

# Statement of Financial Condition

Barclays Capital Inc.

June 30, 2015  
(Unaudited)

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# Statement of Financial Condition

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(in millions, except share data)

## Assets

Cash and cash equivalents	\$	1,643
Cash and cash equivalents segregated for regulatory and other purposes		3,976
Collateralized agreements:		
Securities purchased under agreements to resell		58,783
Securities borrowed		36,986
Securities received as collateral, at fair value (includes \$43,135 pledged as collateral)		48,145
Financial instruments owned, at fair value (includes \$30,657 pledged as collateral)		40,329
Receivables from brokers, dealers and clearing organizations		11,901
Receivables from customers		9,069
Accrued interest and dividend receivables		156
Other assets		333
Total assets	\$	<u>211,321</u>

## Liabilities and Stockholder's Equity

Collateralized financings:		
Securities sold under agreements to repurchase	\$	72,446
Securities loaned		22,699
Obligation to return securities received as collateral, at fair value		48,145
Other secured financings, at fair value		59
Financial instruments sold, but not yet purchased, at fair value		15,492
Payables to brokers, dealers and clearing organizations		1,844
Payables to customers		31,890
Short-term borrowings		2,530
Accrued interest and dividend payables		91
Other liabilities		1,295
Long-term borrowings		4,900
		<u>201,391</u>
Subordinated debt		<u>2,500</u>
Stockholder's equity		
Common stock – no par value, 5,000 shares authorized, 10 shares issued and outstanding		–
Additional paid-in capital		6,315
Retained earnings		1,127
Accumulated other comprehensive loss, net of tax		(12)
Total stockholder's equity		<u>7,430</u>
Total liabilities and stockholder's equity	\$	<u>211,321</u>

The accompanying notes are an integral part of this Statement of Financial Condition.

## 1. Organization

Barclays Capital Inc. (the “Company”), a Connecticut company, is a registered securities broker-dealer and investment advisor with the Securities and Exchange Commission (“SEC”), a futures commission merchant (“FCM”), swap firm, commodity pool operator, commodity trading advisor registered with the Commodity Futures Trading Commission (“CFTC”), and municipal advisor with the SEC and Municipal Securities Rulemaking Board (“MSRB”). The Company is headquartered in New York, with registered domestic branch offices in Atlanta, Boston, Chicago, Dallas, Houston, Los Angeles, Media, Menlo Park, Miami, New York, Palm Beach, Philadelphia, San Juan, San Francisco, Seattle, Washington DC, and Wells, ME. The Company’s client base includes money managers, insurance companies, pension funds, hedge funds, depository institutions, corporations, trust banks, money market and mutual funds, domestic and international governmental agencies, and central banks.

The Company is a “4(k)(4)(E)” securities subsidiary under the Bank Holding Company Act, which permits it to engage in securities underwriting, dealing, or market-making activities. The Company’s activities include transactions in asset-backed securities, agency mortgage-backed securities, debt securities, other corporate related securities, equities, resale and repurchase agreements, securities lending and borrowing, and clearing derivative products. The Company is also a primary dealer in United States (“US”) government securities.

The Company has investment banking, capital markets, and private investment management businesses in the US.

The Company’s direct parent and sole stockholder is Barclays Group US Inc. (“BGUS”). BGUS is wholly owned by Barclays Bank PLC (“BBPLC”), and is ultimately owned by Barclays PLC (“BPLC”, and collectively with its subsidiaries, “Barclays PLC Group” or “Group”). Both BBPLC and BPLC are United Kingdom (“UK”) companies. The Company has significant intercompany transactions with related parties as described in Note 14, “Transactions with Affiliated Companies”.

The Company subscribes to an independent credit rating agency review by Standard & Poor’s. This rating agency assesses the creditworthiness of the Company based on reviews of the Company’s broad range of business and financial attributes including risk management processes and procedures, capital strength, earnings, funding, liquidity, accounting, and governance. The Company is rated A- for long-term counterparty credit and A-2 for short-term counterparty credit.

On June 8, 2015, the Group entered into an agreement to sell the US Wealth Management business for cash consideration. The transaction is anticipated to close during the fourth quarter of 2015. As of June 30, 2015, the Company held assets of \$134 million and liabilities of \$281 million related to the US Wealth Management business. Only \$4 million of assets and \$20 million of liabilities will be transferred to the acquirer as part of the transaction.

## 2. Significant Accounting Policies

### **Basis of Presentation**

The Statement of Financial Condition has been prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). The US Dollar (“USD”) is the functional currency of the Company. In the opinion of management, the Statement of Financial Condition includes all adjustments necessary to present fairly the financial position at June 30, 2015.

### **Use of Estimates**

Preparation of the Statement of Financial Condition in accordance with US GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and certain disclosures at the date of the Statement of Financial Condition. Actual results could differ from these estimates.

### **Cash and Cash Equivalents**

Cash and cash equivalents are comprised of on demand deposits. Cash on deposit with financial institutions may, at times, exceed federal insurance limits.

### **Cash and Cash Equivalents Segregated for Regulatory and Other Purposes**

Cash and cash equivalents segregated for regulatory and other purposes consist of cash and cash equivalents segregated under the Commodity Exchange Act (“CEA”) and in special reserve bank accounts for the exclusive benefit of customers under Rule 15c3-3 of the Securities and Exchange Act and for Proprietary Accounts of Broker-Dealers (“PAB”).

### **Collateralized Agreements and Financings**

Collateralized agreements consist of Securities purchased under agreements to resell (“Resale Agreements”), Securities borrowed, and Securities received as collateral, at fair value. Collateralized financings consist of Securities sold under agreements to repurchase (“Repurchase Agreements”), Securities loaned, and

Obligation to return securities received as collateral, at fair value. Where the requirements of Accounting Standards Codification (“ASC”) 210-20, *Offsetting* (“ASC 210-20”) are met, collateralized agreements and collateralized financings are presented on a net-by-counterparty basis in the Statement of Financial Condition.

- **Resale and Repurchase Agreements**

Resale and Repurchase Agreements are carried at the amounts of cash advanced or received, plus accrued interest, which generally approximates fair value (for further description, see Note 5, “Fair Value Measurements”). Resale Agreements require the Company to deposit cash with the seller and to take possession of the purchased securities. Repurchase Agreements require the buyer to deposit cash with the Company and to take possession of the sold securities. The fair value of the securities sold or purchased is generally in excess of the cash received or provided. The Company monitors the fair value of securities purchased under Resale Agreements and securities sold under Repurchase Agreements on a daily basis, with additional securities obtained or posted as necessary. The Company applies the de-recognition criteria in ASC 860, *Transfers and Servicing* (“ASC 860”), to Repurchase Agreements, including repurchase-to-maturity transactions, which typically results in such transfers being account for as secured borrowings.

- **Securities Borrowed and Loaned**

Securities borrowed and loaned are carried at the amounts of cash advanced or received, plus accrued interest, which generally approximates fair value (for further description, see Note 5, “Fair Value Measurements”). Securities borrowed transactions require the Company to deposit cash collateral with the lender. Securities loaned transactions require the borrower to deposit cash collateral with the Company. Cash collateral is generally in excess of the fair value of securities loaned or borrowed. The Company monitors the fair value of securities borrowed and loaned on a daily basis, with additional collateral obtained or posted as necessary.

- **Securities Received as Collateral and Obligation to Return Securities Received as Collateral, at Fair Value**

When the Company acts as the lender of securities in a securities lending agreement and the Company receives securities that can be either pledged or sold, the Company recognizes an asset, representing the fair value of the securities received as collateral, and a liability, representing the obligation to return those securities.

## **Transfers of Financial Assets**

In general, transfers of financial assets are accounted for as sales when the Company has relinquished control over the transferred assets. A transferor is considered to have relinquished control over the assets where (1) the transferred assets are legally isolated from the Company's creditors, (2) the transferee can pledge or exchange the financial assets (or if the transferee is a securitization or asset-backed financing vehicle that is constrained from pledging or exchanging the assets it receives, the holder of the beneficial interests issued by the vehicle can pledge or exchange the beneficial interests), and (3) the Company does not maintain effective control of the transferred assets through the ability to repurchase them before their maturity, or have the ability to unilaterally cause the holder to return them (or if the transferee is a securitization or asset-backed financing vehicle that the Company cannot repurchase the beneficial interest(s) before their maturity or have the ability to unilaterally cause the holder to return the third-party beneficial interests related to those transferred assets).

The Company has elected to measure liabilities that arise from the Company's failure to de-recognize certain financial assets transferred into securitization vehicles at fair value in accordance with ASC 825, *Financial Instruments* ("ASC 825"), to eliminate volatility in earnings that would otherwise arise from using different measurement attributes.

## **Variable Interest Entities**

The Company accounts for variable interest entities ("VIEs") in accordance with ASC 810, *Consolidation* ("ASC 810"). VIEs are entities that lack either of the following characteristics: (1) the total equity investment at risk is sufficient to enable the entity to finance its ongoing activities or (2) the equity holders have power to direct the most significant activities of the entity (the activities that impact the economic performance of the entity), the obligation to absorb expected losses of the entity, and the right to receive the residual returns of the entity. A controlling financial interest in a VIE is present when an enterprise has a variable interest, or a combination of variable interests, that provides the enterprise with (1) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and (2) the obligation to absorb the VIE's expected losses or receive expected residual returns, or both, that could potentially be significant to the VIE. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. In accordance with ASC 810, the Company consolidates VIEs for which it is the primary beneficiary. The Company

reassesses its initial evaluation of whether an entity is a VIE when certain reconsideration events occur. The Company reassesses its determination of whether it is the primary beneficiary of a VIE on an ongoing basis based on current facts and circumstances.

### **Fair Value Measurements**

The Company accounts for a significant portion of its financial instruments at fair value in accordance with ASC 820, *Fair Value Measurements* (“ASC 820”).

The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). In the absence of an active market for a financial instrument, financial assets are marked to bid prices and financial liabilities are marked to offer prices. Where the Company acts as a market maker, financial instruments are marked to mid-market prices. Fair value measurements do not include transaction costs.

The Company’s policy with respect to transfers between levels of the fair value hierarchy is to recognize the transfers into and out of each level as of the end of the reporting period.

### **Financial Instruments Owned and Financial Instruments Sold, but Not Yet Purchased, at Fair Value**

The Company’s Financial instruments owned and Financial instruments sold, but not yet purchased, at fair value are comprised of securities purchased or sold short and derivative arrangements and are reflected in the Statement of Financial Condition on a trade-date basis.

### **Customer Securities Transactions**

Securities owned by customers, including those that collateralize margin or other similar transactions and are held for clients in an agency or fiduciary capacity by the Company, are not considered assets of the Company and are not included in the Statement of Financial Condition. However, in the event of fails to deliver securities to or receive securities from the customer, the Company records corresponding Receivables from customers or Payables to customers, respectively. These customer securities transactions are recorded on a settlement-date basis of the associated transaction in the Statement of Financial Condition. The Company monitors the market value of collateral held and the market value of securities receivable from customers. It is the Company’s policy to request and obtain additional collateral when appropriate.



## **Receivables from and Payables to Brokers, Dealers and Clearing Organizations**

Receivables from and Payables to brokers, dealers and clearing organizations consist primarily of fails to deliver or receive securities, margin balances, deposits at clearing organizations, and amounts related to unsettled securities trading activity. Amounts related to regular-way unsettled trades are presented on a net basis.

## **Receivables from and Payables to Customers**

Receivables from and Payables to customers include amounts due on cash and margin transactions, and amounts related to unsettled securities trading activity. Amounts related to regular-way unsettled trades are presented on a net basis.

## **Loss Contingencies**

ASC 450, *Contingencies* (“ASC 450”), requires an accrual for a loss contingency when it is probable that an existing condition, situation, or set of circumstances involving a possible loss will ultimately be resolved when one or more future events will occur or fail to occur *and* the amount of the loss can be reasonably estimated. In accordance with ASC 450, the Company establishes an accrual for all litigation and regulatory matters, including matters disclosed herein, when it believes it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated. Once established, accruals are adjusted from time to time, as appropriate, in light of additional information. The amount of loss ultimately incurred in relation to those matters may be higher or lower than the amounts accrued for those matters.

## **Share-Based Compensation**

The Company applies ASC 718, *Compensation – Stock Compensation* (“ASC 718”), which focuses primarily on accounting for transactions in which an entity obtains employee services in exchange for share-based payments. The cost of employee services received in exchange for share-based payments is measured based on the grant-date fair value of the award. Share-based payments that do not require any future services are immediately recognized as compensation expense while share-based payments that require future services are recognized as expense over the relevant service period.

