposure to credit risk for its derivative instruments where the Company has legally enforceable agreements with its counterparties that mitigate credit risk exposure in the event of default.

Valuation adjustments are recorded in a reasonable and consistent manner that results in an allocation to the relevant disclosures in the notes to the financial statements as if the valuation adjustment had been allocated to the individual unit of account.

#### **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. 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 publicly available; (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.

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### 3. Fair Value of Financial Instruments

#### 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.

June 30, 2022	Level 1	Level 2	Level 3	Total at fair value
	(In millions)			
<b>Assets</b>				
Resale agreements .....	\$ —	\$ 26,922	\$ —	\$ 26,922
Securities borrowed transactions .....	—	1,574	—	1,574
Securities received as collateral:				
Debt instruments .....	321	—	—	321
Total securities received as collateral .....	321	—	—	321
Financial instruments owned:				
Debt instruments:				
US federal government .....	57	—	—	57
Commercial mortgage-backed securities (CMBS) .....	—	1,751	61	1,812
Corporates .....	—	4,606	17	4,623
Foreign government .....	—	7	—	7
Other collateralized debt obligations (CDO) .....	—	1,086	124	1,210
Residential mortgage-backed securities (RMBS) .....	—	1,430	371	1,801
Total debt instruments .....	57	8,880	573	9,510
Equity instruments .....	1,783	54	82	1,919
Derivative contracts:				
Interest rate products .....	378	110	—	488
Foreign exchange products .....	—	14	—	14
Equity/index-related products .....	1	8	3	12
Credit products .....	—	56	56	112
Netting(1) .....				(404)
Total derivative contracts .....	379	188	59	222
Other assets:				
Loans held-for-sale .....	—	67	2	69
Other .....	—	—	79	79
Total other assets .....	—	67	81	148
<b>Total assets at fair value .....</b>	<b>\$ 2,540</b>	<b>\$ 37,685</b>	<b>\$ 795</b>	<b>\$ 40,616</b>

- (1) Derivative contracts are reported on a gross basis by level, with the total at fair value column including the impact of netting. The impact of netting represents an adjustment related to counterparty and cash collateral netting where the Company has a legal and enforceable right to net.

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**3. Fair Value of Financial Instruments**

June 30, 2022	Level 1	Level 2	Level 3	Total at fair value
	(In millions)			
<b>Liabilities</b>				
Repurchase agreements .....	\$ —	\$ 15,382	\$ —	\$ 15,382
Securities loaned transactions .....	—	186	—	186
Obligation to return securities received as collateral:				
Debt instruments .....	321	—	—	321
Total obligation to return securities received as collateral .....	321	—	—	321
Financial instruments owned:				
Debt instruments:				
US federal government .....	400	—	—	400
Corporates .....	—	1,634	3	1,637
Foreign government .....	—	12	—	12
Total debt instruments .....	400	1,646	3	2,049
Equity instruments .....	376	—	1	377
Derivative contracts:				
Interest rate products .....	470	138	—	608
Foreign exchange products .....	—	12	—	12
Equity/index-related products .....	—	5	—	5
Credit products .....	—	15	3	18
Netting(1) .....				(303)
Total derivative contracts .....	470	170	3	340
Subordinated and other long-term borrowings .....	—	66	76	142
Other liabilities .....	—	143	1	144
<b>Total liabilities at fair value .....</b>	<b>\$ 1,567</b>	<b>\$ 17,593</b>	<b>\$ 84</b>	<b>\$ 18,941</b>

- (1) Derivative contracts are reported on a gross basis by level, with the total at fair value column including the impact of netting. The impact of netting represents an adjustment related to counterparty and cash collateral netting where the Company has a legal and enforceable right to net.

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### 3. Fair Value of Financial Instruments

#### Qualitative Disclosures of Valuation Techniques

##### Overview

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. Control functions such as Product Control and Risk Management 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, CSG determines the reasonableness of the fair value of its financial instruments.

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

One of the key components of the governance process is the segregation of duties between the Front Office and Product Control. The Front Office is responsible for measuring inventory at fair value on a daily basis, while Product Control is responsible for independently reviewing and validating those valuations on a periodic basis. The 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 validates this inventory using independently sourced data that also includes executed transactions, dealer quotes, and broker quotes.

In general, Product Control utilizes independent pricing service data as part of its review process. Independent pricing service data is analyzed to ensure that it is representative of fair value, including confirming that the data corresponds to executed transactions or executable broker quotes, review and assessment of contributors to ensure they are active market participants, review of statistical data and utilization of 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.

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### **3. Fair Value of Financial Instruments**

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 resulting 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.

The following information on the valuation techniques and significant unobservable inputs of the various financial instruments and the section “Uncertainty of fair value measurements from the use of significant unobservable inputs” should be read in conjunction with the tables “Assets and liabilities measured at fair value on a recurring basis”, “Quantitative information about level 3 assets measured at fair value on a recurring basis” and “Quantitative information about level 3 liabilities measured at fair value on a recurring basis”.

#### **Repurchase agreement and resale agreement transactions and securities borrowed and securities loaned**

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 borrowed and securities loaned are measured at fair value and 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.

#### **Securities received as collateral and obligation to return securities received as collateral**

Securities received as collateral and obligation to return securities received as collateral are measured at fair value using the method outlined below for “debt instruments” and “equity instruments.”



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### 3. Fair Value of Financial Instruments

#### Debt instruments

##### Corporates

Corporate bonds are priced to reflect current market levels either through recent market transactions or broker or dealer quotes. 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, discount rates, earnings before income tax, depreciation and amortization (EBITDA) multiples and equity market volatility. 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. Significant unobservable inputs may include correlation and price. For securities using market comparable price, the differentiation between level 2 and level 3 is based upon the relative significance of any yield adjustments as well as the accuracy of the comparison characteristics (i.e., the observable comparable security may be in the same country but in a different industry and may have a different seniority level – the lower the comparability the more likely the security will be level 3).

##### CMBS, RMBS and other 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. Generally, the fair values of RMBS, CMBS and other CDOs are valued using observable pricing sources. Fair values of RMBS, CMBS and other CDO securities for which there are significant unobservable inputs are valued using price that is derived. 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, use of a price from a similar instrument, or use of a price from an indicative quote. Fair values determined by market comparable price may include discounted cash flow models using the inputs credit spread, default rate, discount rate, prepayment rate and loss severity. Prices from similar observable instruments are used to calculate implied inputs which are then used to value unobservable instruments using discounted cash flow. The discounted cash flow price is then compared to the unobservable prices and assessed for reasonableness.

For some 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 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. Valuation models are used to value both cash and synthetic CDOs.

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### **3. Fair Value of Financial Instruments**

#### **Equity instruments**

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. Level 2 and level 3 equities include equity securities with restrictions that are not traded in active markets. Significant unobservable inputs may include price.

#### **Derivative contracts**

Derivatives held for trading purposes include both OTC and exchange-traded derivatives. The fair values of exchange-traded derivatives measured using observable exchange prices are included in level 1 of the fair value hierarchy. For exchange-traded derivatives where the volume of trading is low, the observable exchange prices may not be considered executable at the reporting date. These derivatives are valued in the same manner as similar observable OTC derivatives and are included in level 2 of the fair value hierarchy. If the similar OTC derivative used for valuing the exchange-traded derivative is not observable, the exchange-traded derivative is included in level 3 of the fair value hierarchy. See Note 7 for more information.

The fair values of OTC derivatives are determined on the basis of industry standard models. The model uses 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. 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 the value is derived from unobservable inputs are categorized as level 3 of the fair value hierarchy.

