

CONSOLIDATED STATEMENT OF FINANCIAL  
CONDITION

Nomura Securities International, Inc.

(A subsidiary of Nomura Holding America Inc.)

March 31, 2020

With Report of Independent Registered Public Accounting Firm

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

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

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

REPORT FOR THE PERIOD BEGINNING April 1, 2019 AND ENDING March 31, 2020

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **NOMURA SECURITIES INTERNATIONAL, INC.**

OFFICIAL USE ONLY

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

FIRM ID. NO.

**WORLDWIDE PLAZA, 309 WEST 49<sup>th</sup> STREET**

**NEW YORK**

(No. and Street)  
**NEW YORK**

**10019-7316**

(City)

(State)

(Zip Code)

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

**Christy Schaffner**

**(212) 667-8903**

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

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

**Ernst & Young LLP**

**5 Times Square**

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

**New York**

**NY**

**10036**

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

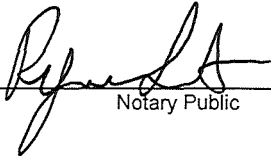
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\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

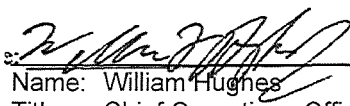
## OATH OR AFFIRMATION

We, Eugene Chiulli and William Hughes, swear (or affirm) that, to the best of our knowledge and belief the accompanying statement of financial condition pertaining to the firm of Nomura Securities International, Inc., (the "Company") as of March 31, 2020, is true and correct. We further swear (or affirm) that based upon information available to us, neither the Company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer. The statement of financial condition of the Company is made available to all of the members and allied members of the New York Stock Exchange, Inc.

**RYAN JAKE LAST**  
Notary Public, State of New York  
Registration #02LA6337349  
Qualified In New York County  
Commission Expires Feb. 22, 2024

  
Notary Public

  
Name: Eugene Chiulli  
Title: Chief Financial Officer

  
Name: William Hughes  
Title: Chief Operations Officer

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

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

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

Nomura Securities International, Inc.  
Consolidated Statement of Financial Condition  
March 31, 2020

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

Tel: +1 212 773 3000  
ey.com

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

Stockholder and Board of Directors of  
Nomura Securities International, Inc.

### **Opinion on the Financial Statement**

We have audited the accompanying consolidated statement of financial condition of Nomura Securities International, Inc. (the “Company”) as of March 31, 2020 and the related notes (the “consolidated financial statement”). In our opinion, the consolidated financial statement presents fairly, in all material respects, the financial position of the Company at March 31, 2020, in conformity with U.S. generally accepted accounting principles.

### **Basis for Opinion**

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

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

*Ernst & Young LLP*

We have served as the Company’s auditor since 2002.

May 29, 2020

**Nomura Securities International, Inc.**  
**Consolidated Statement of Financial Condition**  
**March 31, 2020**  
*(Dollars in Thousands)*

**Assets**

Cash and cash equivalents		\$	5,500,780
Deposits with exchanges and cash segregated under federal and other regulations or requirements			784,664
Collateralized financing agreements:			
Securities purchased under agreements to resell (includes \$418,809 at fair value)	\$	58,630,559	
Securities borrowed		15,286,829	
			73,917,388
Securities received as collateral at fair value			1,234,306
Trading assets (\$10,371,446 were pledged to various parties and \$370,388 related to consolidated variable interest entities, not available to the Company)			55,660,124
Receivables:			
Customers		2,374,583	
Brokers, dealers and clearing organizations		2,675,107	
Interest and dividends		208,539	
			5,258,229
Furniture, equipment, leasehold improvements and software, net (includes accumulated depreciation and amortization of \$68,419)			19,986
Other assets			97,671
Total assets		\$	<u>142,473,148</u>

**Liabilities and stockholder's equity**

Liabilities:

Collateralized financing agreements:			
Securities sold under agreements to repurchase	\$	100,806,875	
Securities loaned		11,518,932	
			\$ 112,325,807
Obligation to return securities received as collateral at fair value			1,234,306
Borrowings from Parent			4,650,146
Other secured financing			80,000
Trading liabilities			10,813,350
Payables and accrued liabilities:			
Brokers, dealers and clearing organizations		2,584,552	
Customers		3,294,636	
Compensation and benefits		225,083	
Interest and dividends		59,656	
Other		217,004	
			6,380,931
Subordinated borrowings			3,300,000
Borrowings at fair value (includes \$201,918 related to consolidated variable interest entities and are non-recourse to the Company)			222,701
Total liabilities			<u>139,007,241</u>