## **Retirement Benefits**

The Company accounts for retirement benefits in accordance with ASC 715, *Compensation – Retirement Benefits* (“ASC 715”). For a defined benefit pension and post-retirement plan, ASC 715 requires an entity to recognize in its Statement of Financial

Condition the funded status of its defined benefit pension and post-retirement plans, measured as the difference between the fair value of the plan assets and the benefit obligation. The pension plan in which the Company participates was amended in September 2012 and active participants in the plan no longer accrue additional benefits for future service. Upon such amendment, the Company elected to prospectively recognize service costs for the pension plan over the average remaining life expectancy of the participants.

## **Income Taxes**

Tax provisions are computed in accordance with ASC 740, *Income Taxes* ("ASC 740"). Accordingly, deferred tax assets and liabilities are recognized for temporary differences between the financial reporting and tax bases of the Company's assets and liabilities. Deferred taxes are adjusted to reflect the tax rates at which future taxable amounts will likely be settled or realized. The effects of tax rate changes on future deferred tax liabilities and deferred tax assets, as well as other changes in income tax laws, are recognized in the period during which such changes are enacted.

Valuation allowances are established when necessary to reduce deferred tax assets to the amounts expected to be realized.

The Company assesses its ability to realize deferred tax assets primarily based on the earnings history and projections and other factors of the legal entities through which the deferred tax assets will be realized as discussed in ASC 740. The Company's deferred tax assets and tax liabilities are presented on a net basis, where applicable, as a component of Other assets in the Statement of Financial Condition.

The Company is included in the federal consolidated income tax return of BGUS. The Company files combined and unitary state and local income tax returns with affiliates, as well as certain separate state and local filings. The Company has an intercompany tax-sharing agreement with BGUS under which it computes the provision on a modified separate company basis and settles its current and deferred income tax receivable/payable on a periodic basis.

The Company follows guidance under ASC 740, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions. Under ASC 740, the Company determines whether it is more likely than not that an income tax position will be sustained upon examination by tax authorities.

ASC 740-10 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement

of tax positions taken or expected to be taken in a tax return. Sustainable income tax positions are measured to determine the amount of benefit to be recognized in the Statement of Financial Condition based on the largest amount of benefit that is more likely than not to be realized upon ultimate settlement.

## **Recent Accounting Developments**

### **Simplifying the Presentation of Debt Issuance Costs**

In April 2015, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability rather than an asset. This will align the presentation of debt issuance costs with that of debt discounts. The guidance is effective for interim periods and annual periods beginning after December 15, 2015 and should be applied on a retrospective basis.

The Company is currently evaluating the potential impact of the ASU, but does not expect the ASU to have a material effect on the Company’s Statement of Financial Condition.

### **Amendments to the Consolidation Analysis**

In February 2015, the FASB issued ASU 2015-02, *Amendments to the Consolidation Analysis*. The ASU amends the consolidation guidance for both variable interest entities and limited partnerships. In particular, the revised consolidation guidance amends whether fees paid to decision makers or service providers are considered variable interests, removes the presumption that a general partner controls a partnership and introduces new criteria for how the variable interest entity consolidation model should be applied when related parties have involvements with an entity. The ASU also includes a scope exception from consolidation of money market mutual funds. The guidance is effective for interim periods and annual periods beginning after December 15, 2015 with early adoption permitted.

The Company is currently evaluating the potential impact of the ASU, but does not expect the ASU to have a material effect on the Company’s Statement of Financial Condition.

### **Going Concern**

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. ASU 2014-15 provides a description of the requirements of an entity’s management to evaluate whether there are conditions or events, considered in aggregate, that raise

substantial doubt about the entity's ability to continue as a going concern. The standard indicates that substantial doubt exists when it is probable that an entity will not meet its obligations within one year after the date that the financial statements of the entity are issued. This was issued to reduce diversity in the industry as it relates to the timing and content of disclosures that are commonly provided by organizations today in the financial statement footnotes. The guidance will be effective for the annual period ending after December 15, 2016 with early adoption permitted.

The Company does not expect the ASU to have a material impact on the Company's Statement of Financial Condition.

### **Revenue from Contracts with Customers**

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*. ASU 2014-09 requires that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve that core principle, an entity should apply the following steps:

- (1) Identify the contract(s) with a customer.
- (2) Identify the performance obligations in the contract.
- (3) Determine the transaction price.
- (4) Allocate the transaction price to the performance obligations in the contract.
- (5) Recognize revenue when (or as) the entity satisfies a performance obligation.

The update also requires additional disclosures related to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The guidance will be effective for fiscal periods beginning on or after December 15, 2017. The ASU will be applied either retrospectively to each prior reporting period presented or retrospectively with a cumulative effect of initially applying this guidance recognized at the date of initial application.

The Company is currently evaluating the potential impact of the ASU.

### 3. Assets Segregated or Held in Separate or Sequestered Accounts for Regulatory and Other Purposes

At June 30, 2015, assets segregated or held in separate accounts under the CEA or other regulations are included in the Statement of Financial Condition as follows (in millions):

Cash <sup>(a)</sup>	\$	3,226
Cash equivalents		750
Receivables from brokers, dealers and clearing organizations		7,763
Total assets segregated under the CEA	\$	<u>11,739</u>

<sup>(a)</sup> Includes cash of \$1,274 million segregated in a special reserve bank account for the exclusive benefit of customers and PAB under Rule 15c3-3 of the Securities and Exchange Act.

### 4. Financial Instruments

The following table sets forth the Company's Financial instruments owned, at fair value, including those pledged as collateral and Financial instruments sold, but not yet purchased, at fair value, that are measured in accordance with ASC 820 as of June 30, 2015 (in millions):

Fair Value of Financial Instruments:	Financial instruments owned, at fair value	Financial instruments sold, but not yet purchased, at fair value
Money market instruments	\$ 441	\$ —
Government and agencies:		
Government securities	13,463	11,850
Agency securities	17,705	110
Mortgage-backed securities ("MBS") and other asset-backed securities ("ABS"):		
Commercial MBS	884	—
Residential MBS	48	—
Other ABS	969	—
Corporate debt securities	1,031	90
Equities and convertibles	4,931	2,855
Derivative contracts, net:		
Equity options	246	—
To-be-announced ("TBA") contracts	418	441
Other derivatives	193	146
	<u>\$ 40,329</u>	<u>\$ 15,492</u>

Financial instruments sold, but not yet purchased, at fair value represent obligations of the Company to deliver a specified security or cash at a contracted price. These transactions are subject to market risk if the market price of these financial instruments changes subsequent to the date of the Statement of Financial Condition.

## Derivative Contracts

The derivative balances represent future commitments to exchange payment streams based on contract or notional amounts or to purchase or sell other financial instruments at specified terms on a specified date. Derivative contracts may be listed and traded on exchanges (referred to as exchange-traded) or privately negotiated directly between two parties (referred to as over-the-counter derivatives). Both exchange-traded and over-the-counter (“OTC”) derivatives are presented in the following table.

The Company enters into trading derivative contracts to satisfy the needs of its clients, for trading purposes and to manage the Company’s exposure to market and credit risks resulting from its trading and market making activities.

Derivative transactions are measured at fair value, with derivative assets reported in the Statement of Financial Condition as Financial instruments owned, at fair value, and derivative liabilities as Financial instruments sold, but not yet purchased, at fair value. Derivatives are presented at fair value in the following table on a gross basis, prior to the application of the impact of counterparty netting under ASC 210-20.

The following table sets forth the fair value and the notional value of the Company’s derivative contracts by major product type on a gross basis as of June 30, 2015. In accordance with ASC 210-20, where the Company has entered into a legally enforceable netting agreement with counterparties, it reports derivative assets and liabilities, and any related cash collateral, on a net-by-counterparty basis in the Statement of Financial Condition. Net presentation of derivative assets and liabilities, and any related cash collateral, does not impact the classification of the derivative instruments within the fair value hierarchy.

Gross fair values in the following table exclude the effects of both netting under enforceable netting agreements and netting of cash received or posted pursuant to credit support agreements, and therefore are not representative of the Company’s exposure (in millions):

	Derivative Assets	Derivative Liabilities	Contract/ Notional
Equity options	\$ 2,798	\$ 2,552	\$ 197,288
TBA contracts	418	441	285,775
Other	193	146	34,010
<b>Gross fair value of derivatives contracts</b>	<u>3,409</u>	<u>3,139</u>	<u>\$ 517,073</u>
Counterparty netting	<u>(2,552)</u>	<u>(2,552)</u>	
<b>Total included in Financial instruments owned, at fair value</b>	<u>\$ 857</u>		
<b>Total included in Financial instruments sold, but not yet purchased, at fair value</b>		<u>\$ 587</u>	
Derivative contracts not subject to an enforceable netting agreement under US GAAP	\$ 611	\$ 587	
For derivative contracts that are subject to an enforceable netting agreement under US GAAP, collateral received that is not nettable under US GAAP <sup>(a)</sup>	<u>\$ 246</u>	<u>\$ -</u>	

<sup>(a)</sup> Represents liquid security collateral as well as cash collateral held at third-party custodians.

While the notional amounts disclosed above give an indication of the volume of the Company's derivative activity, the notional amount is not exchanged but rather used as a reference to calculate payments for most derivative transactions.

As of June 30, 2015, the Company had no requirements to post additional collateral under derivative contracts in the event of a reduction in the Company's long-term credit rating, and was not subject to termination of these transactions in the event of such a reduction.

## 5. Fair Value Measurements

ASC 820 establishes a fair value hierarchy that categorizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The three levels of the fair value hierarchy under ASC 820 are described below:

### **Quoted Market Prices – Level 1**

Financial instruments are classified as Level 1 if their value is observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions at an arm's-length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis.

### **Valuation Technique Using Observable Inputs – Level 2**

Financial instruments classified as Level 2 are valued using quoted prices for identical instruments in markets that are not considered to be active, or quoted prices for similar assets or liabilities in active markets, or valuation techniques in which all significant inputs are observable, or can be corroborated by observable market data, either directly or indirectly, for substantially the full term of the financial instrument. Level 2 valuations include financial instruments which are valued using market standard pricing techniques, such as options and TBA contracts that are commonly traded in markets where all the inputs to the market standard pricing models are observable.

### **Valuation Technique Using Significant Unobservable Inputs – Level 3**

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). Such inputs are generally determined based on observable inputs of a similar nature, historical observations on the level of the inputs, or other analytical techniques.

### **Credit Risk**

Credit risk is an essential component of fair value. Cash products (e.g., bonds and loans) and derivative financial instruments (particularly those with significant future projected cash flows) are traded in the market at levels which reflect credit considerations. Credit exposures are adjusted to reflect mitigants, namely collateral agreements which reduce exposures based on triggers and contractual posting requirements. Credit risk exposure, including that ensuing from the trade facilitation and intermediation, is actively mitigated through a combination of credit limits and economic hedging.



## **Valuation Process**

The Company has an established and documented process for determining fair value and has controls in place to ensure that its valuations are appropriate. An independent model review group reviews the Company's valuation models and approves them for use for specific products. All valuation models of the Company are subject to this review process. A price verification group, independent from the risk-taking functions, utilizes independent data sources to validate the ongoing appropriateness and material accuracy of valuations on the Company's Statement of Financial Condition. Where significant variances are noted in the independent price verification process, an adjustment is taken to the fair value position. Any changes to the valuation methodology are reviewed by management to confirm the changes are justified. As markets and products develop and the pricing for certain products becomes more transparent, the Company refines its valuation methodologies.