#### **Other assets**

The Company's other assets include loans held-for-sale held by VIE's that are used to back the securities issued by the VIEs. The fair value of loans held-for-sale from VIEs 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. The significant unobservable input for loans held-for-sale is price. There were no loans held-for-sale categorized as level 3 as of June 30, 2022.

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### **3. Fair Value of Financial Instruments**

#### **Subordinated and other long-term borrowings**

The Company's subordinated and other long-term borrowings include 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 and other long-term borrowings is price. There was an immaterial subordinated and other long-term borrowings balance categorized as level 3 as of June 30, 2022.

#### **Other liabilities**

Included in other liabilities are Contingent Capital Awards (CCAs) and other deferred compensation plans, which are measured at fair value using the discounted cash flow method. The value of the CCAs liabilities are based on CSG's referenced contingent convertible (coco) instruments. The significant unobservable input is credit spread.

#### **Uncertainty of fair value measurements from the use of significant unobservable inputs**

For level 3 assets with a significant unobservable input of price, correlation or volatility and prepayment rate, 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 credit spread, in general, an increase in the significant unobservable input would decrease the fair value. For level 3 liabilities, in general, an increase in the related significant unobservable inputs would have the inverse impact on fair value.

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### 3. Fair Value of Financial Instruments

#### Interrelationships between significant unobservable inputs

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 material impact on the other significant unobservable inputs.

#### 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.

June 30, 2022	Fair Value (In millions)	Valuation Technique	Unobservable Input	Minimum Value	Maximum Value	Weighted Average
<b>Assets</b>						
Debt instruments:						
Commercial mortgage backed securities	61	Discounted cash flow	Discount rate, in %	6.3 %	20.7 %	7.8 %
Other CDOs	124	Discounted cash flow	Discount rate, in %	5.7 %	23.5 %	12.3 %
Residential mortgage backed securities	371	Discounted cash flow	Discount rate, in %	6.6 %	24.0 %	11.3 %
Equity instruments	82	Market comparable	Price, in actuals	—	6,500.0	1,015.0
		Vendor price	Price, in actuals	—	500.0	28.1
Derivative contracts:						
Credit products	56	Discounted cash flow	Credit spread, in bps	148	391	237
			Recovery rate, in %	7.0 %	31.0 %	9.4 %
Other assets:						
Other	79	Market comparable	Price, in actuals	0.0	85.3	19.0
<b>Liabilities</b>						
Long-term borrowings	76	Market comparable	Price, in %	0.0 %	99.5 %	17.4 %

#### 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.

*Credit spread and recovery rate.* For financial instruments where credit spread is the significant unobservable input, the wide range represents positions with varying levels of risk. The lower end of the credit spread range typically represents shorter-dated instruments and/or those with better perceived credit risk. The higher end of the range typically comprises longer-dated financial instruments or those referencing non-performing, distressed or impaired reference credits. Similarly, the spread between the reference credit and an index can vary significantly based on the risk of the instrument. The spread will be positive for instruments that have a higher risk of default than the index (which is based on a weighted average of its components) and negative for instruments that have a lower risk of default than the index.

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*Discount rate.* The discount rate is the rate of interest used to calculate the present value of 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.

*Price.* Bond equivalent price is a primary significant unobservable input for multiple products. Where market prices are not available for an instrument, benchmarking may be utilized to identify comparable issues (same industry and similar product mixes) while adjustments are considered for differences in deal terms and performance.

#### Fair Value Option

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

*Collateralized financings:* The Company has elected to account for matched book repurchase and resale agreements and securities borrowed and securities loaned transactions at fair value.

*Other assets:* Included in other assets are the loans held-for-sale from VIEs that were consolidated.

*Subordinated and other long-term borrowings:* Subordinated and other long-term borrowings include long-term borrowings of VIEs that were consolidated.

#### Difference between the fair value and the aggregate unpaid principal balances of fair value option elected financial instruments

June 30, 2022	Of which at fair value	Aggregate unpaid principal	Difference between aggregate fair value and unpaid principal
		(In millions)	
Resale agreements .....	\$ 26,922	\$ 26,913	\$ 9
Securities-borrowed transactions .....	1,574	1,574	—
Other assets - Loans held-for-sale .....	69	94	(25)
Repurchase agreements .....	15,382	15,382	—
Securities-lending transactions .....	186	186	—
Subordinated and other long-term borrowings .....	142	233	(91)

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### 3. Fair Value of Financial Instruments

#### 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 real estate, premises and equipment, equity method investments and pension and benefit obligations, along with receivables and payables with customers and brokers, dealers and others with an expected maturity of less than one year.

June 30, 2022	Carrying Value	Fair Value			
		Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
		(In millions)			
Cash and cash equivalents .....	\$ 631	\$ 631	\$ —	\$ —	\$ 631
Resale agreements .....	15,097	—	15,097	—	15,097
Securities borrowed transactions .....	4,635	—	4,635	—	4,635
Other assets and deferred amounts .....	1,878	—	1,856	22	1,878
Total financial assets .....	22,241	631	21,588	22	22,241
<b>Financial Liabilities</b>					
Short-term borrowings (1) .....	\$ 200	\$ 61	\$ 139	\$ —	\$ 200
Repurchase agreements .....	2,977	—	2,977	—	2,977
Securities loaned transactions .....	3,995	—	3,995	—	3,995
Subordinated and other long-term borrowings .....	21,929	—	21,991	—	21,991
Other liabilities .....	1,554	—	1,554	—	1,554
Total financial liabilities .....	30,655	61	30,656	—	30,717

(1) Amounts in Level 1 relate to cash overdrafts.

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#### 4. Related Party Transactions

In the ordinary course of business, the Company enters into significant financing and operating transactions with related companies.

The following table sets forth the Company's related party assets and liabilities as of June 30, 2022:

<b>ASSETS</b>	
	<b>(In millions)</b>
Cash and cash equivalents .....	\$ 69
Securities purchased under agreements to resell .....	39,538
Securities borrowed .....	2,676
Securities received as collateral .....	321
Debt instruments (included in Financial instruments owned) .....	414
Derivative contracts (included in Financial instruments owned) .....	4
Receivables from customers .....	18
Receivables from brokers, dealers and others .....	52
Net deferred tax asset .....	667
Taxes receivable (included in Other assets and deferred amounts) .....	44
Other assets and deferred amounts .....	838
Total assets .....	\$ 44,641
<b>LIABILITIES</b>	
Short-term borrowings .....	\$ 144
Securities sold under agreements to repurchase .....	14,844
Securities loaned .....	3,943
Obligation to return securities received as collateral .....	321
Debt instruments (included in Financial instruments sold not yet purchased) .....	34
Derivative contracts (included in Financial instruments sold not yet purchased) .....	2
Payables to customers .....	550
Payables to brokers, dealers and others .....	3,414
Subordinated and other long-term borrowings .....	21,928
Other liabilities .....	691
Total liabilities .....	\$ 45,871

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#### **4. Related Party Transactions**

The Company has certain foreign affiliates holding customer securities pursuant to the applicable SEC rules.

The Company carries its subordinated and long-term borrowings with affiliates on an accrual basis. Subordinated and other long-term borrowings with affiliates are with CS Holdings and CS USA. See Note 12 for more information.

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 as compensation for services performed. The Company purchases shares directly from CSG to satisfy these awards. For the six months ended June 30, 2022, the Company decreased its member's contribution by \$1 million, which consisted of accruals for share award obligations, the purchases of shares for delivery to employees including realized mark-to-market gains (losses) on these shares at delivery date and dividend equivalents.

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 18 for more information.