Commitments, contingent liabilities and guarantees (Note 11)

Stockholder's equity:

Common stock, without par value, 9,000 shares authorized, 5,984 shares issued and outstanding		-	
Additional paid-in capital		3,766,702	
Accumulated deficit		(300,795)	
Total stockholder's equity			<u>3,465,907</u>
Total liabilities and stockholder's equity		\$	<u>142,473,148</u>

*See accompanying Notes to Consolidated Statement of Financial Condition*

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition  
March 31, 2020

## 1. Organization

Nomura Securities International, Inc. (“NSI” or the “Company”) is a wholly owned subsidiary of Nomura Holding America Inc. (“NHA” or the “Parent”) which itself is wholly owned by Nomura Holdings, Inc. (“NHI” or “Nomura”), a Japanese corporation. This Consolidated Statement of Financial Condition include the accounts of NSI and variable interest entities where NSI has been determined to be the primary beneficiary.

The Company is a U.S. registered broker and dealer under the Securities Exchange Act of 1934 and a futures commission merchant with the Commodity Futures Trading Commission (“CFTC”). Financial Industry Regulatory Authority (“FINRA”) is the Company’s designated regulator. The Company is licensed to transact on the New York Stock Exchange (“NYSE”) and is a member of other principal securities exchanges. The Company provides investment banking and brokerage services to institutional customers and enters into principal transactions for its own account.

The Company manages, analyzes and reports on its business on the basis of one business segment.

## 2. Significant Accounting Policies

### Principles of Consolidation

The Consolidated Statement of Financial Condition include the accounts of the Company and entities deemed to be variable interest entities (“VIEs”) under Accounting Standards Codification (“ASC”) 810-10-15, *Consolidations – Variable Interest Entities* (“ASC 810-10-15”), where the Company has been determined to be the primary beneficiary of such entities. At March 31, 2020, the Company is the primary beneficiary of two variable interest entities (see Note 14).

### Use of Estimates

The Consolidated Statement of Financial Condition is presented in conformity with accounting principles generally accepted in the United States, which require management to make estimates and assumptions that affect the amounts reported in the Consolidated Statement of Financial Condition and accompanying notes. Management believes that the estimates utilized in preparing its Consolidated Statement of Financial Condition are reasonable and prudent. Actual results could differ from those estimates.

During times of financial crisis and dislocated markets, such as during the current COVID-19 pandemic, additional use of estimates may be required or existing estimates may be increasingly judgmental.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

**Foreign Currency**

Assets and liabilities denominated in non-United States dollar currencies are remeasured into United States dollar equivalents at spot foreign exchange rates prevailing on the date of the Consolidated Statement of Financial Condition, while revenue and expense accounts are remeasured at the actual foreign exchange rate on the date the transaction occurred. Gains and losses resulting from non-United States dollar currency transactions are included in income.

**Cash and Cash Equivalents**

At times, cash balances will exceed Federally insured levels, however the Company does not believe there is significant credit risk with respect to these balances.

The Company defines cash equivalents to be highly liquid investments with original maturities of three months or less, other than those held for trading purposes. At March 31, 2020, cash equivalents of \$1.25 billion consist of overnight investments in money market funds valued based on quoted net asset values.

**Securities Transactions**

Proprietary securities transactions in regular way trades are recorded on the Consolidated Statement of Financial Condition on trade date, along with related revenues and expenses. Proprietary securities transactions in which the settlement date is considered non-regular way, or extended, are accounted for as forward derivative transactions in between trade date and settlement date, with changes in fair value recorded in earnings in between trade date and settlement date.

Customers' securities transactions are recorded on a settlement date basis. Related revenues and expenses from customer securities transactions are recorded on a trade date basis.