## **Fair Value Hierarchy**

The following table presents the Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value as of June 30, 2015, by underlying instrument type and by the valuation hierarchy as described earlier in this Note (in millions):

Fair Value Measurements on a Recurring Basis  
as of June 30, 2015

<u>Assets</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Netting and Collateral</u>	<u>Total Fair Value</u>
<b>Financial instruments owned, at fair value</b>					
Money market instruments	\$ -	\$ 441	\$ -	\$ -	\$ 441
Government and agencies:					
Government securities	7,374	6,089	-	-	13,463
Agency securities	26	17,608	71	-	17,705
MBS and other ABS:					
Commercial MBS	-	883	1	-	884
Residential MBS	-	36	12	-	48
Other ABS	-	954	15	-	969
Corporate debt securities	-	1,030	1	-	1,031
Equities and convertibles	3,558	1,335	38	-	4,931
Derivative contracts:					
Equity options	2,753	45	-	(2,552)	246
TBA contracts	-	418	-	-	418
Other derivatives	1	191	1	-	193
<b>Total Financial instruments owned, at fair value</b>	<b><u>\$ 13,712</u></b>	<b><u>\$ 29,030</u></b>	<b><u>\$ 139</u></b>	<b><u>\$ (2,552)</u></b>	<b><u>\$ 40,329</u></b>
<b>Securities received as collateral, at fair value</b>	<b><u>\$ 32,901</u></b>	<b><u>\$ 15,244</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 48,145</u></b>
<u>Liabilities</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Netting and Collateral</u>	<u>Total Fair Value</u>
<b>Financial instruments sold, but not yet purchased, at fair value</b>					
Money market instruments	\$ -	\$ -	\$ -	\$ -	\$ -
Government and agencies:					
Government securities	9,739	2,111	-	-	11,850
Agency securities	3	107	-	-	110
MBS and other ABS:					
Commercial MBS	-	-	-	-	-
Residential MBS	-	-	-	-	-
Other ABS	-	-	-	-	-
Corporate debt securities	-	90	-	-	90
Equities and convertibles	1,708	1,146	1	-	2,855
Derivative contracts:					
Equity options	2,458	94	-	(2,552)	-
TBA contracts	-	441	-	-	441
Other derivatives	6	139	1	-	146
<b>Total Financial instruments sold, but not yet purchased, at fair value</b>	<b><u>\$ 13,914</u></b>	<b><u>\$ 4,128</u></b>	<b><u>\$ 2</u></b>	<b><u>\$ (2,552)</u></b>	<b><u>\$ 15,492</u></b>
<b>Obligation to return securities received as collateral, at fair value</b>	<b><u>\$ 32,901</u></b>	<b><u>\$ 15,244</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 48,145</u></b>
<b>Other secured financings, at fair value</b>	<b><u>\$ -</u></b>	<b><u>\$ 59</u></b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 59</u></b>

## **Cash Instruments and Derivative Contracts**

Financial instruments are separated into two categories: cash instruments and derivative contracts, described below.

### **Cash Instruments**

The Company's cash instruments are predominantly classified within Level 1 or Level 2 of the fair value hierarchy.

#### **Level 1 Cash Instruments**

Level 1 cash instruments, valued based on unadjusted, quoted market prices for identical unrestricted instruments in active markets, include certain US government obligations and actively traded listed equities.

The Company defines active markets for equity instruments based on the average daily volume both in absolute terms and relative to the market capitalization for the instrument. The Company defines active markets for debt instruments based on the average daily volume and the number of days with trading activity.

The Company does not apply liquidity or concentration reserves for such instruments, even in situations where the Company holds a large position and a sale could reasonably impact the quoted price.

#### **Level 2 Cash Instruments**

Level 2 cash instruments include money market instruments, less liquid government bonds, most government agency obligations, MBS, and other ABS, corporate bonds, certain mortgage products, less liquid listed equities, and state, municipal and provincial obligations. Valuations for these types of instruments include transactions in markets that are not considered to be active, but are valued based on quoted market prices, broker or dealer quotations, vendor prices, or alternative pricing sources with reasonable levels of price transparency. Where there are no observable market prices, fair value is determined by reference to other bond issuances of the same issuer as proxy inputs to obtain discounted cash flows. In the absence of observable bond or credit default swap ("CDS") spreads for the respective issuer, similar referenced assets or sector averages are applied as proxy (appropriateness of proxies are based on issuer, coupon, maturity and industry).

#### **Level 3 Cash Instruments**

Certain cash instruments are classified within Level 3 of the fair value hierarchy if they trade infrequently and have little or no price transparency. Such instruments include less liquid MBS and ABS, less liquid corporate debt securities (including distressed debt instruments), and certain types of equity instruments, primarily private equity.

Absent evidence to the contrary, instruments classified within Level 3 of the fair value hierarchy are initially valued at the transaction price, which is considered to be the best initial estimate of fair value. Subsequent to the transaction date, the Company uses other methodologies to determine fair value, which vary based on the type of instrument, as described below.

Valuation is adjusted generally only when changes to inputs and assumptions are corroborated by evidence such as transactions in similar instruments, completed or pending third-party transactions in the underlying investment or comparable entities, other transactions across the capital structure, offerings in the equity or debt capital markets, and changes in financial ratios or expected cash flows. The valuation techniques and significant inputs used in determining the fair value of each class of cash instrument classified within Level 3 of the fair value hierarchy are as follows:

- **Mortgage-Backed and Other ABS.** Debt securities that are linked to the cash flows of a pool of referenced assets via securitization. This category includes residential MBS, commercial MBS, and other ABS.

Valuations are predominantly determined by discounted cash flow analysis using industry standard cash flow engines. The key inputs for residential MBS are credit spread or yield, conditional prepayment rate (“CPR”), constant default rate (“CDR”), and loss given default. The key input for commercial MBS is credit spread. The key inputs for other ABS are credit spread or yield, CPR, CDR, and loss given default. The aforementioned inputs are all determined by proxying to observed transactions, market indices or market research, and by assessing underlying collateral performance and composition.

Identification of comparable observed transactions, indices, or research requires an assessment and comparison of the relevant securities’ underlying attributes including collateral, tranche, vintage, underlying asset composition (historical losses, borrower characteristics, and loan attributes such as loan-to-value ratio and geographic concentration), and credit ratings (original and current).

- **Equities and Convertibles.** For equities and convertibles, the Level 3 population is comprised of non-actively traded equities, convertible bonds, and private equity securities. Valuations are generally based on relative value analyses. The significant inputs for these valuations include prices for similar instruments for which observable prices are

available, and prices from broker quotes that are indicative or not corroborated by observable market data.

- **Corporate Debt Securities.** Valuations are generally based on relative value analyses. The significant inputs for these valuations include prices for similar instruments for which observable prices are available, and prices from broker quotes that are indicative or not corroborated by observable market data.

## **Derivative Contracts**

Exchange-traded derivatives, including equity options, typically fall within Level 1 or Level 2 of the fair value hierarchy, depending on whether they are deemed to be actively traded or not. OTC derivatives typically fall within Level 2 of the fair value hierarchy.

### **Level 1 Derivatives**

Exchange-traded derivatives fall within Level 1 of the hierarchy if they are actively traded, and are valued at their quoted market prices. Currently, the Company's Level 1 derivatives primarily include exchange-traded options and futures, which exhibit the highest level of price transparency. Examples include US Treasury futures as well as options on indices and common corporate stock.

### **Level 2 Derivatives**

Level 2 exchange-traded derivatives are not actively traded and are valued using models that are calibrated to market clearing levels and eliminate timing differences between the closing price of the exchange-traded derivatives and their underlying financial instruments.

Level 2 OTC derivatives, including TBA contracts, are valued using market transactions and other market evidence whenever possible, such as market-based inputs to models, model calibration to market clearing transactions, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency. OTC derivatives are classified within Level 2 when all of the significant inputs can be corroborated to market evidence. When appropriate, valuations are adjusted for various factors such as bid/offer spreads and credit considerations. Valuation adjustments are generally based on available market evidence, but can also be based on management's best estimate in the absence of such evidence.

Where models are used, the selection of a particular model to value an OTC derivative depends upon the contract terms of, and specific risks inherent in, the instrument as well as the availability of pricing information in the market. The Company

generally uses similar models to value similar instruments. The pricing models take into account the contract terms (including maturity), as well as key inputs, depending upon the type of derivative and the nature of the underlying instrument, including market prices, yield curves, credit curves, measures of volatility, prepayment rates, loss given default rates and correlations of such inputs. Valuations of these instruments are corroborated by market prices.

For OTC derivatives that trade in liquid markets, such as generic forwards, swaps and options, model inputs can generally be verified and model selection does not involve significant management judgment.

### **Transfers between Levels of the Fair Value Hierarchy**

During the six months ended June 30, 2015, the Company had the following transfers between levels of the fair value hierarchy:

- Mortgage and other ABS assets of \$15 million from Level 3 to Level 2 driven by updated levelling methodology.
- Equities and convertibles assets of \$8 million from Level 2 to Level 3 driven by lack of availability of observable external market data associated with these positions.
- Equities and convertibles assets of \$1 million from Level 2 to Level 1 driven by availability of observable external market data associated with these positions.

There were also insignificant reclassifications among the levels for Corporate debt, Equities and convertibles, and Derivative contracts.

### **Significant Unobservable Inputs Used in Level 3 Measurements**

The table below provides information on the valuation methodologies, significant unobservable inputs, as well as the range of those input values for financial instruments that are classified as Level 3 under the fair value hierarchy. The listed ranges represent the highest and lowest value of each respective input across all investments included within the Financial Instrument classifications listed below as of June 30, 2015. The disclosures below also include a description of the impact on the sensitivity of the fair value measurements of such instruments due to changes in significant unobservable inputs.

	Fair Value (in millions)	Valuation Methodology	Significant Unobservable Inputs	Range of Input Values	
				Low	High
Agency securities <sup>(a)</sup>	\$ 65	Cash flow	Conditional Prepayment Rate	5%	5%
			Credit Spread	3%	23%
	6	Price-based	Price*	0%	13%
Commercial MBS	0	Cash flow	Credit Spread	2%	2%
			Price-based	Price*	0%
Residential MBS	12	Cash flow	Conditional Prepayment Rate	2%	3%
			Constant Default Rate	5%	8%
			Loss Given Default	60%	80%
			Yield	5%	9%
			Price-based	Price*	0%
Other ABS	15	Cash flow	Conditional Prepayment Rate	0%	25%
			Constant Default Rate	2%	2%
			Loss Given Default	30%	30%
			Yield	5%	30%
			Price-based	Price*	0%
Corporate debt securities	1	Price-based	Price*	0%	100%
Equities and convertibles	37	Price-based	Price**	\$ 0	\$75,500
Other derivatives	0	Price-based	Price**	\$ 0	\$ 61

<sup>(a)</sup> Comprised of Agency commercial MBS and residential MBS.

\* Pricing information is presented as a percentage of par.

\*\* Pricing information is presented on a dollar per unit basis.

In general, an increase in the yield, credit spreads, constant default rates and loss given default, in isolation, would result in a decrease in the fair value measurement. In addition, an increase in constant default rates would generally be accompanied by an increase in loss given default, slower conditional prepayment rates and an increase in yields.

CPR represents the voluntary, unscheduled repayment of loan principal by the borrower, also commonly referred to as “prepayment speed”.

CDR represents an annualized rate of default of the collateral pool underlying a securitized product.

Yield is the rate used to discount projected cash flows in a discounted future cash flow analysis.

Loss given default is the percentage of the defaulted balance which is not covered by liquidation proceeds (recoveries) and therefore passes through as a loss to the securitization trust.

## Estimated Fair Value of Financial Instruments Not Carried at Fair Value

The following table presents the carrying value, fair value, and related fair value hierarchy level for those financial instruments which are not carried at fair value in the Statement of Financial Condition as of June 30, 2015.

The carrying value of Cash and cash equivalents, Cash and cash equivalents segregated for regulatory and other purposes, Securities loaned, as well as receivables and payables arising in the ordinary course of business approximate fair value due to the relatively short period of time between their origination and expected maturity, contractual interest rates being set at current market rates or subject to repricing, and collectability.

For those financial instruments not carried at fair value with characteristics that do not meet the description in the prior paragraph, fair value is based on observable market prices. These financial instruments include a component of both Resale Agreements and Repurchase Agreements and certain Securities borrowed transactions.

Fair value of Long-term borrowings and Subordinated debt agreements is determined based on current interest rates and credit spreads for debt instruments with similar terms and maturities.

<i>(in millions)</i>	<u>Carrying</u>	<u>Fair</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b><u>Assets</u></b>					
Cash and cash equivalents	\$ 1,643	\$ 1,643	\$ 1,643	\$ –	\$ –
Cash and cash equivalents segregated for regulatory and other purposes	3,976	3,976	3,226	750	–
Securities purchased under agreements to resell	58,783	58,907	–	58,907	–
Securities borrowed	36,986	36,986	–	36,986	–
Receivables from brokers, dealers and clearing organizations	11,901	11,901	–	11,901	–
Receivables from customers and other financial assets not measured at fair value*	9,338	9,338	–	9,338	–
	<u>Carrying</u>	<u>Fair</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b><u>Liabilities</u></b>					
Securities sold under agreements to repurchase	\$72,446	\$72,548	\$ –	\$72,548	\$ –
Securities loaned	22,699	22,699	–	22,699	–
Payables to brokers, dealers and clearing organizations	1,844	1,844	–	1,844	–
Payables to customers and other financial liabilities not measured at fair value**	34,782	34,782	–	34,782	–
Long-term borrowings and Subordinated debt	7,400	7,484	–	7,484	–

\* Includes Receivables from customers, Accrued interest and dividend receivables and other financial assets not measured at fair value. Does not include nonfinancial assets such as intangible assets, deferred tax assets and prepaid assets.