Where Credit Suisse Group AG and/or one or more of its subsidiaries or affiliates are named defendants in a particular litigation, Credit Suisse Group AG has procedures to determine the proper allocation of legal costs among the several defendants. As a result of this process, certain litigation which involves affiliates of the Company are recorded within the financial statements of the Company.



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**5. Other Assets and Liabilities**

The following table sets forth the Company's other assets and liabilities as of June 30, 2022:

<b>Other Assets</b>	<b>(In millions)</b>
Cash collateral on derivative instruments .....	\$ 508
Cash collateral on non-derivative transactions .....	164
Loans .....	19
Loans held-for-sale .....	69
Premises and equipment .....	772
Interest and fee receivable .....	992
Prepaid expenses, of which \$19 is cloud computing arrangement implementation costs .....	281
Other investments .....	101
Other .....	219
Total other assets .....	\$ 3,125

<b>Other Liabilities</b>	<b>(In millions)</b>
Cash collateral on derivative instruments .....	\$ 108
Cash collateral on non-derivative transactions .....	78
Provisions .....	1,326
Interest and fee payable .....	1,141
Other .....	760
Total other liabilities .....	\$ 3,413

The following table sets forth the Company's premises and equipment as of June 30, 2022:

<b>Premises and Equipment</b>	<b>(In millions)</b>
Capitalized software .....	\$ 2,085
Leasehold improvements .....	98
Equipment .....	2
<b>Premises and equipment</b> .....	2,185
Accumulated depreciation .....	(1,413)
<b>Total premises and equipment, net</b> .....	\$ 772

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### 5. Other Assets and Liabilities

Leasehold improvements, such as alterations and improvements to rented premises, are depreciated on a straight-line basis over the shorter of the lease term or estimated useful life, which generally does not exceed ten years. Equipment, such as computers, machinery, furnishings, vehicles and other tangible non-financial assets, is depreciated using the straight-line method over its estimated useful lives, generally three to ten years. The capitalized software costs are depreciated on a straight-line basis over the estimated useful life of the software, generally not exceeding seven years, taking into consideration the effects of obsolescence, technology, competition and other economic factors.

### 6. Receivables from/Payables to Brokers, Dealers and Others

Amounts receivable from and payable to brokers, dealers and others as of June 30, 2022 consist of the following:

	<u>Receivables</u>	<u>Payables</u>
	(In millions)	
Unsettled regular way securities trades, net .....	\$ 383	\$ —
Fails to deliver/fails to receive .....	352	343
Omnibus receivables/payables .....	146	—
Receivables from/payables to clearing organizations .....	2,237	46
Other non-customer receivables/payables .....	—	3,046
Total .....	<u>\$ 3,118</u>	<u>\$ 3,435</u>

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.

### 7. Derivative Contracts

Derivatives are generally standard contracts transacted through regulated exchanges. The Company uses derivative contracts for trading, to provide products for clients and economic hedging purposes. 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.

#### *Options*

The Company performs market making activities for option contracts specifically designed to meet customer needs or for economic hedging purposes. Most options do not expose the Company to credit risk because they are primarily exchange traded options, except for credit options. 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. With purchased options, the Company gets the right, for a fee, to buy or sell

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## 7. Derivative Contracts

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.

### *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 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. These contracts are typically settled through the Chicago Mercantile Exchange (CME).

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 reviews the credit worthiness of 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.

### *Swaps*

The Company's swap agreements consist primarily of interest rate, equity, and credit default swaps. Interest rate swaps are contractual agreements to exchange interest rate payments based on agreed notional amounts and maturity. Equity swaps are contractual agreements to receive the appreciation or depreciation in value based on a specific strike price on an equity instrument in exchange for paying another rate, which is usually based on index or interest rate movements. Credit default swaps are contractual agreements in which one counterparty pays a periodic fee in return for a contingent payment by the other counterparty following a credit event of a reference entity. A credit event is commonly defined as bankruptcy, insolvency, receivership, material adverse restructuring of debt, or failure to meet payment obligations when due.

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## 7. Derivative Contracts

### 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.

	Notional amount	Positive replacement value	Negative replacement value
<b>June 30, 2022</b>		<b>(In millions)</b>	
Forwards .....	\$ 97,240	\$ 488	\$ 608
Futures .....	1,601	—	—
<b>Interest rate products</b> .....	<b>98,841</b>	<b>488</b>	<b>608</b>
Forwards .....	7,874	14	12
<b>Foreign exchange products</b> .....	<b>7,874</b>	<b>14</b>	<b>12</b>
Forwards .....	98	7	5
Futures .....	1,433	—	—
Options bought and sold (OTC) .....	15	—	—
Options bought and sold (exchange traded) .....	1,010	5	—
<b>Equity/index-related products</b> .....	<b>2,556</b>	<b>12</b>	<b>5</b>
Swaps sold .....	194	2	5
Swaps purchased .....	3,742	14	13
Swaptions purchased .....	2,389	96	—
Swaptions sold .....	250	—	—
<b>Credit products</b> .....	<b>6,575</b>	<b>112</b>	<b>18</b>
<b>Total gross derivative contracts</b> .....	<b>\$ 115,846</b>	<b>\$ 626</b>	<b>\$ 643</b>
Impact of counterparty netting (1) .....	—	(300)	(300)
Impact of cash collateral netting (1) .....	—	(104)	(3)
<b>Total derivative contracts (1)</b> .....	<b>\$ 115,846</b>	<b>\$ 222</b>	<b>\$ 340</b>

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

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## 7. Derivative Contracts

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 derivatives

Included in the table above 'Fair value of derivative instruments' are credit derivatives which are contractual agreements in which the buyer generally pays a fee in exchange for a contingent payment by the seller if there is a credit event on the underlying referenced entity or asset. They are generally privately negotiated OTC contracts, with numerous settlement and payment terms, and most are structured so that they specify the occurrence of an identifiable credit event, which can include bankruptcy, insolvency, receivership, material adverse restructuring of debt or failure to meet obligations when due.

From time to time the Company enters into credit derivative contracts in the normal course of business by buying protection. The Company purchases protection to economically hedge various forms of credit exposure, for example, the economic hedging of other cash positions. These referenced instruments can form a single item or be combined on a portfolio or multiname basis.

The credit derivatives most commonly transacted by the Company are CDS and credit swaptions. CDSs are contractual agreements in which the buyer of the swap pays an upfront and/or a periodic fee in return for a contingent payment by the seller of the swap following a credit event of the referenced entity or asset. Credit swaptions are options with a specified maturity to buy or sell protection under a CDS on a specific referenced credit event.

### Credit protection sold

Credit protection sold is the maximum potential payout, which is based on the notional value of derivatives and represents the amount of future payments that the Company would be required to make as a result of credit risk-related events. The Company believes that the maximum potential payout is not representative of the actual loss exposure based on historical experience. In accordance with most credit derivative contracts, should a credit event (or settlement trigger) occur, the Company is usually liable for the difference between credit protection sold and the recourse it holds in the value of the underlying assets. The maximum potential amount of future payments has not been reduced for any cash collateral paid to a given counterparty as such payments would be calculated after netting all derivative exposures, including any credit derivatives with that counterparty in accordance with a related master netting agreement. Due to such netting processes, determining the amount of collateral that corresponds to credit derivative exposures only is not possible.

To reflect the quality of the credit risk of the underlying, the Company assigns an internally generated rating. Internal ratings are assigned by experienced credit analysts, based on expert judgment that incorporates analysis and evaluation of both quantitative and qualitative factors. The specific factors analyzed, and the relative importance, are dependent on the type of counterparty. The analysis emphasizes a forward looking approach, concentrating on economic trends and financial fundamentals, and making use of peer analysis,

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## 7. Derivative Contracts

industry comparisons and other quantitative tools. External ratings and market information are also used in the analysis process where available.