**Fair Value Measurements**

A significant amount of the assets and liabilities of the Company are carried at fair value on a recurring basis with changes in fair value recognized in income under various accounting literature, principally applicable industry guidance, such as ASC 940, *Financial Services – Brokers and Dealers* ("ASC 940"), but also, ASC 815, *Derivatives and Hedging* ("ASC 815") and by the fair value option election in accordance with ASC 825, *Financial Instruments* ("ASC 825"). If the Company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings.

The Company applies the fair value option for certain securities purchased under agreements to resell, a financing transaction documented as a derivative that failed the ASC 815 definition of a derivative and long term borrowings of consolidated VIEs (see Notes 4 and 14).

ASC 820, *Fair Value Measurements and Disclosures* ("ASC 820") defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used



Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

to measure fair value and determines disclosures associated with the use of fair value requirements (see Note 4).

Assets and liabilities recorded at fair value on the Consolidated Statement of Financial Condition are categorized for disclosure purposes, based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels are defined by ASC 820 and are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities (see Note 4).

*Trading assets and trading liabilities*, including securities positions and contractual commitments arising pursuant to derivatives contracts, are recorded on the Consolidated Statement of Financial Condition at fair value, with unrealized gains and losses reflected in income.

Derivative financial instruments are presented on a net-by-counterparty basis where evidence that an enforceable legal right of setoff exists, in accordance with ASC 210-20, *Balance Sheet – Offsetting* (“ASC 210-20”) and ASC 815-10-45, *Derivatives and Hedging – Overall – Other Presentation Matters* (“ASC 815-10-45”). The fair value is netted across products where allowable in the associated master netting agreements. Also, the Company generally offsets fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments that are eligible for offset under the same master netting agreements.

### **Transfers of Financial Assets**

The Company accounts for the transfer of a financial asset as a sale when it relinquishes control over the asset by meeting the following conditions outlined in ASC 860, *Transfers and Servicing* (“ASC 860”), (a) the asset has been isolated from the transferor (even in bankruptcy or other receivership), (b) the transferee has the right to pledge or exchange the asset received, or if the transferee is an entity whose sole purpose is to engage in securitization or asset-backed financing activities, if the holders of its beneficial interests have the right to pledge or exchange the beneficial interests held and (c) the transferor has not maintained effective control over the transferred asset.

In connection with its securitization activities, the Company utilizes special purpose entities (“SPEs”) to securitize agency and non-agency mortgage-backed securities. The Company’s involvement with SPEs includes structuring and underwriting, distributing and selling debt instruments and beneficial interests issued by SPEs to investors. The Company derecognizes financial assets transferred in securitizations provided that the Company has relinquished control over such assets and does not consolidate the SPE. The Company may obtain or retain an interest in the financial assets, including residual interests in the SPEs. Any such interests are accounted for at fair value and are included within *Trading assets* on the Consolidated Statement of Financial Condition with changes in fair value included in income.

### **Collateralized Financing Agreements**

*Securities purchased under agreements to resell* (“resale agreements”) and *Securities sold under agreements to repurchase* (“repurchase agreements”) are treated as financing transactions and are carried at the amounts at which the securities will be subsequently resold or reacquired plus accrued interest, except for certain resale and repurchase agreements for which the Company has elected the fair value option.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

Repurchase and resale agreements are presented on a net-by-counterparty basis on the Consolidated Statement of Financial Condition where net presentation is permitted by ASC 210-20. It is the Company's policy to take possession of securities collateralizing resale agreements. Similarly, counterparties take possession of the Company's securities collateralizing repurchase agreements. Substantially all of these transactions are collateralized by United States government and residential mortgage backed agency securities. The Company monitors the market value of the underlying securities as compared to the related receivables or payables, including accrued interest and requests or returns additional collateral when deemed appropriate.

*Securities borrowed* and *Securities loaned* are included on the Consolidated Statement of Financial Condition at the amount of cash collateral advanced or received plus accrued interest. *Securities borrowed* transactions require the Company to deposit cash, letters of credit or other securities with the lender. With respect to *Securities loaned*, the Company receives collateral in the form of cash or other securities. When securities or letters of credit are pledged as collateral for securities borrowed, such transactions are not recorded on the Consolidated Statement of Financial Condition. The Company monitors the market value of the securities borrowed or loaned against the collateral on a daily basis and additional cash or securities are obtained or refunded, as necessary, to ensure that such transactions are adequately collateralized for the Company's risk management purposes. In accordance with ASC 860, when the Company acts as the lender in a securities lending agreement and receives securities as collateral that can be repledged or sold, it recognizes the amounts received and a corresponding obligation to return them. These amounts are recorded in *Securities received as collateral at fair value* and *Obligation to return securities received as collateral at fair value*, respectively, on the Consolidated Statement of Financial Condition.