\*\* Includes Payables to customers, Short-term borrowings, Accrued interest and dividend payables and other financial liabilities not measured at fair value. Does not include nonfinancial liabilities such as compensation and benefit arrangements, pension and current tax obligations.



## 6. Offsetting of Collateralized Agreements and Financings

In accordance with ASC 210-20, the Company offsets financial assets and financial liabilities in the Statement of Financial Condition where there is a legally enforceable right to set off the recognized amounts and other offsetting requirements are met.

The following table presents the gross amounts, amounts offset, underlying collateral value of those agreements subject to enforceable netting agreements (limited to the net amount recorded in the Statement of Financial Condition so as not to include over-collateralization), and amounts not subject to enforceable netting agreements on Resale and Repurchase Agreements, and Securities borrowed and loaned as of June 30, 2015.

The 'Net Amount' presented below is not intended to represent the Company's actual exposure to credit risk, as a variety of credit mitigation strategies are employed in addition to offsetting and collateral arrangements.

	Amounts Subject to Enforceable Netting Arrangements						
	Effects of Offsetting on Statement of Financial Condition			Related Amounts Not Offset		Amounts Not Subject to Enforceable Netting Agreements	Statement of Financial Condition Total <sup>(b)</sup>
	Gross Amounts	Amounts Offset	Net Amounts Reported in the Statement of Financial Condition	Financial Collateral <sup>(a)</sup>	Net Amount		
<i>(in millions)</i>							
Resale Agreements	\$154,652	\$(99,062)	\$ 55,590	\$ 54,086	\$1,504	\$ 3,193	\$ 58,783
Securities borrowed	23,388	–	23,388	22,559	829	13,598	36,986
<b>Total assets</b>	<b>\$178,040</b>	<b>\$(99,062)</b>	<b>\$ 78,978</b>	<b>\$ 76,645</b>	<b>\$2,333</b>	<b>\$16,791</b>	<b>\$ 95,769</b>
Repurchase Agreements	\$152,221	\$(99,062)	\$ 53,159	\$ 52,669	\$ 490	\$19,287	\$ 72,446
Securities loaned	22,549	–	22,549	21,618	931	150	22,699
<b>Total liabilities</b>	<b>\$174,770</b>	<b>\$(99,062)</b>	<b>\$ 75,708</b>	<b>\$ 74,287</b>	<b>\$1,421</b>	<b>\$19,437</b>	<b>\$ 95,145</b>

<sup>(a)</sup> Collateral is reflected at its fair value, but has been limited to the net exposure in the Statement of Financial Condition so as not to include any over-collateralization. Includes cash and financial instrument collateral related to arrangements subject to an enforceable master netting agreement; these amounts are not presented net in the Statement of Financial Condition because other US GAAP netting criteria are not met. Financial collateral typically comprises highly liquid securities which are legally transferred and can be liquidated in the event of counterparty default.

<sup>(b)</sup> The Statement of Financial Condition total is the sum of 'Net amounts reported in the Statement of Financial Condition' that are subject to enforceable netting arrangements and 'Amounts not subject to enforceable netting arrangements'.

## 7. Securitization Activities and Variable Interest Entities

### Re-Securitizations of Non-Agency Mortgage-Backed Securities

The Company repackages non-agency MBS by selling them into re-securitization vehicles that issue beneficial interests to investors and acts as underwriter of the beneficial interests that are sold to investors. The re-securitization vehicles are VIEs under ASC 810. While the Company may retain interests in the securitized financial assets through holding tranches of the re-securitizations, the Company is generally not required to consolidate these VIEs as it does not have control over the re-securitization entities. The Company de-recognizes the transferred securities when it relinquishes control over the transferred assets. The transferred assets are recorded at fair value prior to the re-securitization.

For the six months ended June 30, 2015, the Company sold non-investment grade securities with a fair value of \$1,509 million (par value of \$1,772 million) into residential re-securitization vehicles.

Retained interests represent the Company's continuing involvement in the re-securitization vehicle in the form of bonds issued by the re-securitization vehicle. These interests are recorded at fair value in Financial instruments owned, at fair value in the Statement of Financial Condition. As of June 30, 2015, the Company held retained interests in non-investment grade residential MBS with a fair value of \$12 million. The maximum amount of loss that the Company is exposed to is the carrying amount of these positions in the Statement of Financial Condition as the Company has no other requirements to support these vehicles.

The following table sets forth the weighted average key economic assumptions used in measuring the fair value of the Company's retained interests and the sensitivity of this fair value to immediate adverse changes of 10% and 20% in those assumptions (in millions):

## Residential MBS

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Fair value of retained interests	\$	12
Weighted average life (years)		13.54
Conditional prepayment rate		2.29%
Impact of 10% adverse change	\$	(0.28)
Impact of 20% adverse change	\$	(0.57)
Constant default rate		4.23%
Impact of 10% adverse change	\$	(0.61)
Impact of 20% adverse change	\$	(1.20)
Yield		6.15%
Impact of 10% adverse change	\$	(0.74)
Impact of 20% adverse change	\$	(1.42)
Loss given default		66.83%
Impact of 10% adverse change	\$	(1.20)
Impact of 20% adverse change	\$	(2.42)

The impact of a change in a particular assumption is calculated independently of changes in any other assumption. Changes in fair value of the retained interests based on an adverse variation in assumptions generally cannot be extrapolated because the relationship of the change in assumptions to the change in fair value is not usually linear. In practice, simultaneous changes in assumptions might magnify or counteract the sensitivities disclosed above. Additionally, the preceding table does not give effect to the offsetting benefit of other financial instruments that are held to mitigate risks inherent in these retained interests.

As of June 30, 2015, the Company's positions in and associated maximum exposure to loss in all non-agency securitization vehicles, including those established by third parties, was \$932 million. Of this, \$48 million represents residential securitization vehicles, of which \$12 million represents retained interests in re-securitization vehicles to which the Company sold securities. The remaining \$884 million represents commercial securitization vehicles, of which there were no retained interests in re-securitization vehicles to which the Company sold securities.

## Agency Securitizations

As part of the ordinary course of business, the Company owns interests in agency securitizations established by third parties that it does not consolidate as it does not have control of those entities under ASC 810. During the six months ended June 30, 2015, the Company sold \$10,177 million of US government agency-issued securities to the agencies which were placed into their securitization vehicles.

The Company generally de-recognizes those securities from its Statement of Financial Condition as it has relinquished control over those securities. However, in certain situations, the Company sells government agency-issued securities to be included in agency securitizations and retains a callable class security that allows the Company to reacquire the transferred assets at some point post-securitization at a fixed price. As long as the Company retains that callable security, it does not relinquish control over the transferred securities. As a result, the Company is not able to de-recognize these transferred assets and continues to record them in its Statement of Financial Condition. As of June 30, 2015, the Company continues to recognize \$50 million of transferred US government agency-issued securities and associated liabilities of \$45 million due to the retention of the callable class securities. As of June 30, 2015, the Company did not exercise any of these callable class securities.

The Company's positions in and associated maximum exposure to loss in all agency securitization vehicles, including those established by third parties, as of June 30, 2015, was \$3,015 million (exclusive of amounts recoverable from US agency guarantees), and was recorded as Financial instruments owned, at fair value in the Statement of Financial Condition.

### **Municipal Securities Tender Option Bond ("TOB") Trusts**

The Company forms TOB trusts through which investments in municipal securities are financed. TOB trusts hold tax-exempt securities issued by state or local municipalities. The trusts are typically single-issuer trusts whose assets are purchased from the Company via the primary and secondary market. To fund the purchase of their assets, the trusts issue long-term senior floating rate notes ("Floaters") and junior residual securities ("Residuals"). The holder of the Residuals generally has the ability to direct decisions that significantly impact the economic performance of the TOB trusts through its ability to liquidate the TOB trust and ultimately direct the sale of the municipal bonds owned by that trust. Liquidity agreements are provided to the trust by BBPLC and the Company serves as remarketing agent for the Floaters. Floater holders have an option to tender the Floaters they hold back to the trust periodically. The Company, in its capacity as a remarketing agent, facilitates the sale of the Floaters to third parties at inception of the trust, facilitates the reset of the Floater coupon, and remarkets any tendered Floaters. If Floaters are tendered and the Company (in its role as remarketing agent) is unable to find a new investor within a specified period of time, it can declare a failed remarketing (in which case the trust is unwound) or may choose to buy the Floaters into its own

inventory and may continue to try to sell them to a third-party investor. No failed remarketings on trusts formed by the Company were declared during the six months ended June 30, 2015.

The Company considers the TOB trusts to be VIEs. The trusts are not consolidated by the Company where third-party investors hold the residual interests in the trusts, as the Company's involvement with the trusts is limited to its role as remarketing agent and the Company does not control the trust. Where the Company holds the residual interests, the Company consolidates the trusts.

As of June 30, 2015, the Company holds no residual interests and therefore does not consolidate any TOB trusts. During the six months ended June 30, 2015, the Company sold \$449 million of municipal bonds into TOB trusts. The Company de-recognizes those bonds from its Statement of Financial Condition as it has relinquished control over those securities. As of June 30, 2015, the Company held \$51 million of the Floater inventory related to the TOB programs.

### **Other Asset-Backed Securitizations**

As of June 30, 2015, the Company holds positions in other asset-backed securitization vehicles, which are classified as Financial instruments owned, at fair value. These positions were acquired through market-making activities and resulted in a maximum exposure to loss of \$969 million of other ABS. During the six months ended June 30, 2015, the Company held no retained interests in other asset-backed securitization vehicles to which the Company sold securities and transferred no assets to such vehicles during the six months ended June 30, 2015.

## 8. Receivables from and Payables to Brokers, Dealers and Clearing Organizations

Receivables from and Payables to brokers, dealers and clearing organizations, as reported in the Statement of Financial Condition at June 30, 2015, consist of the following (in millions):

	Receivables from brokers, dealers and clearing organizations	Payables to brokers, dealers and clearing organizations
Margin receivable/payable	\$ 10,269	\$ 5
Securities failed to deliver/receive	1,393	1,100
Trade date payables, net (settlement)	–	435
Fees and commissions receivable/payable	51	288
Other	188	16
	<u>\$ 11,901</u>	<u>\$ 1,844</u>

## 9. Other Assets and Other Liabilities

At June 30, 2015, Other assets primarily consist of intercompany tax settlement receivables of \$147 million, identifiable intangible assets of \$37 million, which consists primarily of designated market maker rights, asset management fee receivables of \$37 million, and net deferred tax assets of \$27 million. Other liabilities primarily consist of accrued compensation of \$661 million, current tax liabilities of \$157 million, and accrued operating expenses of \$113 million.

## 10. Income Taxes

The Company is included in the federal consolidated income tax return of BGUS. At June 30, 2015, the Company had \$983 million of net deferred tax assets, included in the Statement of Financial Condition. This balance is comprised of deferred tax assets of \$993 million resulting from temporary differences primarily related to fixed assets, deferred compensation, stock-based compensation, and intangible assets acquired as part of the Lehman Brothers acquisition. These deferred tax assets were offset by deferred tax liabilities of \$10 million resulting from temporary differences primarily related to transfer pricing reduced by an intercompany settlement of \$956 million. The Company's tax-sharing agreement requires periodic settlement with BGUS resulting from changes to the net federal and state deferred tax balances. Until settlement, net balances are recorded

as a component of Other assets in the Statement of Financial Condition. As of June 30, 2015, the Company had \$27 million of unsettled net deferred tax asset balance.

The Company is required to assess the likelihood that deferred tax assets will be realized using a more-likely-than-not criteria. To the extent this criteria is not met, the Company is required to establish a valuation allowance against the deferred tax assets. A valuation allowance of \$9 million is recorded at June 30, 2015, related to certain state net operating losses that the Company believes do not meet the more-likely-than-not criteria.

The Company has state net operating losses of \$102 million expiring in the years beginning after 2031.