As of June 30, 2022, 46% of the notional amount of credit protection purchased and 87% of the notional amount of credit protection sold by the Company was with an affiliate.

### **Credit protection purchased**

Credit protection purchased represents those instruments where the underlying reference instrument is identical to the reference instrument of the credit protection sold. The maximum potential payout amount of credit protection purchased for each individual identical underlying reference instrument may be greater or lower than the notional amount of protection sold.

The Company also considers estimated recoveries that it would receive if the specified credit event occurred, including both the anticipated value of the underlying referenced asset that would, in most instances, be transferred to the Company and the impact of any purchased protection with an identical reference instrument.

### **Other protection purchased**

In the normal course of business, the Company purchases protection to offset the risk of credit protection sold that may have similar, but not identical, reference instruments, and may use similar, but not identical products, which reduces the total credit derivative exposure. Other protection purchased is based on the notional value of the instruments.

The Company purchases its protection from banks and broker dealers, other financial institutions and other counterparties.

### **Fair value of credit protection sold**

The fair values of the credit protection sold give an indication of the amount of payment risk, as the negative fair values increase when the potential payment under the derivative contracts becomes more probable.

### **Credit protection sold/purchased**

The following tables do not include all credit derivatives and differ from the credit derivatives in the “Fair value of derivative instruments” table. This is due to the exclusion of certain credit derivative instruments under US GAAP, which defines a credit derivative as a derivative instrument (a) in which one or more of its underlyings are related to the credit risk of a specified entity (or a group of entities) or an index based on the credit risk of a group of entities and (b) that exposes the seller to potential loss from credit risk related events specified in the contract. Total return swaps (TRS) of \$509 million were excluded because a TRS does not expose the seller to potential loss from credit risk-related events specified in the contract. A

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## 7. Derivative Contracts

TRS only provides protection against a loss in asset value and not against additional amounts as a result of specific credit events.

The Company's credit protection sold and purchased for the six months ended June 30, 2022 was as follows:

June 30, 2022	Credit Derivative Exposures				
	Credit protection sold	Credit protection purchased	Net Credit protection (sold)/ purchased	Other protection purchased	Fair value of credit protection sold
	(In millions)				
<b>Single name instruments</b>					
Investment grade .....	\$ (2)	\$ —	\$ (2)	\$ 101	\$ —
Non-investment grade .....	(143)	60	(83)	646	(3)
<b>Total single name instruments</b>	<b>\$ (145)</b>	<b>\$ 60</b>	<b>\$ (85)</b>	<b>\$ 747</b>	<b>\$ (3)</b>
of which non-sovereign .....	(145)	60	(85)	747	(3)
<b>Multiname instruments</b>					
Non-investment grade .....	\$ (299)	\$ 250	\$ (49)	\$ 4,565	\$ —
<b>Total multiname instruments</b>	<b>\$ (299)</b>	<b>\$ 250</b>	<b>\$ (49)</b>	<b>\$ 4,565</b>	<b>\$ —</b>
of which non-sovereign .....	(299)	250	(49)	4,565	—
<b>Total instruments</b>	<b>\$ (444)</b>	<b>\$ 310</b>	<b>\$ (134)</b>	<b>\$ 5,312</b>	<b>\$ (3)</b>

The maturity and underlying risk gives an indication of the current status of the potential for performance under the derivative contracts.

The maximum potential amount of future payments that the Company would be required to make under the credit derivatives as a result of credit-risk-related events for which it has sold protection as of June 30, 2022 was as follows:

	Maximum Potential Payout by Maturity			
	Less than 1 year	1 - 5 years	Over 5 years	Total
	(in millions)			
Single name instruments .....	\$ 15	\$ 130	\$ —	\$ 145
Multiname instruments .....	250	49	—	299
<b>Total instruments</b>	<b>\$ 265</b>	<b>\$ 179</b>	<b>\$ —</b>	<b>\$ 444</b>

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## 8. Assets Assigned and Pledged

The Company pledges assets mainly for repurchase agreements and other securities financing. Certain pledged assets may be encumbered, meaning they have the right to be sold or repledged. The encumbered assets are parenthetically disclosed on the consolidated statement of financial condition. The Company receives cash and securities in connection with resale agreements, securities borrowing and loans and margined broker loans.

A significant portion of the collateral and securities received by the Company were sold or repledged in connection with repurchase agreements, securities sold not yet purchased, securities borrowing or loans, pledges to clearing organizations and segregation requirements under securities laws and regulations.

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 June 30, 2022:

	<u>June 30, 2022</u>
	(In millions)
Total assets pledged or assigned as collateral by the Company .....	\$ 6,970
of which was encumbered .....	3,018
Fair value of the collateral received by the Company with the right to sell or repledge .....	61,574
of which was sold or repledged .....	35,873

## 9. Offsetting of Financial Assets and Financial Liabilities

The disclosures set out in the tables below include derivatives, resale and repurchase agreements, and securities lending and borrowing transactions that are offset in the Company's consolidated statement of financial condition; or are subject to an enforceable master netting agreement or similar agreement (enforceable master netting agreements or enforceable MNA), irrespective of whether they are offset in the Company's consolidated statement of financial condition. Similar agreements include derivative clearing agreements, global master repurchase agreements and global master securities lending agreements.



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## **9. Offsetting of Financial Assets and Financial Liabilities**

### **Derivatives**

The Company transacts bilateral OTC derivatives (OTC derivatives) mainly under International Swaps and Derivatives Association (ISDA) Master Agreements. These agreements provide for the net settlement of all transactions under the agreement through a single payment in the event of default on or termination under the agreement. They allow the Company to offset balances from derivative assets and liabilities as well as the receivables and payables to related cash collateral transacted with the same counterparty. Collateral for OTC derivatives is received and provided in the form of cash and marketable securities. Such collateral may be subject to the standard industry terms of an ISDA Credit Support Annex. The terms of an ISDA Credit Support Annex provide that securities received or provided as collateral may be pledged or sold during the term of the transactions and must be returned upon maturity of the transaction. These terms also give each counterparty the right to terminate the related transactions upon the other counterparty's failure to post collateral. Financial collateral received or pledged for OTC derivatives may also be subject to collateral agreements which restrict the use of financial collateral.

For derivatives transacted with exchanges (exchange-traded derivatives) and central clearing counterparties (OTC-cleared derivatives), positive and negative replacement values and related cash collateral may be offset if the terms of the rules and regulations governing these exchanges and central clearing counterparties permit such netting and offset. Where no such agreements exist, fair values are recorded on a gross basis.

Exchange-traded derivatives or OTC-cleared derivatives, which are fully margined and for which the daily margin payments constitute settlement of the outstanding exposure, are not included in the offsetting disclosures because they are not subject to offsetting due to the daily settlement. The daily margin payments, which are not settled until the next settlement cycle is conducted, are presented in brokerage receivables or brokerage payables.

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**9. Offsetting of Financial Assets and Financial Liabilities**

**Offsetting of derivatives**

The following table presents the gross amount of derivatives subject to enforceable master netting agreements by contract and transaction type, the amount of offsetting, the amount of derivatives not subject to enforceable master netting agreements and the net amount presented in the consolidated statement of financial condition.