### **Borrowings at fair value**

*Borrowings at fair value* represents a transaction documented as a derivative which failed the ASC 815 definition of a derivative due to the significance of the upfront payment required under the contract. It also includes long term borrowings of consolidated VIEs.

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

Receivables from and payables to customers primarily include amounts due on delivery versus payment / receipt versus payment, customer fails, margin and cash collateral. Securities owned by customers are held as collateral for these receivables. Also included are receivables related to investment banking services. See discussion of Customer contract balances below.

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

Receivables from/payables to brokers, dealers and clearing organizations primarily include cash collateral deposited with clearing organizations including initial and variation amounts related to futures contracts as well as unsettled variation margin, securities failed-to-deliver and receive and pending trades.

### **Leases**

The Company primarily enters into lease contracts as a lessee of office space. Subsequent to adoption of ASU 2016-02, leases with terms exceeding one year are recognized as a right-of-use ("ROU") asset and

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

corresponding lease liability. ROU assets are reflected in *Furniture, equipment, leasehold improvements and software, net* and lease liabilities are reflected in *Other payables and accrued liabilities* on the Consolidated Statement of Financial Condition. Both at transition and for new leases entered into after adoption, ROU assets and lease liabilities are initially recognized based on the present value of the future minimum lease payments over the lease term, discounted using NHI's unsecured borrowing rate. The ROU assets are adjusted for prepaid lease payments, initial direct costs incurred and lease incentives received.

### **Revenue Recognition**

Interest and dividends revenues are earned primarily from *Cash and cash equivalents, Trading assets*, and *Collateralized financing agreements* and are accounted for on an accrual basis. Dividends are recorded on an ex-dividend date basis.

Principal transactions revenues primarily consist of revenues related to realized and unrealized gains and losses on securities and derivative financial instruments. Also included in Principal transactions are unrealized gains and losses on financial instruments carried at fair value due to the Company's election of the fair value option under ASC 825.

The Company recognizes revenues from related parties under a transaction services agreement principally for profit sharing, as described in Note 12. These revenues are recognized as earned and are accounted for on an accrual basis within income.

### **Revenues from Contracts with Clients**

Revenues are recognized when the promised services are provided to clients, in an amount that is based on the consideration the Company expects to receive in exchange for those services when such amounts are not probable of significant reversal. Commissions, net and Investment banking, net represent the Company's revenue from contracts with clients.

### **Commissions, net**

Commissions, net consist principally of fees charged to clients, primarily institutions and affiliates, for the execution of trades made on their behalf and are recorded on a trade date basis as securities transactions occur. Also included in Commissions, net are revenues received from affiliates under a sales credit agreement. Certain related party transactions are recorded as a reduction of commission revenues described in Note 12.

### **Investment banking, net**

Investment banking, net consist of fees arising from securities offerings in which the Company acts as an underwriter or selling agent, loan syndication or from other corporate advisory services. These amounts are reported net of fees shared with other affiliates who participate in these transactions and are comprised of underwriting revenue and advisory revenue for the year ended March 31, 2020.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

Underwriting – Underwriting and syndication revenues are recognized at a point in time when the underlying transaction is complete. Underwriting expenses, primarily consisting of legal, travel and other costs directly associated with the transaction, are deferred and recognized in Other expenses when the related underwriting revenues are recorded. Client reimbursements are recorded in Investment banking, net within income.

Advisory – Fees are recognized as and when the performance obligation to the client is satisfied and when revenues are not probable of a significant reversal. Expenses associated with advisory transactions are recorded within Professional fees and Advertising and market development expenses. Client reimbursements are recorded in Investment banking, net within income.

### **Customer contract balances**

Customer contract receivables represent the unconditional right of the Company to receive consideration for services provided in connection with its contracts with clients and are recorded in *Receivables: Customers* on the Consolidated Statement of Financial Condition. The amount of customer contract receivables as of April 1, 2019 and March 31, 2020 were \$38.4 million and \$71.4 million, respectively.