The Company's policy is to record interest and penalties in the tax provision. The Company's unrecognized tax benefits, including interest of \$6 million, are recorded in the Statement of Financial Condition as current income taxes payable, included in Other liabilities. The Company has not recorded any amounts for penalties related to its unrecognized tax benefits. The Company does not anticipate any events that will significantly impact the balances during the next 12 months.

BGUS has largely agreed the 2007 through 2009 Internal Revenue Services ("IRS") audit with the exception of one issue, which relates to the Company. The Company intends to go through the IRS administrative process to dispute this issue. The Company has not changed its position on the expected outcome of this issue. BGUS's federal corporate income tax returns for the years 2010 and after remain subject to full examination. The Company files combined and unitary state and local returns with affiliates, as well as certain separate state and local filings. The most significant state and local filings are subject to examination for the years 2007 and after.

When the tax return examinations by federal, state, or local tax authorities are concluded, it is possible that the amount of accrued liability for uncertain tax positions could change. It is not possible to estimate the amount of any such change at this time.

## 11. Short-Term Borrowings

At June 30, 2015, Short-term borrowings consist of uncollateralized loans payable to affiliates of \$2,486 million, and bank overdrafts payable primarily to third parties of \$44 million.

The uncollateralized loans from affiliates represent: (1) the amount utilized on an uncommitted short-term money market line of \$3,500 million in place for evergreen borrowing up to

90 days, of which the Company had drawn \$2,000 million, (2) a \$256 million loan with BBPLC, and (3) an uncommitted and unsecured money market line of credit of \$10,000 million with BBPLC, of which \$230 million was utilized primarily to support the short-term funding requirements of the Company. These loans bear interest at rates based on Group's external funding curve. For discussion on the fair value of the borrowings, see Note 5, "Fair Value Measurements".

## 12. Long-Term Borrowings

At June 30, 2015, the Company has Long-term borrowings with BGUS in the form of a five-year unsecured fixed term financing arrangement totaling \$4,900 million, with an option to prepay all or part of this loan on 30 days' notice without penalty. This arrangement bears interest at a rate of 4.03% and will mature on February 23, 2017. For discussion on the fair value of the borrowings, see Note 5, "Fair Value Measurements".

## 13. Subordinated Debt

At June 30, 2015, the Company has Subordinated debt with BGUS for \$2,500 million, which matures on July 16, 2016. Under the provisions of this loan, provided that the Company has not given written notification to the Financial Industry Regulatory Authority to cancel the rollover, an automatic one-year rollover of the maturity date occurs within seven months of maturity. The loan bears interest at rates based on 3-month USD London Interbank Offered Rate ("LIBOR"), plus 4.3%. For discussion on the fair value of the borrowings, see Note 5, "Fair Value Measurements".



## 14. Transactions with Affiliated Companies

The Company enters into securities transactions and other transactions with affiliates. At June 30, 2015, balances with such affiliates were included in the Statement of Financial Condition line items as follows (in millions):

Cash and cash equivalents	\$ 16
Securities purchased under agreements to resell	23,259
Securities borrowed	12,640
Securities received as collateral, at fair value	41,838
Financial instruments owned, at fair value	16
Receivables from brokers, dealers and clearing organizations	173
Receivables from customers	2,562
Other assets	147
Securities sold under agreements to repurchase	15,378
Securities loaned	19,501
Obligation to return securities received as collateral, at fair value	41,838
Financial instruments sold, but not yet purchased, at fair value	14
Payables to brokers, dealers and clearing organizations	488
Payables to customers	8,531
Short-term borrowings	2,495
Accrued interest and dividend payables	5
Other liabilities	28
Long-term borrowings	4,900
Subordinated debt	2,500

At June 30, 2015, the Company had Short-term borrowings of \$2,495 million primarily related to the utilized portion of the uncommitted short-term money market line as described in Note 11, "Short-Term Borrowings". In addition, the Company had a loan with BGUS totaling \$4,900 million as described in Note 12, "Long-Term Borrowings" and Subordinated debt with BGUS of \$2,500 million as described in Note 13, "Subordinated Debt".

During the six months ended June 30, 2015, under its intercompany tax-sharing agreement with BGUS, the Company transferred \$145 million relating to current and deferred federal and state income taxes, the settlement of which is settled periodically.

The Company sells certain receivables from investment banking clients to an affiliate. For the six months ended June 30, 2015, the fair value of these receivables sold was approximately \$223 million.

As of June 30, 2015, the Company held \$150,403 million of affiliates' financial instruments as collateral, primarily in connection with Resale Agreements, Securities borrowed and customer margin loans.

At June 30, 2015, the Company had placed \$1,133 million of its affiliates' securities and \$617 million of its affiliates' cash and cash equivalents on deposit with clearing organizations for trade facilitation purposes.

On January 29, 2015, the Company remitted \$500 million of its excess distributable retained earnings to BGUS as a cash dividend.

BBPLC has provided guarantees to certain third parties over their exposure to the Company in relation to futures trading or prime services financing activities.

## 15. Benefit Plans

### Pension Plan

The Company provides pension benefits for eligible employees through participation in a defined benefit pension plan of BBPLC. All eligible employees participate in the pension plan on a non-contributory basis, and are fully vested after five years of service. The Company makes contributions to the plan based upon the minimum funding standards under the Internal Revenue Code. Employees hired on or after September 22, 2008 are not eligible to participate in the plan. During the third quarter of 2012, the plan was frozen such that existing participants would not accrue any additional benefits. The firm recognizes the funded status of its defined benefit pension plan measured as the difference between the fair value of the plan assets and the benefit obligation, in the Statement of Financial Condition. As of June 30, 2015, Other liabilities included \$15 million, related to the plan.

### 401(k) Plan

The Company has adopted the Barclays 401(k) Plan (referred to as the "401(k) Plan") effective January 1, 1980. Eligible employees may elect to participate in the plan at any time during the year. Employees who formally elect to participate may contribute any amount from 1% to 50% of their eligible compensation each pay period as pre-tax contributions, Roth 401(k) after-tax contributions, or a combination. The combined pre-tax and Roth 401(k) after-tax contributions are subject to the IRS limit of \$18,000 in 2015. Additionally, employees who formally elect to participate may contribute 1% to 6% of their eligible compensation as traditional after-tax contributions to the 401(k) plan each pay period. The combined pre-tax, Roth 401(k) after-tax and traditional after-tax contributions may not exceed 50% of eligible compensation. Employees age 50 or over who have reached the 401(k) Plan or IRS maximum allowable pre-tax and/or Roth 401(k) after-tax contribution limit in a plan year may contribute catch-up contributions up to \$6,000 for 2015 on a

pre-tax or Roth 401(k) after-tax basis up to the IRS catch-up limit for the year.

The Company matches all or a portion of employee pre-tax and/or Roth 401(k) after-tax contributions through employer matching contributions. For every \$1.00 an employee contributes on a pre-tax basis (up to 6% of eligible compensation each pay period), the Company contributes \$1.00 (\$1.50 for employees whose annualized eligible compensation is \$60,000 or less). The maximum annual match available under the 401(k) Plan is \$15,900 (6% of the \$265,000 IRS annual compensation limit). The matching contributions vest on a graduated scale based on completed years of service. Catch-up contributions and traditional after-tax contributions are not eligible for employer matching contributions.

### **Post-Retirement**

The Company follows ASC 715, which requires the recognition of post-retirement benefit costs on an accrual basis over the active working lives of employees, rather than on a cash basis. Only employees hired as of March 31, 1997 are eligible for post-retirement benefits.

### **Post-Employment**

The Company recognizes post-employment benefit costs on an accrual basis over the active working lives of employees, rather than on a cash basis.

## **16. Share-Based Compensation**

BPLC operates certain share plans for its employees, including the employees of the Company. Shares for distribution under these plans are sourced from newly issued shares and market purchases. Market purchased shares are held by a trust and will be vested for individual employees when they satisfy specific vesting conditions. The costs of these compensation plans are funded in cash paid to BPLC. The liabilities related to these share payments are recorded by the trust.

The Company makes recommendations on the compensation awards for its employees which are approved annually by the Remuneration Committee of BPLC. Depending upon the threshold limit, a portion of such compensation award for the employees will be awarded in BPLC stock. The main current share-related plans from which the Company's employees benefit are as follows:

### **Share Value Plan ("SVP")**

The SVP was introduced in March 2010 and approved by shareholders (for Executive Director participation and use of

new issue shares) at the BPLC Annual General Meeting in April 2011. SVP awards are granted to participants in the form of a conditional right to receive BPLC shares or provisional allocations of BPLC shares which vest over a period of three years in equal annual tranches. Participants do not pay to receive an award or to receive a release of shares. The grantor may also make a dividend equivalent payment to participants on vesting of an SVP award. SVP awards are also made to eligible employees for recruitment purposes under schedule 1 to the SVP. All awards are subject to potential forfeiture in certain leaver scenarios.

### Other Share-Based Compensation

In addition to the above plans, the Group operates a number of other plans, none of which are individually or in aggregate material in relation to the charge for the year or the dilutive effect of outstanding share options. Included within other plans are Sharesave (both UK and overseas), Sharepurchase (both UK and overseas), the Executive Share Award Scheme, Role Based Pay (“RBP”) and the Share Incentive Award. RBP is an element of fixed pay which is reviewed annually and is for the most senior employees. For some individuals RBP is either wholly or partly paid in the form of BPLC shares delivered quarterly and subject to a three- or five-year holding period.

### Options and Restricted Stock Shares Outstanding

The number of options and restricted stock shares outstanding at June 30, 2015, is set forth below (in millions) where the options or shares granted relate to BPLC shares:

	<u>SVP<sup>(a)</sup></u>	<u>Other<sup>(a)</sup></u>
<b>Outstanding as of June 30, 2015</b>	<u><b>178.57</b></u>	<u><b>0.32</b></u>
<b>Of which are exercisable</b>	–	–

<sup>(a)</sup> Options/shares granted relate to BPLC shares.

## 17. Financial Instruments with Off-Balance Sheet Risk

In the normal course of its business, the Company enters into transactions involving financial instruments with off-balance sheet risk in order to meet financing and hedging needs of customers (including brokers and dealers) and to reduce the Company’s own exposure to market and interest rate risk in connection with trading activities. These financial instruments include forward and futures contracts, options contracts, and options on futures contracts. Each of these financial instruments contains varying degrees of off-balance sheet risk as changes in the fair values of the financial instruments subsequent to

June 30, 2015 may, in certain circumstances, be in excess of the amounts recognized in the Statement of Financial Condition. The Company is also at risk from the potential inability of counterparties to perform under the terms of the contracts.

The Company also bears market risk for unfavorable changes in the price of financial instruments sold but not yet purchased. In the normal course of business, the Company enters into securities sales transactions. For these transactions, the Company may incur a loss if the security the Company is obligated to deliver is not received and the market value has increased over the contract amount of the sale transaction.

The Company also executes customer transactions in commodity futures contracts (including options on futures) and OTC cleared swaps, all of which are transacted on a margin basis subject to individual exchange regulations. These transactions may expose the Company to off-balance sheet risk in the event margin deposits are insufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the customer's obligations.

In the normal course of business, the Company may pledge or deliver customer or other counterparty securities as collateral in support of various financing sources such as bank loans, Securities loaned and Repurchase Agreements. Additionally, the Company pledges customer securities as collateral to satisfy margin deposits of various exchanges. In the event the counterparty is unable to meet its contracted obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at current market prices in order to return them to the owner.

## 18. Collateral, Commitments and Contingencies

### **Collateral**

The Company receives financial instruments as collateral, primarily in connection with Resale Agreements, Securities borrowed, derivatives transactions, and customer margin loans. In many cases, the Company is permitted to deliver, repledge or otherwise use these financial instruments in connection with entering into Repurchase Agreements, securities lending agreements, other secured financings, collateralizing derivative transactions, and meeting the Company or customer settlement requirements. At June 30, 2015, the approximate fair value, excluding the impact of netting, of financial instruments received as collateral by the Company, in connection with Resale Agreements, Securities

borrowed and customer margin loans, that the Company was permitted to sell or repledge was \$305,824 million, of which \$279,156 million was sold or repledged.

The amount of collateral that was sold or repledged by the Company included the following:

- \$65,584 million of securities collateral that was pledged under Repurchase Agreements which cannot be resold or repledged by the counterparty.
- \$170,437 million of securities collateral that was pledged under Repurchase Agreements and securities lending agreements which can be resold or repledged by the counterparty.
- \$43,135 million of securities collateral that was received in connection with certain securities-for-securities transactions in which the Company is a lender.