	<b>Derivative assets</b>	<b>Derivative liabilities</b>
<b>As of June 30, 2022</b>	<b>(In millions)</b>	
OTC-cleared.....	\$ 213	\$ 317
OTC.....	158	109
<b>Interest rate products</b> .....	<b>371</b>	<b>426</b>
OTC.....	14	12
<b>Foreign exchange products</b> .....	<b>14</b>	<b>12</b>
Exchange-traded.....	5	—
<b>Equity/index-related products</b> .....	<b>5</b>	<b>—</b>
OTC.....	107	18
<b>Credit products</b> .....	<b>107</b>	<b>18</b>
OTC-cleared.....	213	317
OTC.....	279	139
Exchange-traded.....	5	—
<b>Total gross derivative contracts subject to enforceable MNA</b> .....	<b>497</b>	<b>456</b>
of which OTC-cleared.....	(203)	(203)
of which OTC.....	(201)	(100)
<b>Offsetting</b> .....	<b>(404)</b>	<b>(303)</b>
of which OTC-cleared.....	10	114
of which OTC.....	78	39
of which exchange-traded.....	5	—
<b>Total net derivatives subject to enforceable MNA</b> .....	<b>93</b>	<b>153</b>
<b>Total derivatives not subject to enforceable MNA (1)</b> .....	<b>129</b>	<b>187</b>
<b>Total net derivatives presented in the consolidated statement of financial condition</b> .....	<b>\$ 222</b>	<b>\$ 340</b>

(1) Represents derivatives where a legal opinion supporting their enforceability of netting in the event of default or termination under the agreement is not in place.

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**9. Offsetting of Financial Assets and Financial Liabilities**

**Resale and repurchase agreements and securities lending and borrowing transactions**

Resale and repurchase agreements are generally covered by master repurchase agreements. In certain situations, for example, in the event of default, all contracts under the agreements are terminated and are settled net in one single payment. Master repurchase agreements also include payment or settlement netting provisions in the normal course of business that state that all amounts in the same currency payable by each party to the other under any transaction or otherwise under the global master repurchase agreement on the same date shall be set off.

The Company has elected to net transactions under such agreements in the consolidated statement of financial condition when specific conditions are met. Transactions are netted if, amongst other conditions, they are executed with the same counterparty, have the same explicit settlement date specified at the inception of the transactions, are settled through the same securities transfer system and are subject to the same enforceable master netting agreement. The amounts offset are measured on the same basis as the underlying transaction (i.e., on an accrual basis or fair value basis).

Securities lending and borrowing transactions are generally executed under global master securities lending agreements with netting terms similar to ISDA Master Agreements. In certain situations, for example in the event of default, all contracts under the agreement are terminated and are settled net in one single payment. Transactions under these agreements are netted in the consolidated statement of financial condition if they meet the same right of offset criteria as for resale and repurchase agreements. In general, most securities lending and borrowing transactions do not meet the criterion of having the same settlement date specified at inception of the transaction, and therefore they are not eligible for netting in the consolidated statement of financial condition. However, securities lending and borrowing transactions with explicit maturity dates may be eligible for netting in the consolidated statement of financial condition.

Resale and repurchase agreements are collateralized principally by government securities, money market instruments and corporate bonds and have terms ranging from overnight to a longer or unspecified period of time. In the event of counterparty default, the resale agreements or securities lending agreement provides the Company with the right to liquidate the collateral held. As is the case in the Company's normal course of business, substantially all of the collateral received that may be sold or repledged has been sold or repledged as of June 30, 2022. In certain circumstances, financial collateral received may be restricted during the term of the agreement (e.g., in tri-party arrangements).

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**9. Offsetting of Financial Assets and Financial Liabilities**

**Offsetting of securities purchased under resale agreements and securities borrowing transactions**

The following table presents the gross amount of securities purchased under resale agreements and securities borrowing transactions subject to enforceable master netting agreements, the amount of offsetting, the amount of securities purchased under resale agreements and securities borrowing transactions not subject to enforceable master netting agreements and the net amount presented in the consolidated statement of financial condition.

<b>June 30, 2022</b>	<b>Gross</b>	<b>Offsetting</b>	<b>Net</b>
	<b>(In millions)</b>		
Securities purchased under resale agreements.....	\$ 44,915	\$ (2,896)	\$ 42,019
Securities borrowing transactions.....	4,312	—	4,312
<b>Total subject to enforceable MNA.....</b>	<b>49,227</b>	<b>(2,896)</b>	<b>46,331</b>
Securities borrowing transactions.....	1,897	—	1,897
<b>Total not subject to enforceable MNA (1).....</b>	<b>1,897</b>	<b>—</b>	<b>1,897</b>
<b>Total (2).....</b>	<b>\$ 51,124</b>	<b>\$ (2,896)</b>	<b>\$ 48,228</b>

- (1) Represents securities purchased under resale agreements and securities borrowing transactions where a legal opinion supporting their enforceability of netting in the event of default or termination under the agreement is not in place.
- (2) \$26,922 million of the total net amount of securities purchased under resale agreements and \$1,574 million securities borrowing transactions are reported at fair value.

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**9. Offsetting of Financial Assets and Financial Liabilities**

**Offsetting of securities sold under repurchase agreements and securities lending transactions**

The following table presents the gross amount of securities sold under repurchase agreements and securities lending transactions subject to enforceable master netting agreements, the amount of offsetting, the amount of securities sold under repurchase agreements and securities lending transactions not subject to master netting agreements and the net amount presented in the consolidated statement of financial condition.

<b>June 30, 2022</b>	<b>Gross</b>	<b>Offsetting</b>	<b>Net</b>
	<b>(In millions)</b>		
Securities sold under repurchase agreements (1).....	\$ 20,955	\$ (2,896)	\$ 18,059
Securities lending transactions (2).....	4,155	—	4,155
Obligation to return securities received as collateral, at fair value .....	321	—	321
<b>Total subject to enforceable MNA</b> .....	<b>25,431</b>	<b>(2,896)</b>	<b>22,535</b>
Securities sold under repurchase agreements .....	300	—	300
Securities lending transactions .....	26	—	26
<b>Total not subject to enforceable MNA (3)</b> .....	<b>326</b>	<b>—</b>	<b>326</b>
<b>Total</b> .....	<b>\$ 25,757</b>	<b>\$ (2,896)</b>	<b>\$ 22,861</b>

(1) Represents securities sold under repurchase agreements and securities lending transactions where a legal opinion supporting their enforceability of netting in the event of default or termination under the agreement is not in place.

(2) \$15,382 million of the total net amount of securities sold under repurchase agreements and \$186 million of the total net amount of securities lending transactions are reported at fair value.

**Amount not offset in the consolidated statement of financial condition**

The following table presents the net amount presented in the consolidated statement of financial condition of financial assets and liabilities subject to enforceable master netting agreements and the gross amount of financial instruments and cash collateral not offset in the consolidated statement of financial condition. The table excludes derivatives, resale and repurchase agreements and securities lending and borrowing transactions not subject to enforceable master netting agreements where a legal opinion supporting the enforceability of netting in the event of default or termination under the agreement is not in place. Net exposure reflects risk mitigation in the form of collateral.

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**9. Offsetting of Financial Assets and Financial Liabilities**

June 30, 2022	Net	Financial Instruments <sup>(1)</sup>	Cash collateral received/pledged <sup>(1)</sup>	Net exposure
(In millions)				
<b>Financial assets subject to enforceable MNA</b>				
Derivative contracts .....	\$ 93	\$ 6	\$ —	\$ 87
Securities purchased under resale agreements .....	42,019	42,019	—	—
Securities borrowing transactions .....	4,312	4,138	—	174
<b>Total financial assets subject to enforceable MNA .....</b>	<b>\$ 46,424</b>	<b>\$ 46,163</b>	<b>\$ —</b>	<b>\$ 261</b>
<b>Financial liabilities subject to enforceable MNA</b>				
Derivative contracts .....	\$ 153	\$ 115	\$ —	\$ 38
Securities sold under repurchase agreements .....	18,059	18,059	—	—
Securities lending transactions .....	4,155	4,083	—	72
Obligation to return securities received as collateral, at fair value ..	321	321	—	—
<b>Total financial liabilities subject to enforceable MNA .....</b>	<b>\$ 22,688</b>	<b>\$ 22,578</b>	<b>\$ —</b>	<b>\$ 110</b>

- (1) The total amount reported in financial instruments (recognized financial assets and financial liabilities and non-cash financial collateral) and cash collateral is limited to the amount of the related instruments presented in the consolidated statement of financial condition and therefore any over-collateralization of these positions is not included.