Customer contract assets represent the right of the Company to receive consideration for services provided in connection with its contracts with clients for which collection is conditional and not merely subject to the passage of time.

Customer contract liabilities represent consideration received by the Company, in connection with its contracts with clients, prior to providing the service. At April 1, 2019 and March 31, 2020 there were no customer contract assets and customer contract liabilities were immaterial.

### **Expenses**

Interest and dividends expense is incurred primarily on *Collateralized financing agreements, Trading liabilities, Borrowings from Parent* and *Subordinated borrowings*, and is accounted for on an accrual basis. Dividends are recorded on an ex-dividend date basis.

*Service fees with related parties, net* primarily includes costs for operational and administrative functions outsourced to affiliate companies, principally NHA. These fees are determined under either service agreements or an allocation method approved by management (see Note 12). Service fees with related parties, net also includes sales credits paid to affiliates essentially representing an internal sales commission for the affiliates involvement in sales effort.

### **Income Taxes**

Certain income and expense items are accounted for in different periods for income tax purposes as compared to financial reporting purposes. Provisions for deferred taxes are made in recognition of these temporary differences in accordance with the provisions of ASC 740, *Income Taxes* (“ASC 740”).

ASC 740 also provides guidance and prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of uncertain tax positions (see Note 13).

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

The Company's policy is to treat interest and/or penalties related to income tax matters and uncertain tax positions as part of pretax income.

### New Accounting Pronouncements

The Company adopted the following new accounting pronouncements during the year ended March 31, 2020.

<b>Pronouncement</b>	<b>Summary of new guidance</b>	<b>Adoption date and method of adoption</b>	<b>Effect on this Consolidated Statement of Financial Condition</b>
ASU 2016-02, "Leases"	<ul style="list-style-type: none"> <li>• Replaces ASC 840 "Leases", the current guidance on lease accounting, and revised the definition of a lease.</li> <li>• Requires all lessees to recognize a right of use asset and corresponding lease liability on balance sheet.</li> <li>• Lessor accounting is largely unchanged from current guidance.</li> <li>• Simplifies the accounting for sale leaseback and "built-to-suit" leases.</li> <li>• Requires extensive new qualitative and quantitative footnote disclosures on lease agreements.</li> </ul>	Modified retrospective adoption from April 1, 2019	No impact on equity. Immaterial gross-up of assets and liabilities.

### Future Accounting Pronouncements

The following new account pronouncements relevant to the Company will be adopted in the future periods:

# Nomura Securities International, Inc.

## Notes to Consolidated Statement of Financial Condition (continued)

Pronouncement	Summary of new guidance	Expected adoption date and method of adoption	Expected effect on this Consolidated Statement of Financial Condition
ASU 2016-13, "Measurement of Credit Losses on Financial Instruments"	<ul style="list-style-type: none"> <li>Introduces a new model for recognition and measurement of credit losses against certain financial instruments such as loans, debt securities and receivables which are not carried at fair value with changes in fair value recognized through earnings. The model also applies to off balance sheet credit exposures such as written loan commitments, standby letters of credit and issued financial guarantees not accounted for as insurance, which are not carried at fair value through earnings.</li> <li>The new model based on lifetime current expected credit losses (CECL) measurement, to be recognized at the time an in-scope instrument is originated, acquired or issued</li> <li>Replaces existing incurred credit losses model under GAAP. Requires enhanced qualitative and quantitative disclosures around credit risk, the methodology used to estimate and monitor expected credit losses and changes in estimates of expected credit losses.</li> </ul>	Modified retrospective adoption from April 1, 2020	No material impact expected.
ASU 2019-12, "Simplifying the Accounting for Income Taxes"	<ul style="list-style-type: none"> <li>Simplifies the accounting for income taxes by removing certain exceptions to the general principles in ASC 740 "Income Taxes", such as the exception to the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment and the exception to the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary.</li> <li>Requires an entity to recognize a franchise tax (or similar tax) that is partially based on income as an income-based tax and account for any incremental amount incurred as a non-income-based tax.</li> <li>Makes other minor amendments for simplification and clarification of income taxes accounting.</li> </ul>	<p>Effective from April 1, 2021</p> <p>Modified retrospective adoption for the amendments related to changes in ownership of foreign entity method investments or foreign subsidiaries.</p> <p>Full or modified retrospective adoption for the amendments related to franchise taxes that are partially based on income.</p> <p>Prospective adoption for all other amendments.</p>	Currently evaluating the potential impact.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