\$30,657 million of securities collateral pledged to counterparties can be resold or repledged by the counterparty and is included in Financial instruments owned, at fair value in the Statement of Financial Condition.

At June 30, 2015, the Company had \$4,262 million of securities on deposit with clearing organizations for trade facilitation purposes. These securities cannot be resold or repledged by the clearing organizations. In addition, the Company had \$9,922 million of Cash and cash equivalents, and \$80 million of issued letters of credit on deposit with clearing organizations.

## **Commitments**

At June 30, 2015, the Company had committed \$5,133 million in forward starting collateralized agreements, primarily resale transactions. Additionally, the Company had \$5,019 million in forward starting collateralized financings, primarily repurchase transactions, and \$1,000 million in a committed Repurchase Agreement facility.

## **Contingencies**

### **Alternative Trading Systems and High-Frequency Trading**

The SEC, the New York State Attorney General (“NYAG”), the UK Financial Conduct Authority (“FCA”) and regulators in certain other jurisdictions have been investigating a range of issues associated with alternative trading systems (“ATs”), including dark pools, and the activities of high-frequency traders. The Company has been providing information to the relevant regulatory authorities in response to their enquiries. Various parties, including the NYAG, have filed complaints against BPLC and the Company, naming BPLC, the Company and certain of

its current and former officers in connection with ATS related activities. BPLC and the Company continue to defend against these actions.

### *Background Information*

Civil complaints have been filed in the US District Court for the Southern District of New York (“SDNY”) on behalf of a putative class of investor-plaintiffs (the “Investor Class Actions”) against BPLC, the Company and others generally alleging that the defendants violated the federal securities laws by participating in a scheme in which high-frequency trading firms were given informational and other advantages so that they could manipulate the US securities market to the plaintiffs’ detriment.

In June 2014, the NYAG filed a complaint (“NYAG Complaint”) against BPLC and the Company in the Supreme Court of the State of New York (“NY Supreme Court”) alleging, among other things, that BPLC and the Company engaged in fraud and deceptive practices in connection with LX, a Group SEC-registered ATS.

BPLC and the Company have also been named in a putative class action by an institutional investor client under California law (the “California Claim”) based on allegations similar to those in the NYAG Complaint. This California class action was consolidated with the class action filed in the SDNY described above.

Also, following the filing of the NYAG Complaint, BPLC and the Company were named in a shareholder securities class action along with its current and certain of its former CEOs and CFOs and an employee in Equities Electronic Trading on the basis that investors suffered damages when their investments in Barclays American Depository Receipts declined in value as a result of the allegations in the NYAG Complaint. BPLC and the Company have filed a motion to dismiss the complaint, which the court granted in part and denied in part.

It is possible that additional complaints relating to these or similar matters may be brought in the future against BPLC, the Company and/or their affiliates.

### *Recent Developments*

In February 2015, the NYAG filed an amended complaint and the NY Supreme Court subsequently granted in part and denied in part BPLC and the Company’s motion to dismiss the NYAG Complaint. Proceedings in this matter are continuing.

In August 2015, the SDNY granted the Company’s and BPLC’s motions to dismiss the California Claim and the Investor Class Actions for failure to state a claim. The plaintiffs in the California Claim have been granted leave to amend their complaint. The

plaintiffs in the Investor Class Actions may seek to appeal the decision of the SDNY.

#### *Claimed Amounts/Financial Impact*

The complaints seek unspecified monetary damages and injunctive relief. It is not currently practicable to provide an estimate of the financial impact of the matters in this section or what effect that these matters might have upon the Company's financial position in any particular period.

### **Investigations into LIBOR, other Benchmarks, ISDAFIX, Foreign Exchange Rates and Precious Metals**

Regulators and law enforcement agencies from a number of governments have been conducting investigations relating to BBPLC's involvement in manipulating Foreign Exchange rates and financial benchmarks. BBPLC, BPLC, and the Company have reached settlements with the relevant law enforcement agency or regulator in certain of the investigations, but others, including those set out in more detail below, remain pending.

#### *Background Information*

The FCA, the CFTC, the SEC, the US Department of Justice ("DOJ") Fraud Section ("DOJ-FS") and Antitrust Division ("DOJ-AD"), the European Commission ("Commission"), the UK Serious Fraud Office, the Monetary Authority of Singapore, the Japan Financial Services Agency, the Administrative Council for Economic Defense in Brazil, the South African Competition Commission, the prosecutors' office in Trani, Italy and various US state attorneys general are among various authorities that opened investigations in connection with efforts to manipulate Foreign Exchange rates and into submissions made by BBPLC and other financial institutions to the bodies that set or compile various financial benchmarks, such as LIBOR and the Euro Interbank Offered Rate ("EURIBOR").

In June 2012, BBPLC announced that it had reached settlements with the Financial Services Authority ("FSA") (as predecessor to the FCA), the CFTC and the DOJ-FS in relation to their investigations concerning certain benchmark interest rate submissions, and BBPLC agreed to pay total penalties of USD equivalent \$451 million, which were reflected in operating expenses for 2012. The settlements were made by entry into a Settlement Agreement with the FSA, a Settlement Order with the CFTC ("CFTC LIBOR Order") and a Non-Prosecution Agreement ("NPA") with the DOJ-FS. In addition, BBPLC was granted conditional leniency from the DOJ-AD in connection with potential US antitrust law violations with respect to financial instruments that reference EURIBOR. Summaries of the NPA and the CFTC LIBOR Order are set out below. The full text of the CFTC



LIBOR Order and the NPA are publicly available on the websites of the CFTC and the DOJ, respectively. The terms of the Settlement Agreement with the FSA are confidential, but the Final Notice of the FSA in relation to LIBOR is available on the FCA's website.

#### *CFTC LIBOR Order*

In addition to a \$200 million civil monetary penalty, the CFTC LIBOR Order requires BBPLC and the Company to cease and desist from further violations of specified provisions of the CEA and take specified steps to ensure the integrity and reliability of its benchmark interest rate submissions, including LIBOR and EURIBOR, and improve related internal controls.

#### **DOJ Non-Prosecution Agreement**

As part of the NPA, BBPLC agreed to pay a \$160 million penalty. In addition, the DOJ agreed not to prosecute BBPLC for any crimes (except for criminal tax violations, as to which the DOJ cannot and did not make any agreement) related to BBPLC's submissions of benchmark interest rates, including LIBOR and EURIBOR, contingent upon BBPLC's satisfaction of specified obligations under the NPA.

In June 2014, BBPLC and DOJ-FS entered into a letter agreement which gave DOJ-FS until June 27, 2015 to make a determination under the NPA solely as to whether any of BBPLC's trading activities in the Foreign Exchange market during the two-year period from June 26, 2012 constituted the commission of a 'United States crime'.

#### *Recent Developments*

The Foreign Exchange settlements described below under 'Foreign Exchange Trading Investigations' include a \$60 million penalty imposed by the DOJ as a consequence of certain practices that continued after entry into the NPA; however, the DOJ exercised its discretion not to declare a breach of the NPA. The NPA and the letter agreement have now expired.

#### **Foreign Exchange Trading Investigations**

Various regulatory and enforcement authorities, including the FCA, the Commission, the CFTC, the DOJ-FS, the DOJ-AD, the SEC and the New York State Department of Financial Services ("NYDFS") are investigating a range of issues associated with Foreign Exchange sales and trading, including electronic trading. Certain of these investigations involve multiple market participants in various countries.

#### *Recent Developments*

On May 20, 2015, Group announced that it had reached settlements with the CFTC, the NYDFS, the DOJ, the Board of

Governors of the Federal Reserve System (“Federal Reserve”) and the FCA (together, the “Resolving Authorities”) in relation to investigations into certain sales and trading practices in the Foreign Exchange market, that it had agreed to pay total penalties of approximately \$2,384 million, including a \$60 million penalty imposed by the DOJ as a consequence of certain practices continuing after entry into the NPA, and that BPLC had agreed to plead guilty to a violation of US antitrust law.

Under the plea agreement with the DOJ, BPLC agreed to (i) pay a criminal fine of \$650 million and (ii) a term of probation of three years from the date of the final judgment in respect of the plea agreement. During the term of probation, BPLC must, among other things:

- Commit no crime whatsoever in violation of the federal laws of the United States;
- Notify the probation officer appointed by the court upon learning of the commencement of any federal criminal investigation in which it is a target, or federal criminal prosecution against it;
- Implement and continue to implement a compliance program designed to prevent and detect the conduct that gave rise to the plea agreement;
- Strengthen its compliance and internal controls as required by the CFTC, the FCA and any other regulatory or enforcement agencies that have addressed the conduct set forth in the plea agreement; and
- Bring to the DOJ’s attention (i) all credible information regarding criminal violations by BPLC or any of its employees that relates to US antitrust laws or fraud laws, including securities or commodities markets fraud, as to which BPLC’s Board of Directors, management or legal and compliance personnel is aware (ii) all criminal or regulatory investigations, administrative proceedings or civil actions brought by any governmental authority in the US by or against BPLC or its employees that alleges violations of US antitrust or fraud laws, or including securities or commodities markets fraud.

Pursuant to the settlement with the CFTC, BBPLC consented to the entry of an order requiring it to (i) cease and desist from violating provisions of the US Commodity Exchange Act, (ii) pay a civil monetary penalty of \$400 million and (iii) undertake certain remediation efforts to the extent not already undertaken, including:

- Implementing and improving its internal controls and procedures in a manner reasonably designed to ensure the integrity of its participation in the fixing of any Foreign Exchange benchmark rate, including measures to identify and address internal or external conflicts of interest; and
- Implementing additional remediation improvements that will include internal controls and procedures relating to, amongst other things: (i) detection and deterrence of improper communications concerning Foreign Exchange benchmark rates and trading or other conduct potentially intended to manipulate Foreign Exchange benchmark rates, (ii) routine and ongoing training of all traders, supervisors and others who are involved in the fixing of any Foreign Exchange benchmark rate and (iii) its system for reporting, handling and investigating any suspected misconduct or questionable, unusual or unlawful activity relating to the fixing of any Foreign Exchange benchmark rate.

Pursuant to its settlement with the Federal Reserve, BBPLC and BBPLC's New York branch consented to an order imposing a civil monetary penalty of \$342 million and ordering BBPLC and BBPLC's New York branch to submit in writing to the Federal Reserve Bank of New York for its approval (i) an enhanced internal controls and compliance program to comply with applicable US laws and regulations with respect to certain Foreign Exchange activities and certain activities in certain other wholesale markets for commodities and interest rate products, (ii) a plan to improve its compliance risk management program regarding BBPLC's and BBPLC's New York branch's compliance with applicable US laws and regulations with respect to certain Foreign Exchange activities and certain activities in certain other wholesale markets for commodities and interest rate products and (iii) enhanced internal audit program regarding BBPLC's and BBPLC's New York branch's compliance with applicable US laws and regulations with respect to certain Foreign Exchange activities and certain activities in certain other wholesale markets for commodities and interest rate products. Under the Federal Reserve order, BBPLC and its institution-affiliated parties must not in the future directly or indirectly retain any individual as an officer, employee, agent, consultant or contractor of BBPLC or of any subsidiary of BBPLC who, based on the investigative record compiled by US authorities, has done all of the following: (i) participated in the misconduct underlying the order, (ii) been subject to formal disciplinary action as a result of BBPLC's and BBPLC's New York branch's internal disciplinary review or performance review in connection with the conduct described in the order, and (iii) either separated from BBPLC or

any subsidiary thereof or had his or her employment terminated in connection with the conduct described in the order.

Pursuant to the settlement with the NYDFS, BBPLC and BBPLC's New York branch consented to an order imposing a civil monetary penalty of \$485 million and requiring BBPLC and BBPLC's New York branch to take all steps necessary to terminate four identified employees. BBPLC and BBPLC's New York branch must also continue to engage the independent monitor previously selected by the NYDFS to conduct, consistent with applicable law, a comprehensive review of compliance programs, policies, and procedures, with respect to the business activities discussed within the order, in place at BBPLC that pertain to or affect activities conducted by or through BBPLC's New York branch. The monitor will submit to the NYDFS and BBPLC's Board of Directors a preliminary written report of findings, including proposed corrective measures and thereafter BBPLC and BBPLC's New York branch must submit to the NYDFS (i) a written plan designed to improve and enhance current compliance programs that pertain to or affect activities conducted by or through BBPLC's New York branch, incorporating any relevant corrective measures identified in the monitor's report and (ii) a written plan to improve and enhance management oversight of compliance programs, policies, and procedures now in place at BBPLC that pertain to or affect activities conducted by or through BBPLC's New York branch.