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

**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 assist the Group and its clients in securitizing 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 mortgages and 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, CMBS, and other debt securities for the purpose of securitization and sells these securities to SPEs. These SPEs issue RMBS, CMBS and other CDOs that are collateralized by

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## **10. Transfers of Financial Assets and Variable Interest Entities**

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. Third-party guarantees may further enhance the creditworthiness 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.

The Company also transacts in re-securitizations of previously issued RMBS securities. Typically, certificates issued out of an existing securitization vehicle are sold into a newly created and separate securitization vehicle. Often, these re-securitizations are initiated in order to re-securitize an existing security to give the investor an investment with different risk ratings or characteristics.

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.

### **Continuing involvement in transferred financial assets**

The Company may have continuing involvement in the financial assets that are transferred to an SPE, which may take several forms, including, but not limited to, recourse and guarantee arrangements and beneficial interests in the transferred assets. Beneficial interests, which are valued at fair value, include 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. The carrying value and maximum exposure as of June 30, 2022 resulting from agreements to provide support to SPEs is included in the section titled 'Non-consolidated VIEs'.

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.

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

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

The following table provides the outstanding principal balance of assets to which the Company continues to be exposed/has continuing involvement with after the transfer of the financial assets to any SPE and the total assets of the SPE as of June 30, 2022, regardless of when the transfer of assets occurred.

	For the six months ended June 30, 2022		
	RMBS	CMBS	CDO
	(In millions)		
Principal amount outstanding (1) .....	\$ 742	\$ 5,014	\$ 364
Total assets of SPE .....	742	5,014	364

(1) Principal amount outstanding relates to assets transferred from the Company and does not include principal amounts for assets transferred from third parties.

**Fair value of beneficial interests**

The fair value measurement of the beneficial interests held at the time of transfer and as of the reporting date that result from any continuing involvement is 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 hedge the inherent risks.

**Key economic assumptions used in measuring the fair value of beneficial interests at the time of transfer during the six months ended June 30, 2022**

	For the six months ended June 30, 2022
	CMBS
	(Dollars in millions)
Fair value of assets .....	\$ 242
of which level 1 .....	—
of which level 2 .....	177
of which level 3 .....	65
Weighted-average life, in years .....	5.8
Prepayment speed assumption (rate per annum), in % .....	15 %
Cash flow discount rate (rate per annum), in % .....	3.5% - 10.3%
Expected credit losses (rate per annum), in % .....	0 %



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

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 June 30, 2022:

	As of June 30, 2022	
	RMBS	CMBS
	(Dollars in millions)	
Fair value of assets and liabilities .....	\$ 25	\$ 250
of which non-investment grade .....	\$ 7	\$ —
Weighted-average life, in years .....	7.3	5.2
Prepayment speed assumption (rate per annum), in % .....	4% - 12.2%	0% - 15%
Impact on fair value from 10% adverse change .....	\$ (2)	\$ (3)
Impact on fair value from 20% adverse change .....	\$ (3)	\$ (7)
Cash flow discount rate (rate per annum), in % .....	6.2% - 32.5%	4.6% - 41.9%
Impact on fair value from 10% adverse change .....	\$ (2)	\$ (5)
Impact on fair value from 20% adverse change .....	\$ (4)	\$ (10)
Expected credit losses (rate per annum), in % .....	0% - 29.5%	0 %
Impact on fair value from 10% adverse change .....	\$ (2)	\$ (3)
Impact on fair value from 20% adverse change .....	\$ (4)	\$ (5)

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.

**Securities sold under repurchase agreements and lending transactions accounted for as secured borrowings**

For securities sold under repurchase agreements and securities lending transactions accounted for as secured borrowings, US GAAP requires the disclosure of the collateral pledged and the associated risks to which a transferor continues to be exposed after the transfer. This provides an understanding of the nature and risks of short-term collateralized financing obtained through these types of transactions.

Securities sold under repurchase agreements and securities lending transactions represent collateralized financing transactions used to earn net interest income, increase liquidity or facilitate trading activities. These transactions are collateralized principally by government debt securities, corporate debt securities, asset backed securities, equity securities and other collateral and have terms ranging from overnight to a longer or unspecified period of time.

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

In the event of the Company's default or a decline in fair value of collateral pledged, the repurchase agreement or security lending transaction provides the counterparty with the right to liquidate the collateral held or request additional collateral.

The following tables provide the gross obligation relating to securities sold under repurchase agreements, securities lending transactions and obligation to return securities received as collateral by the class of collateral pledged and by remaining contractual maturity as of June 30, 2022.

**Securities sold under repurchase agreements, securities lending transactions and obligation to return securities received as collateral – by class of collateral pledged**

	<b>June 30, 2022</b>
	<b>(In millions)</b>
Government debt securities .....	\$ 14,622
Corporate debt securities .....	3,858
Asset-backed securities .....	2,101
Equity securities .....	300
Other .....	374
<b>Securities sold under repurchase agreements</b> .....	<b>21,255</b>
Government debt securities .....	1,283
Corporate debt securities .....	174
Equity securities .....	2,724
<b>Securities lending transactions</b> .....	<b>4,181</b>
Government debt securities .....	321
<b>Obligation to return securities received as collateral, at fair value</b> .....	<b>321</b>
<b>Total</b> .....	<b>\$ 25,757</b>

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

**Securities sold under repurchase agreements, securities lending transactions and obligation to return securities received as collateral – by remaining contractual maturity**

As of June 30, 2022	On demand <sup>(1)</sup>	Remaining contractual maturities			Total
		Up to 30 days <sup>(2)</sup>	30 to 90 days	More than 90 days	
Securities sold under repurchase agreements .....	\$ 5,287	\$ 10,447	\$ 1,520	\$ 4,001	\$ 21,255
Securities lending transactions .....	913	7	100	3,161	4,181
Obligation to return securities received .....					
as collateral, at fair value .....	321	—	—	—	321
Total .....	<u>\$ 6,521</u>	<u>\$ 10,454</u>	<u>\$ 1,620</u>	<u>\$ 7,162</u>	<u>\$ 25,757</u>

(1) Includes contracts with no contractual maturity that may contain termination arrangements subject to a notice period.

(2) Includes overnight transactions.

Refer to “Note 9 – Offsetting of financial assets and financial liabilities” for a reconciliation of gross amounts of securities sold under repurchase agreements, securities lending transactions and obligation to return securities received as collateral to the net amounts disclosed in the consolidated statement of financial condition.

**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- or third parties. Such entities are required to be assessed for consolidation, requiring the primary beneficiary to consolidate the VIE. The consolidation assessment requires an entity to determine whether it has the power to direct the activities that most significantly affect the economics of the VIE as well as whether the reporting entity has potentially significant benefits or losses in the VIE. The primary beneficiary assessment must be re-evaluated on an ongoing basis.

Application of the requirements for consolidation of VIEs may require the exercise of significant 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 variable interest held by the Company prior to any risk management activities to hedge the Company’s net exposure. Any interests held in the VIE by third parties, even though consolidated by the Company, will not typically impact its results of operations.