**3. Deposits with exchanges and cash segregated under federal and other regulations or requirements**

*Deposits with exchanges and cash segregated under federal and other regulations or requirements (“restricted cash”)* is presented separate from *Cash and cash equivalents* in the Consolidated Statement of Financial Condition but presented together in the Consolidated Statement of Cash Flows. It includes deposits with clearing organizations and amounts set aside to secure customers’ deposits segregated pursuant to Federal and other regulations.

Cash of approximately \$74.2 million and securities of \$357.0 million have been segregated on behalf of securities customers pursuant to the reserve formula requirements of Securities and Exchange Commission (“SEC”) Rule 15c3-3. The segregated securities were sourced from a resale agreement and trading assets owned on the Consolidated Statement of Financial Condition.

Cash of \$76.2 million and securities of \$138.7 million have been segregated on behalf of Proprietary Accounts of Brokers (“PAB”) under the SEC Requirements of 15c3-3. The segregated securities were sourced from resale agreements and trading assets owned on the Consolidated Statement of Financial Condition.

Cash of approximately \$280.8 million and securities of \$41.9 million have been segregated pursuant to CFTC Regulations 1.20 and cash of approximately \$17.8 million have been segregated pursuant to CFTC Regulation 30.7, respectively, and represent funds accruing to customers as a result of trades or contracts.

Cash of \$335.7 million was deposited with clearing organizations to satisfy the Company’s guaranty deposit requirements as a clearing member of such organizations. These amounts are determined by such clearing organizations and are subject to change.

**4. Fair Value Measurements**

**The Fair Value of Financial Instruments**

A significant amount of the Company’s financial instruments are carried at fair value. Financial instruments that are carried at fair value on a recurring basis include *Trading assets*, *Trading liabilities*, *Securities received as collateral at fair value* and *Obligation to return securities received as collateral at fair value*. Additionally, the Company applies the fair value option for certain *Securities purchased under agreements to resell* and all long term borrowings issued by consolidated VIEs. The Company also elected the fair value option for *Securities received as collateral at fair value* and *Obligation to return securities received as collateral at fair value* and for a financing transaction documented as a derivative contract which failed the ASC 815 definition of a derivative due to the significance of the upfront payment required under the terms of the derivative contract.

Other financial instruments are measured at fair value on a nonrecurring basis, where the primary measurement basis is not fair value but where fair value is used in specific circumstances after initial recognition, such as to measure impairment.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

In all cases, fair value is determined in accordance with ASC 820, which defines fair value as the amount that would be exchanged to sell a financial asset or transfer a financial liability in an orderly transaction between market participants at the measurement date.

It assumes the transaction occurs in the Company's principal market, or in the absence of the principal market, the most advantageous market for the relevant financial asset or liability.

**Valuation Methodology for Financial Instruments Carried at Fair Value on a Recurring Basis**

The fair value of financial instruments is based on quoted market prices including market indices, broker or dealer quotations or an estimation by management of the expected exit price under current market conditions. Certain over the counter ("OTC") contracts have bid and offer prices that are observable in the market. These are measured at the point within the bid-offer range which best represents the Company's estimate of fair value. Where quoted market prices or broker or dealer quotations are not available, prices for similar instruments or valuation pricing models are considered in the determination of fair value. Where quoted prices are available in active markets, no valuation adjustments are taken to modify the fair value of assets or liabilities that are marked using such prices.

Certain instruments may be measured using valuation techniques, such as valuation pricing models incorporating observable parameters, unobservable parameters or a combination of both. Valuation pricing models use parameters which would be considered by market participants in valuing similar financial instruments.

Valuation pricing models and their underlying assumptions impact the amount of unrealized gains and losses recognized. The use of different valuation pricing models or underlying assumptions could produce different financial results. Valuation uncertainty results from a variety of factors, including the valuation technique or model selected, the quantitative assumptions used within the valuation model, the inputs into the model, as well as other factors. Valuation adjustments are used to reflect the assessment of this uncertainty. Common valuation adjustments may include model reserves, credit adjustments, close-out adjustments, and other appropriate instrument-specific adjustments, such as those to reflect transfer or sale restrictions.