The FCA issued a Final Notice and imposed a financial penalty of USD equivalent \$441 million on BBPLC for failing to control business practices in its Foreign Exchange business in London (including G10 and emerging market spot Foreign Exchange trading, Foreign Exchange options and Foreign Exchange sales). As announced in November 2014, the FCA has required an industry-wide remediation program which Barclays remains committed to completing.

The full text of the DOJ plea agreement, the CFTC, NYDFS and Federal Reserve orders, and the FCA Final Notice referred to above are publicly available on the Resolving Authorities' respective websites.

The settlements reached on May 20, 2015 did not encompass ongoing investigations of electronic trading in the Foreign Exchange market. In addition, certain authorities continue to investigate sales and trading practices of various sales and trading personnel, including Foreign Exchange personnel, among multiple market participants, including BBPLC, in various countries. The Group is continuing to review these and certain other practices relating to Foreign Exchange and continues to cooperate with the relevant authorities.

## **ISDAFIX Investigation**

Regulators and law enforcement agencies, including the CFTC, have conducted separate investigations into historical practices with respect to ISDAFIX, amongst other benchmarks.

On May 20, 2015, the CFTC entered into a settlement order with BPLC, BBPLC and the Company pursuant to which BPLC, BBPLC and the Company agreed to pay a civil monetary penalty of \$115 million in connection with the CFTC's industry-wide investigation into the setting of the US Dollar ISDAFIX benchmark. In addition, the CFTC order requires BPLC, BBPLC and the Company to cease and desist from violating provisions of the US Commodity Exchange Act, fully cooperate with the CFTC in related investigations and litigation and undertake certain remediation efforts to the extent not already undertaken, including, amongst other things:

- Continuing to implement and improve its internal controls and procedures in a manner reasonably designed to ensure the integrity of the fixing of any interest-rate swap benchmark; and
- Implementing additional remediation improvements, including reasonable internal controls and procedures relating to, amongst other things: (i) the detection and deterrence of trading or other conduct potentially intended to manipulate directly or indirectly swap rates, including benchmarks based on interest-rate swaps, routine and ongoing training of all swaps and options desk personnel relating to the trading of any product that references a benchmark based on interest-rate swaps and (iii) a system for reporting, handling and investigating any suspected misconduct or questionable, unusual or unlawful activity relating to the fixing of any benchmark based on interest-rate swaps.

The full text of the CFTC order relating to ISDAFIX is publicly available on the CFTC website.

Certain other regulatory and enforcement authorities have requested information regarding the setting of, and trading intended to influence, the USD ISDAFIX benchmark.

## **Precious Metals Investigation**

BBPLC has been providing information to the DOJ and other authorities in connection with investigations into precious metals and precious-metals-based financial instruments.

For a discussion of litigation arising in connection with these investigations see 'LIBOR and other Benchmarks Civil Actions', 'Civil Actions in Respect of ISDAFIX', 'Civil Actions in Respect of Foreign Exchange Trading' and 'Civil Actions in Respect of the Gold Fix' below.

### *Claimed Amounts/Financial Impact*

The fines in connection with the May 2015 settlements with the Resolving Authorities are covered by Group's existing provisions of USD equivalent \$3,135 million. It is not currently practicable to provide an estimate of the financial impact of certain of the other matters in this section, or what effect that these matters might have upon the Company's financial position in any particular period.

### **LIBOR and Other Benchmark Civil Actions**

Following the settlements of the investigations referred to above in 'Investigations into LIBOR, other Benchmarks, ISDAFIX, Foreign Exchange Rates and Precious Metals', a number of individuals and corporates in a range of jurisdictions have threatened or brought civil actions against Group in relation to LIBOR and/or other benchmarks.

### *Background Information*

A number of individuals and corporates in a range of jurisdictions have threatened or brought civil actions against Group and other banks in relation to manipulation of LIBOR and/or other benchmark rates. While several of such cases have been dismissed and one has settled subject to final approval from the court, others remain pending and their ultimate impact is unclear.

### **USD LIBOR Cases in the US District Court for the Southern District of New York**

The majority of the USD LIBOR cases, which have been filed in various US jurisdictions, have been consolidated for pre-trial purposes before a single judge in the SDNY, which is often referred to as a multi-district litigation ("MDL Court").

The complaints are substantially similar and allege, among other things, that BBPLC and the other banks individually and collectively violated provisions of the US Sherman Antitrust Act, the CEA, the US Racketeer Influenced and Corrupt Organizations Act ("RICO") and various state laws by manipulating USD LIBOR rates.

The lawsuits seek unspecified damages with the exception of five lawsuits, in which the plaintiffs are seeking a combined total in excess of \$1,250 million in actual damages against all defendants, including BBPLC, plus punitive damages. As against the Company, the lawsuits seek an unspecified amount of damages with the exception of two lawsuits, in which the plaintiffs are seeking a combined total in excess of \$350 million. Some of the lawsuits also seek trebling of damages under the US Sherman Antitrust Act and RICO.

The proposed class actions purport to be brought on behalf of (among others) plaintiffs that (1) engaged in USD LIBOR-linked

OTC transactions (“OTC Class”); (2) purchased USD LIBOR-linked financial instruments on an exchange (“Exchange-Based Class”); (3) purchased USD LIBOR-linked debt securities (“Debt Securities Class”); (4) purchased adjustable-rate mortgages linked to USD LIBOR (“Homeowner Class”); or (5) issued loans linked to USD LIBOR (“Lender Class”).

In August 2012, the MDL Court stayed all newly filed proposed class actions and individual actions (“Stayed Actions”), so that the MDL Court could address the motions pending in three lead proposed class actions (“Lead Class Actions”) and three lead individual actions (“Lead Individual Actions”).

In March 2013, the MDL Court issued a decision dismissing the majority of claims against BBPLC and other panel bank defendants in the Lead Class Actions and Lead Individual Actions.

Following the decision, the plaintiffs in the Lead Class Actions sought permission to either file an amended complaint or appeal an aspect of the March 2013 decision. In August 2013 and June 2014, the MDL Court denied the majority of the motions presented in the Lead Class Actions. As a result:

- The Debt Securities Class has been dismissed entirely;
- The claims of the Exchange-Based Class have been limited to claims under the CEA; and
- The claims of the OTC Class have been limited to claims for unjust enrichment and breach of the implied covenant of good faith and fair dealing.

Subsequent to the MDL Court’s March 2013 decision, the plaintiffs in the Lead Individual Actions filed a new action in California state court (since moved to the MDL Court) based on the same allegations as those initially alleged in the proposed class action cases discussed above. The Debt Securities Class attempted to appeal the dismissal of their action to the US Court of Appeals for the Second Circuit (“Second Circuit”), but the Second Circuit dismissed the appeal as untimely on the grounds that the MDL Court had not reached a decision resolving all of the claims in the consolidated actions. In January 2015, the US Supreme Court reversed the Second Circuit’s decision, ruling that the Second Circuit must hear the Debt Securities Class’ appeal. The OTC Class and the Exchange-Based Class have received permission to join this appeal. Certain other proposed class actions that had previously been stayed by the MDL Court have also received permission to join the appeal as to the dismissal of their antitrust claims.

In December 2014, the MDL Court granted preliminary approval for the settlement of the remaining Exchange-Based Class claims

for \$20 million and requested that the plaintiffs present a plan for allocation of the settlement proceeds. In January 2015, plaintiffs filed a motion for an order approving their proposed process of allocation and class notice for the settlement, and that motion is pending before the MDL court.

Additionally, the MDL Court has begun to address the claims in the Stayed Actions, many of which, including state law fraud and tortious interference claims, were not asserted in the Lead Class Actions. As a result, in October 2014, the direct action plaintiffs (those who have opted out of the class actions) filed their amended complaints and in November 2014, the defendants filed their motions to dismiss. In November 2014, the plaintiffs in the Lender Class and Homeowner Class actions filed their amended complaints. In January 2015, the defendants filed their motions to dismiss. In August 2015, the MDL Court issued a decision allowing many of the claims of the direct action plaintiffs to proceed. However, the same order found that the MDL Court lacked jurisdiction over many defendants, including BPLC, BBPLC and the Company in certain actions. The MDL Court has requested additional information on the jurisdiction issue, and will issue a further order clarifying the scope of the August 2015 decision.

Until there are further decisions from the Second Circuit, the ultimate impact of the MDL Court's decisions will be unclear, although the MDL Court's decisions may be interpreted by courts to affect other litigation, including the actions described below, some of which concern different benchmark interest rates.

### **Sterling LIBOR Case in the SDNY**

An additional class action was commenced in May 2015 in the SDNY against BBPLC, the Company and other Sterling LIBOR panel banks by a plaintiff involved in exchange-traded and over-the-counter derivatives that were linked to Sterling LIBOR. The complaint alleges, among other things, that BBPLC, the Company and other panel banks manipulated the Sterling LIBOR rate between 2005 and 2010 and, in so doing, committed CEA, antitrust, and RICO violations.

### **Securities Fraud Case in the SDNY**

BPLC, BBPLC and the Company have also been named as defendants along with four former officers and directors of BBPLC in a proposed securities class action pending in the SDNY in connection with BBPLC's role as a contributor panel bank to LIBOR. The complaint asserted claims under the US Securities Exchange Act of 1934, principally alleging that BBPLC's Annual Reports for the years 2006 to 2011 contained misstatements and



omissions concerning (among other things) BBPLC's compliance with its operational risk management processes and certain laws and regulations. The complaint also alleged that BBPLC's daily USD LIBOR submissions constituted false statements in violation of US securities law. The complaint was brought on behalf of a proposed class consisting of all persons or entities that purchased BPLC-sponsored American Depository Receipts on a US securities exchange between July 10, 2007, and June 27, 2012. In May 2013, the district court granted BBPLC's motion to dismiss the complaint in its entirety. The plaintiffs appealed, and, in April 2014, the Second Circuit issued an order upholding the dismissal of certain of the plaintiffs' claims, but reversing the dismissal of the plaintiffs' claims that BBPLC's daily USD LIBOR submissions constituted false statements in violation of US securities law. The action has been remanded back to the district court for further proceedings, and discovery is expected to be substantially complete in early 2016. In April 2015, plaintiffs filed a motion to certify the class and the district court granted the motion in August 2015. Barclays plans to seek review of the class certification order in the Second Circuit.

### **EURIBOR Cases**

In February 2013, a EURIBOR-related class action was filed against BPLC, BBPLC, the Company and other EURIBOR panel banks. The plaintiffs assert antitrust, CEA, RICO, and unjust enrichment claims. In particular, BBPLC is alleged to have conspired with other EURIBOR panel banks to manipulate EURIBOR. The lawsuit is brought on behalf of purchasers and sellers of NYSE Liffe EURIBOR futures contracts, purchasers of Euro currency-related futures contracts and purchasers of other derivative contracts (such as interest rate swaps and forward rate agreements that are linked to EURIBOR) during the period June 1, 2005 through March 31, 2011. All proceedings were stayed until May 2015 when the court modified the stay to permit document discovery to proceed.

In addition, BBPLC has been granted conditional leniency from the DOJ-AD in connection with potential US antitrust law violations with respect to financial instruments that reference EURIBOR. As a result of that grant of conditional leniency, BBPLC is eligible for (1) a limit on liability to actual rather than treble damages if damages were to be awarded in any civil antitrust action under US antitrust law based on conduct covered by the conditional leniency and (2) relief from potential joint-and-several liability in connection with such civil antitrust action, subject to BBPLC satisfying the DOJ-AD and the court presiding over the civil litigation of fulfillment of its cooperation obligations.

## **Yen LIBOR Cases**

An additional class action was commenced in July 2015 against BPLC, BBPLC, the Company and other Yen LIBOR panel banks by plaintiffs involved in over-the-counter derivatives during the period of at least January 1, 2006 through at least June 30, 2011. Plaintiffs assert claims for violations of the Sherman Antitrust Act, RICO, and various state law claims.

The July 2015 action was filed as a related action to a Yen LIBOR action that was previously filed in August 2012, and only named BBPLC as defendant.

## **Non-US Benchmarks Cases**

In addition to US actions, legal proceedings have been brought or threatened against Group in connection with alleged manipulation of LIBOR and EURIBOR in a number of jurisdictions. The number of such proceedings in non-US jurisdictions, the benchmarks to which they relate, and the jurisdictions in which they may be brought have increased over time.