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## **10. Transfers of Financial Assets and Variable Interest Entities**

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 significant involvement represent the most current information available to the Company regarding the remaining principal balance of assets owned. In most cases, the asset balances represent an amortized cost basis without regards 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 financial instruments owned 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.

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. The Company may act as underwriter or placement agent and may warehouse assets prior to the closing of a transaction. As part of its structured finance business, the Company purchases loans and other debt obligations from and on behalf of clients for the purpose of securitization. The loans and other debt obligations are sold to VIEs, which in turn 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 (CDS) counterparty. CDOs provide credit risk exposure to a portfolio of asset-backed securities (ABS) (cash CDOs) or a

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## **10. Transfers of Financial Assets and Variable Interest Entities**

reference portfolio of securities (synthetic CDOs). Cash CDO transactions hold actual securities whereas synthetic CDO transactions use CDS to exchange the underlying credit risk instead of using cash assets. The CDO entities may have actively managed (open) portfolios or static (closed) portfolios.

The securities 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.

### *Securizations*

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.

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.

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The maximum exposure to loss consists of the fair value of instruments issued by such structures that are held by the Company as a result of underwriting or market-making activities, financing provided to the vehicles and the Company's exposure resulting from principal protection and redemptions features. The investors typically retain the risk of loss on such transactions, but for certain fund types, the Company may provide principal protection on the securities to limit the investors' exposure to downside market risk. 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 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.

**Consolidated VIEs where the Company is the primary beneficiary**

	<b>Financial Intermediation Securitization</b>
<b>June 30, 2022</b>	<b>(In millions)</b>
<b>Assets</b>	
Debt instruments .....	\$ 79
Other assets .....	69
<b>Total assets</b> .....	<b>148</b>
<b>Liabilities</b>	
Subordinated and other long-term borrowings .....	142
<b>Total liabilities</b> .....	<b>\$ 142</b>

The assets and liabilities in the table above are presented net of intercompany eliminations.

**Non-consolidated VIEs**

The non-consolidated VIE tables provide the carrying amounts and classification of the assets of variable interests recorded in the consolidated statement of financial condition, maximum exposure to loss and total assets of the non-consolidated VIEs.

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### 10. Transfers of Financial Assets and Variable Interest Entities

Maximum exposure to loss represents the variable interests of non-consolidated VIEs that are held by the Company (for example, direct holdings in vehicles, loans and other receivables), as well as notional amounts of guarantees and off-balance sheet commitments which are variable interests that have been extended to non-consolidated VIEs. Such amounts, particularly notional amounts of derivatives and guarantees, do not represent the anticipated losses in connection with these transactions as they do not take into consideration the effect of collateral, recoveries or the probability of loss. In addition, they exclude the effect of offsetting financial instruments that are held to mitigate these risks and have not been reduced by unrealized losses previously recorded by the Company in connection with guarantees or derivatives.

Non-consolidated VIE assets are VIEs with which the Company has variable interests. These amounts are typically unrelated to the exposure the Company has with the entity and thus are not amounts that are considered for risk management purposes.

June 30, 2022	Financial Intermediation		
	CDOs	Securitizations	Total
	(In millions)		
Financial instruments owned.....	\$ 16	\$ 772	\$ 788
Net loans.....	—	1	1
Other assets.....	—	21	21
Total variable interest assets.....	16	794	810
Maximum exposure to loss.....	16	794	810
Non-consolidated VIE assets.....	\$ 839	\$ 124,989	\$ 125,828

### 11. Goodwill and Identifiable Intangible Assets

As of June 30, 2022, the Company did not have any goodwill in its books and had recorded a full impairment of \$518 million on the goodwill that existed at the beginning of the year.

The Company continually assesses whether or not there has been a triggering event requiring a review of goodwill.

The Company has a single reporting unit. The carrying value of the reporting unit for the purpose of the goodwill impairment test is determined by considering the reporting unit's risk-weighted assets usage, leverage ratio exposure, deferred tax assets, stressed capital buffer, goodwill, intangible assets and other common equity tier 1 (CET1) capital relevant adjustments.

In estimating the fair value of its reporting unit, the Company applied a combination of the income approach and the market approach. Under the market approach, fair value was estimated using external financial data and several implied market multiples. Under the income approach, a discount rate was applied that reflects the risk and uncertainty related to the reporting unit's projected cash flows, which were determined from the Company's financial plan.

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## **11. Goodwill and Identifiable Intangible Assets**

In determining the estimated fair value under the income approach, the Company mainly relied upon its latest five-year financial plan which included significant management assumptions and estimates based on its view of current and future economic conditions and regulatory changes. In determining the estimated fair value under the market approach, the Company mainly relied upon external prices, projected earnings and the tangible book value as at the valuation date.

Based on the financial data and market conditions during the period, the estimated fair value for the Company was below the estimated book value by an amount greater than the amount of goodwill and therefore the full amount of goodwill was impaired.

### **Intangible Assets**

As of June 30, 2022, the Company had \$12 million of indefinite-lived intangible assets. The Company had gross indefinite-lived intangible assets of \$12 million at the beginning of year along with no accumulated amortization and impairment. The Company will assess for impairment on intangible assets as part of its year-end annual review.

## **12. Borrowings**

Short-term borrowings are generally funding obligations with interest approximating the Federal Funds rate, or other money market indices and an incremental spread. Such borrowings are generally used to facilitate the securities settlement process, finance financial instruments owned and finance securities purchased by customers on margin. As of June 30, 2022, the Company had \$200 million in short-term borrowings, which predominately includes short-term borrowings from affiliates and has a weighted average interest rate of 3.5%. As of June 30, 2022, there were no short-term borrowings secured by Company-owned securities.



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## 12. Borrowings

As of June 30, 2022, the Company's outstanding subordinated and long-term borrowings were as follows:

	<u>(In millions)</u>
Subordinated debt agreement, Fed Funds rate plus 252 bps, due in 2032 (1) .....	\$ 2,500
Subordinated debt agreement, Fed Funds rate plus 261 bps, due in 2033 (1) .....	1,500
Equity subordinated debt, Fed Funds rate plus 263 bps, due in 2034 (1) .....	2,500
Other long-term borrowings 0%-10.6%, due various dates through 2047 (2) .....	142
Long-term borrowings from affiliate 1.5%-3.9%, due various dates through 2027 (3) .....	15,429
Total subordinated and other long-term borrowings .....	<u>\$ 22,071</u>

(1) The weighted average effective interest rate for these subordinated borrowings as of June 30, 2022 was 4.2%.

(2) Other long-term borrowings represent the long-term borrowings of VIEs consolidated under US GAAP.

(3) Certain long-term borrowings from an affiliate are evergreen borrowing facilities with a 370 day call notice period.

The following table sets forth scheduled maturities of all long-term borrowings as of June 30, 2022:

	<u>(In millions)</u>
2023 .....	\$ 4,428
2024 .....	2,000
2025 .....	2,000
2026 .....	4,000
Thereafter .....	9,643
Total .....	<u>\$ 22,071</u>

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.

## 13. Guarantees and Commitments

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. The carrying value represents the higher of the initial fair value (generally the related fee received or receivable) less cumulative amortization and the Company's current best estimate of payments that will be required under existing guarantee arrangements.

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

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### 13. Guarantees and Commitments

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.

#### *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.

As a member of FICC, the Company is required to provide additional liquidity resources under a program called the Capped Contingency Liquidity Facility (CCLF). In the event of a default of a netting member of FICC, the Company would be required to enter into a resale agreement providing cash to FICC and receiving securities as collateral. Each member's commitment amount is periodically recalculated by FICC and communicated to the member firm. At June 30, 2022, the Company's maximum commitment was \$1.1 billion, of which none has been utilized.