The degree of adjustments is largely judgmental and is based on an assessment of the factors that management believes other market participants would use in determining the fair value of similar financial instruments. The type of adjustments taken, the methodology for the calculation of these adjustments and the inputs for these calculations are reassessed periodically to reflect current market practice and the availability of new information.

For example, the fair value of certain financial instruments includes adjustments for credit risk; both with regards to counterparty credit risk on positions held and the Company's own creditworthiness on positions issued.

Credit risk on financial assets is significantly mitigated by credit enhancements such as collateral and netting arrangements. Any net credit exposure is measured using available and applicable inputs for the



Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

relevant counterparty. The same approach is used to measure the credit exposure on the Company's financial liabilities as is used to measure counterparty credit risk on the Company's financial assets.

Valuation pricing models are calibrated to the market on a regular basis by comparison to observable market pricing, comparison with alternative model and analysis of risk profiles and inputs used are adjusted for current market conditions and risk. The Model Validation Group ("MVG") within the Risk Management Division reviews pricing models and assesses model appropriateness and consistency independently of the front office. The model reviews consider a number of factors about a model's suitability for valuation and sensitivity of the models used for a particular product.

### **Fair Value Hierarchy**

All financial instruments measured at fair value, including those carried at fair value using the fair value option, have been categorized into a three-level hierarchy (the "fair value hierarchy") based on the transparency of valuation inputs used by the Company to estimate fair value. A financial instrument is classified in the fair value hierarchy based on the lowest level of input that is significant to the fair value measurement of the financial instrument. A financial instrument valued using a combination of Level 1, 2 and 3 inputs would be classified as a Level 3 financial asset or liability where the Level 3 inputs are significant to its measurement. The three levels of the fair value hierarchy are defined as follows, with Level 1 representing the most transparent inputs and Level 3 representing the least transparent inputs:

*Level 1* – Unadjusted quoted prices for identical financial instruments in active markets accessible by the Company at the measurement date.

*Level 2* – Inputs other than quoted prices included within Level 1 that are observable either directly or indirectly for substantially the full term (contractual life) of the asset or liability.

*Level 3* – One or more inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table presents information about the Company's financial assets and financial liabilities measured at fair value on a recurring basis, as of March 31, 2020, within the fair value hierarchy (dollars in thousands):

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

	Level 1	Level 2	Level 3	Counterparty and Cash Collateral Netting <sup>(1)</sup>	Total
<b>Assets</b>					
<b>Trading Assets:</b>					
Mortgage-backed securities:					
Residential mortgage-backed securities - agency <sup>(2)</sup>	\$ -	\$ 33,135,852	\$ -	\$ -	\$ 33,135,852
Residential mortgage-backed securities - non-agency <sup>(3)</sup>	-	-	547,050	-	547,050
Commercial mortgage-backed securities	-	-	3	-	3
U.S. and foreign government and agency securities	13,488,536	1,975,867	582	-	15,464,985
Equity securities	1,406,834	795,517	449	-	2,202,800
Bank and corporate debt securities	-	190,437	160,608	-	351,045
Collateralized debt/loan obligations	-	88,646	168,495	-	257,141
Asset-backed securities	-	-	113,280	-	113,280
Derivative instruments:					
Equity contracts	-	4,805,906	2,432	-	4,808,338
Interest rate contracts	1,212	5,657,547	-	-	5,658,759
Credit contracts	-	342,412	-	-	342,412
Foreign exchange contracts	-	10,314	-	-	10,314
Netting	-	-	-	(7,231,855)	(7,231,855)
Total derivatives	1,212	10,816,179	2,432	(7,231,855)	3,587,968
<b>Total Trading assets</b>	<b>\$ 14,896,582</b>	<b>\$ 47,002,498</b>	<b>\$ 992,899</b>	<b>\$ (7,231,855)</b>	<b>\$ 55,660,124</b>
<b>Securities received as collateral</b>	<b>\$ 212,625</b>	<b>\$ 1,021,681</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,234,306</b>
<b>Securities purchased under agreements to resell<sup>(6)</sup></b>	<b>\$ -</b>	<b>\$ 278,478</b>	<b>\$ 140,331</b>	<b>\$ -</b>	<b>\$ 418,809</b>
<b>Liabilities</b>					
<b>Trading Liabilities:</b>					
U.S. and foreign government and agency securities	\$ 6,089,880	\$ 451,168	\$ 512	\$ -	\$ 6,541,560
Equity securities	1,406,513	62,771	-	-	1,469,284
Bank and corporate debt securities	-	36,028	90	-	36,118
Derivative instruments:					
Equity contracts	-	4,088,415	-	-	4,088,415
Interest rate contracts	1,912	6,332,021	-	-	6,333,933
Credit contracts	-	313,896	-	-	313,896
Foreign exchange contracts	-	4,714	-	-	4,714
Netting	-	-	-	(8,022,078)	(8,022,078)
Total derivatives	1,912	10,739,046	-	(8,022,078)	2,718,880
Residential mortgage-backed securities - agency	-	30,495	-	-	30,495
Collateralized debt/loan obligations	-	12,151	4,862	-	17,013
<b>Total Trading liabilities</b>	<b>\$ 7,498,305</b>	<b>\$ 11,331,659</b>	<b>\$ 5,464</b>	<b>\$ (8,022,078)</b>	<b>\$ 10,813,350</b>
<b>Obligation to return securities received as collateral</b>	<b>\$ 212,625</b>	<b>\$ 1,021,681</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,234,306</b>
<b>Borrowings at fair value<sup>(4)(5)(6)</sup></b>	<b>\$ -</b>	<b>\$ 85,753</b>	<b>\$ 136,948</b>	<b>\$ -</b>	<b>\$ 222,701</b>