### *Claimed Amounts/Financial Impact*

It is not currently practicable to provide an estimate of the financial impact of the actions described on the Company or what effect that they might have upon the Company's financial position in any particular period.

## **Civil Actions in Respect of Foreign Exchange Trading**

Since November 2013, a number of civil actions have been filed in the SDNY on behalf of proposed classes of plaintiffs alleging manipulation of Foreign Exchange markets under the US Sherman Antitrust Act and New York state law and naming several international banks as defendants, including BBPLC and the Company. In February 2014, the SDNY combined all then-pending actions alleging a class of US persons in a single consolidated action.

### *Recent Developments*

In January 2015, the SDNY denied the motion to dismiss the consolidated action but dismissed two actions alleging classes of non-US persons.

Since February 2015, several additional civil actions have been filed in the SDNY, and one civil action has been filed in the Northern District of California, on behalf of proposed classes of plaintiffs alleging injuries related to Barclays' alleged manipulation of Foreign Exchange rates and naming several international banks as defendants, including BPLC, BBPLC, and the Company. One of the newly filed actions asserts claims under the US Employee Retirement Income Security Act ("ERISA") statute and includes

allegations that are duplicative of allegations in the other cases, as well as additional allegations about Foreign Exchange sales practices and ERISA plans. All of the other newly filed actions assert claims under the US Sherman Antitrust Act and/or the CEA.

#### *Claimed Amounts/Financial Impact*

The financial impact of the actions described on the Company or what effect that they might have upon the Company's financial position in any particular period is currently uncertain.

### **Civil Actions in Respect of the Gold Fix**

Since March 2014, a number of civil complaints have been filed in US federal courts, each on behalf of a proposed class of plaintiffs, alleging that BBPLC and other members of The London Gold Market Fixing Ltd. manipulated the prices of gold and gold derivative contracts in violation of the CEA, the US Sherman Antitrust Act, and state antitrust and consumer protection laws. All of the complaints have been transferred to the SDNY and consolidated for pretrial purposes.

#### *Claimed Amounts/Financial Impact*

It is not currently practicable to provide an estimate of the financial impact of the potential exposure of the actions described or what effect that they might have upon the Company's financial position in any particular period.

### **US Residential and Commercial Mortgage-Related Activity and Litigation**

The Company is party to a number of lawsuits filed by purchasers of US residential MBS sponsored and/or underwritten by Group between 2005 and 2008. As a general matter, these lawsuits allege, among other things, that the residential MBS offering materials allegedly relied on by such purchasers contained materially false and misleading statements and/or omissions and generally demand rescission and recovery of the consideration paid for the residential MBS and recovery of monetary losses arising out of their ownership.

The original face amount of residential MBS related to the pending civil actions against the Company total approximately \$2,279 million, of which approximately \$778 million was outstanding as at June 30, 2015.

#### *Claimed Amounts/Financial Impact*

If the Company were to lose the pending actions the Company believes it could incur a loss of up to the outstanding amount of the residential MBS at the time of judgment (taking into account further principal payments after June 30, 2015), plus any cumulative losses on the residential MBS at such time and any

interest, fees and costs, less the market value of the residential MBS at such time and less any provisions taken to date.

Although the purchasers in these securities actions have generally not identified a specific amount of alleged damages, the Company has estimated the total market value of these residential MBS as at June 30, 2015 to be approximately \$381 million. The Company may be entitled to indemnification for a portion of such losses.

### **Other Mortgage-Related Investigations**

In addition, numerous regulatory and governmental authorities, among them the DOJ, SEC, Special Inspector General for the US Troubled Asset Relief Program, the US Attorney's Office for the District of Connecticut, and the US Attorney's Office for the Eastern District of New York, have been investigating various aspects of the mortgage-related business, including issuance and underwriting practices in primary offerings of residential MBS and trading practices in the secondary market for both residential MBS and US commercial MBS. Group continues to respond to requests relating to the residential MBS Working Group of the Financial Fraud Enforcement Task Force ("RMBS Working Group"), which was formed to investigate pre-financial crisis mortgage-related misconduct. In connection with several of the investigations by members of the RMBS Working Group, a number of financial institutions have entered into settlements involving substantial monetary payments.

#### *Claimed Amounts/Financial Impact*

It is not currently practicable to provide an estimate of the financial impact of the actions described on the Company or what effect that they might have upon the Company's financial position in any particular period.

### **Lehman Brothers**

Since September 2009, BBPLC and the Company have been engaged in litigation with various entities that have sought to challenge certain aspects of the transaction pursuant to which BBPLC and the Company and other companies in Group acquired most of the assets of Lehman Brothers Inc. ("LBI") in September 2008, as well as the court order ("Order") approving the sale ("Sale"). In May 2015, BBPLC and the Company reached a settlement with the SIPA Trustee for Lehman Brothers Inc. ("Trustee") to resolve outstanding litigation between them relating to the Sale. The settlement was approved by the United States Bankruptcy Court for the SDNY ("Bankruptcy Court") on June 29, 2015, thereby bringing the litigation challenging the Sale to an end.

### *Background Information*

In September 2009, motions were filed in the Bankruptcy Court by Lehman Brothers Holdings Inc. (“LBHI”), the Trustee and the Official Committee of Unsecured Creditors of Lehman Brothers Holdings Inc. (“Committee”) challenging certain aspects of the Sale, as well as the Order. The claimants sought an order voiding the transfer of certain assets to the Company, requiring the Company to return to the LBI estate any excess value the Company allegedly received, and declaring that the Company is not entitled to certain assets that it claimed pursuant to the Sale documents and the Order (“Rule 60 Claims”).

In January 2010, the Company filed its response to the motions and also filed a motion seeking delivery of certain assets that LBHI and LBI had failed to deliver as required by the Sale documents and the Order (together with the Trustee’s competing claims to those assets, “Contract Claims”).

In 2011, the Bankruptcy Court rejected the Rule 60 Claims and decided some of the Contract Claims in the Trustee’s favor and some in favor of the Company. The Company and the Trustee each appealed the Bankruptcy Court’s adverse rulings on the Contract Claims to the SDNY. LBHI and the Committee did not appeal the Bankruptcy Court’s ruling on the Rule 60 Claims.

In July 2012, the SDNY issued an opinion on the Contract Claims stating that BBPLC and the Company were entitled to receive:

- \$1.1 billion plus post-judgment interest from the Trustee in respect of ‘clearance box’ assets (“Clearance Box Assets”); and
- Property held at various institutions in respect of the exchange-traded derivatives accounts transferred to the Company in the Sale (“ETD Margin”).

The Trustee appealed to the Second Circuit. In August 2014, the Second Circuit affirmed the SDNY’s decision as to the Clearance Box Assets and the ETD Margin.

In October 2014, the Trustee filed a motion with the SDNY to confirm the scope of the SDNY’s judgment regarding the ETD Margin that BBPLC and the Company were entitled to receive. With that motion, the Trustee challenged the entitlement of BBPLC and the Company to approximately \$1.1 billion of assets that the Trustee asserted did not constitute ETD Margin. In April 2015, the SDNY ruled in favor of BBPLC and the Company, confirming that they were entitled to all of the ETD Margin.

In October 2014, the Trustee made a payment to BBPLC of \$1.1 billion, fully discharging the Trustee’s obligations in respect of the Clearance Box Assets.

### *Recent Developments*

In December 2014, the Trustee requested that the US Supreme Court review the rulings of the SDNY and the Second Circuit regarding the ETD Margin. In May 2015, the US Supreme Court published its denial of the Trustee's request.

In May 2015, the parties reached a settlement to resolve outstanding litigation between them relating to the Sale ("Settlement"). The Settlement was approved by the Bankruptcy Court on June 29, 2015. Pursuant to the Settlement, BBPLC has received all of the assets that the Trustee had asserted did not constitute ETD Margin with the exception of \$80 million of assets that the Trustee is entitled to retain and approximately \$0.3 billion of ETD Margin still owed to BBPLC but expected to be received from third parties.

### *Financial Impact*

The Settlement does not have a financial impact on the Company. Within Group, BBPLC was entitled to all further payments received in respect of the ETD Margin as a result of an agreement entered into by the Company, BBPLC and BGUS in July 2011.

## 19. Guarantees

In the ordinary course of its business, the Company indemnifies certain service providers, such as clearing and custody agents, trustees and administrators, against specified potential losses in connection with their acting as an agent of, or providing services to, the Company, its customers and its affiliates. In addition, the Company is a member of payment, clearing and settlement networks as well as securities exchanges around the world that may require the Company to meet the obligations of such networks and exchanges in the event of member defaults. In connection with its prime brokerage and clearing businesses, the Company may agree to clear and settle on behalf of its clients the transactions entered into by them with other brokerage firms. The Company's obligations in respect of such transactions are secured by the assets in the client's account as well as any proceeds received from the transactions cleared and settled by the Company on behalf of the client. The Company is unable to develop an estimate of the maximum payout under these guarantees and indemnifications. However, management believes that it is unlikely the Company will have to make material payments under these arrangements, and no liabilities related to these guarantees and indemnifications have been recognized in the Statement of Financial Condition.

The Company utilizes Pershing, a non-affiliated broker-dealer, as its clearing agent for certain wealth customer clearing

transactions. Pershing carries the cash and margin accounts for the Company’s retail brokerage customers on a fully disclosed basis. The Company is responsible for the initial and any subsequent margin requirement for any transaction in the event a customer of the Company were to fail to fulfill its obligation to Pershing. The Company is secured by assets in the customer’s account. Based on current customer margin requirements, no provision is carried on the Statement of Financial Condition for these transactions.

The Company enters into certain derivative contracts that meet the definition of a guarantee under ASC 460, *Guarantees* (“ASC 460”). Guarantees are defined to include derivative contracts that contingently require a guarantor to make payment to a guaranteed party based on changes in an underlying that relates to an asset, liability or equity security of a guaranteed party. Derivatives that meet the definition of a guarantee include certain written equity options. The Company’s derivatives that act as guarantees are summarized below and are shown on a gross basis prior to counterparty netting (in millions):

	Carrying Value of Liability	Maximum Payout/Notional
Written Equity Options	\$ 1,456	\$ 40,867

## 20. Counterparty Credit Risk Management

As a securities broker-dealer, the Company is engaged in various securities trading and brokerage activities. The Company’s securities transactions, both as principal and as agent, are executed with individuals and institutions. This includes brokers and dealers, central clearers and exchanges, commercial banks, insurance companies, pension plans, mutual funds, hedge funds and other financial institutions. The Company’s exposure to credit risk is associated with the nonperformance of counterparties in fulfilling their contractual obligations.

The Company’s policy is to monitor its customer and counterparty risk through the use of a variety of credit and market exposure reporting and control procedures. This includes marking to market securities transactions and collateral while requiring adjustments to collateral levels where appropriate. In connection with its derivatives trading activities, the Company may enter into master netting agreements and collateral arrangements with counterparties. These agreements may provide the Company with the ability to offset a counterparty’s rights and obligations, request additional collateral when necessary or liquidate the collateral in the event of counterparty

default. In addition, the Company has a policy of reviewing the credit standing of each counterparty and customer with whom it conducts business as considered necessary.

## 21. Regulatory Requirements

As a registered broker-dealer and FCM, the Company is subject to Rule 15c3-1 of the Securities and Exchange Act and CFTC Regulation 1.17. The Company has elected to compute Net Capital in accordance with the Alternative Net Capital (“ANC”) requirement as permitted by Rule 15c3-1. At June 30, 2015, the Company had Net Capital, as defined, of \$6,383 million, which was \$5,126 million in excess of the amount required of \$1,257 million.

In accordance with the ANC requirements, the Company is required to maintain tentative net capital in excess of \$1,000 million and notify the SEC in the event its tentative net capital is less than \$6,000 million. At June 30, 2015, the Company had tentative net capital in excess of the minimum and notification requirements.

In connection with the acquisition of certain assets of Lehman Brothers, the Company was granted temporary permission by the SEC to apply the ANC methodology to compute the Net Capital requirements of a US broker-dealer under Appendix E of Rule 15c3-1. The Company has submitted its application to the SEC to continue applying the ANC methodology on a permanent basis and is awaiting formal approval of that application.

## 22. Subsequent Events

The Company evaluated subsequent events from July 1, 2015 through August 31, 2015, the date the Statement of Financial Condition was available to be issued. The Company did not have any subsequent events to report.



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## Senior Officers

**Joe Gold**

Chief Executive Officer

**Gerard LaRocca**

President

**Joe Busuttill**

Chief Financial Officer