For the remaining membership agreements, 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.

#### **Other Commitments**

The following table sets forth the Company's commitments as of June 30, 2022:

	Commitment Expiration Per Period				Total commitments
	Less than 1 year	1-3 years	4-5 years	Over 5 years	
	(In millions)				
Forward reverse repurchase agreements (1).....	\$ 9	\$ —	\$ —	\$ —	\$ 9
Unfunded lending commitments .....	3	—	—	1,100	1,103
Total commitments .....	<u>\$ 12</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,100</u>	<u>\$ 1,112</u>

(1) Represents commitments to enter into securities purchased under agreements to resell and agreements to borrow securities.

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#### **14. Concentrations of Credit Risk**

The Company is engaged in various securities trading and brokerage activities servicing a diverse group of domestic and foreign corporations, governments and institutional 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 and 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.

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.

The Company had concentration risk exposure to U.S. Government and agency securities primarily through its financing activities. The Company's indirect exposure results from maintaining U.S. Government and agency securities as collateral for resale agreements and securities borrowed transactions. The Company's direct credit exposure on these transactions is with the counterparty; thus the Company has credit exposure to the U.S. Government and its agencies only in the event of the counterparty's default. In addition, substantially all of the collateral held by the Company for resale agreements and securities borrowed as of June 30, 2022, consisted of U.S. Government and agency securities.

#### **15. 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 15c3-1, 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 June 30, 2022, the Company's net capital of approximately \$11.3 billion which was in excess of the CFTC's minimum requirement by approximately \$11.0 billion.

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## **16. 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 did not have any cash or U.S. Treasury securities as of June 30, 2022, segregated 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 Broker Dealers (PAB) pursuant to SEC Rule 15c3-3. As of June 30, 2022, the Company segregated U.S. Treasury securities with a market value of \$2.0 billion in a special reserve bank account to meet the PAB 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 June 30, 2022, \$1.3 billion of cash was segregated in separate accounts exclusively for the benefit of customers.

As a futures commission merchant, the Company is required to perform computations of the requirements of Section 4d(F) under the Commodity Exchange Act. As of June 30, 2022, \$2.8 billion of cash and \$0.1 billion of securities aggregating to \$2.9 billion were segregated in separate accounts exclusively for the benefit of cleared swaps customers.

## **17. 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. The Company records the liability for its defined benefit pension plan, defined contribution savings and retirement plan and other plans within other liabilities in the consolidated statement of financial condition.

### **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 and expenses and allocates a portion of the expenses to affiliates for employees outside the Company.

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. The

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**17. Employee Benefit Plans**

Company made no special contributions to the Qualified Plan during the six months ended June 30, 2022, and does not expect to contribute to the Qualified Plan during 2022.

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. The Company made payments of approximately \$7 million to the Supplemental Plan and other post retirement plans during the six months ended June 30, 2022, and expects to pay approximately \$7 million for the remainder of 2022.

**18. Income Taxes**

The Company is included in the consolidated federal and certain state and local income tax (SALT) returns filed by CS Holdings. CS Holdings allocates federal income tax and SALT to its subsidiaries on a modified separate company basis, pursuant to a tax sharing arrangement.

As of June 30, 2022, there was \$39.7 million of unrecognized tax benefit recorded. There was no change in the Company's unrecognized tax benefit during the six months ended June 30, 2022. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate is \$39.7 million.

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 the next twelve months. The Company is currently subject to examination by the Internal Revenue Service for the tax years 2010 and forward, New York State for the tax years 2012 and forward, and New York City for the tax years 2009 and forward. The Company does not anticipate any material changes to its financial statements due to audit settlements.

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**18. Income Taxes**

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

	<b>(In millions)</b>
Deferred tax assets:	
Financial instruments .....	\$ 32
Other liabilities and accrued expenses .....	571
Compensation and benefits .....	223
Pension .....	41
Total deferred tax assets .....	867
Deferred tax liabilities:	
Financial instruments .....	1
Pension .....	11
Other liabilities and accrued expenses .....	182
Compensation and benefits .....	6
Total deferred tax liabilities .....	200
Net deferred tax asset .....	\$ 667

As of June 30, 2022, the net federal and SALT deferred tax asset of \$667 million is included in deferred tax assets in the consolidated statement of financial position.

The net federal and state and local taxes receivable as of June 30, 2022 was \$44 million. As of June 30, 2022, the net federal and SALT receivable of \$44 million is included in other assets on the statement of financial condition.

Based on anticipated future taxable income, the Company has not recorded a valuation allowance for the remaining net Federal deferred tax assets on timing items of \$547 million, or its net SALT tax assets of \$120 million, as management believes that the net federal, state and local deferred tax assets as of June 30, 2022 are more likely than not to be realized. However, if estimates of future taxable income are reduced, the amount of the net federal, state and local deferred tax asset considered realizable could be reduced.

Effective January 1, 2018, U.S. tax reform introduced the base erosion and anti-abuse tax (BEAT). The BEAT is broadly levied on U.S. tax deductions created by base erosion payments by a U.S. taxpayer, e.g., for interest and services, to its non-U.S. affiliated companies. The BEAT is payable to the extent that the tax calculation based on modified taxable income exceeds the tax based on ordinary federal taxable income with adjustments. After analysis of the final BEAT regulations issued by the U.S. Department of Treasury in December 2019, management concluded that CS Holdings was not subject to the BEAT for the 2019, 2020, 2021 and 2022 tax years. However, CS Holdings has booked a reserve for an uncertain tax position for the BEAT liability for 2018, 2019 and 2021 tax years, and CS Holdings allocated the uncertain tax liability for BEAT to its subsidiaries based on the subsidiary's relative contribution of base erosion payments to the BEAT. As such, the Company was allocated \$2.7 million for 2018, \$0.4 million for 2019, and \$17.6 million for 2021 of uncertain tax position related to the BEAT liability.

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## **19. 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 loss contingency litigation provisions 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 also accrues litigation provisions for the estimated fees and expenses of external lawyers and other service providers in relation to such proceedings, including in cases for which it has not accrued a loss contingency provision. The Company accrues these fee and expense litigation provisions and takes a charge to income in connection therewith when such fees and expenses 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 the Company's legal proceedings. 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.

Most matters pending against the Company seek damages of an indeterminate amount. While certain matters specify the damages claimed, such claimed amount may not represent the Company's reasonably possible losses. For certain of the proceedings discussed below the Company has disclosed the amount of damages claimed and certain other quantifiable information that is publicly available.

The Company's aggregate litigation provisions include estimates of losses, additional losses or ranges of loss for proceedings for which such losses are probable and can be reasonably estimated. The Company does not believe that it can estimate an aggregate range of reasonably possible losses for certain of its proceedings because of their complexity, the novelty of some of the claims, the early stage of the proceedings, the limited amount of discovery that has occurred and/or other factors. The Company's estimate of the aggregate range of reasonably possible losses that are not covered by existing provisions for the proceedings discussed in the Credit Suisse Securities (USA) LLC December 31, 2020 Consolidated Financial Statements for which the Company believes an estimate is possible is zero to \$562 million.

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 to the Company of resolving such proceedings may exceed current litigation provisions and any excess

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**19. Legal Proceedings**

may be material to its operating results for any particular period, depending, in part, upon the operating results for such period.

**20. Subsequent Events**

The Company has evaluated the potential for subsequent events from June 30, 2022 through the date of issuance of the financial statements on August 31, 2022 and determined that there were no other material events or transactions that would require recognition or disclosure in the consolidated statement of financial condition.