(1) The amount offset under counterparty netting of derivative assets and liabilities and cash collateral netting against derivatives.

(2) Includes \$181,480 classified in Level 2 related to consolidated variable interest entities.

(3) Includes \$188,908 classified in Level 3 related to consolidated variable interest entities.

(4) Includes \$136,948 classified in Level 3 related to consolidated variable interest entities.

(5) Includes \$64,970 classified in Level 2 related to consolidated variable interest entities.

(6) Items for which the Company elected the Fair value option under ASC 825.

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Notes to Consolidated Statement of Financial Condition (continued)

**Valuation Methodology by Major Class of Financial Asset and Liability**

The following table describes the valuation methodology used by the Company to estimate fair value of major classes of financial assets and financial liabilities, together with the significant inputs which determine their classification in the fair value hierarchy:

Product/Instrument	Valuation methodology, inputs and assumptions	Valuation Hierarchy Classification
Residential mortgage-backed securities ("RMBS") and Commercial mortgage-backed securities ("CMBS")	Valuations are primarily based on discounted cash flows ("DCF"), but also quoted market prices and recent market transactions of identical or similar securities, if available. Significant inputs may include: <ul style="list-style-type: none"> <li>• Yields</li> <li>• Default probabilities</li> <li>• Prepayment rates</li> <li>• Loss severities</li> </ul>	Generally level 2 Level 3 when they are traded infrequently, or the significant inputs used in DCF valuations are unobservable
U.S. and foreign government and agency securities	Valued using quoted market prices, broker or dealer quotations, or alternative pricing sources. Significant inputs may include: <ul style="list-style-type: none"> <li>• Credit spreads</li> <li>• Recovery rates</li> </ul>	Level 1 when traded in active markets Level 2 or 3 when traded in less active markets
Equity securities	Listed securities: Valued using quoted prices for identical securities where available. Listed equities traded in inactive markets are valued using the exchange price as adjusted to reflect liquidity and bid/offer spreads.  Unlisted securities: Valued using DCF or market multiple valuation technique. Market multiple techniques include comparable ratios such as enterprise value / earnings before interest, taxes, depreciation and amortization ("EV/EBITDA") based on relationships between numbers reported in the consolidated financial statements of the investee and the price of comparable companies. A liquidity discount might also be applied to reflect the specific characteristics of the investee. Significant inputs may include: <ul style="list-style-type: none"> <li>• Yields</li> <li>• Recovery rates</li> <li>• Credit spreads</li> <li>• Liquidity discounts</li> </ul>	Level 1 or 2  Level 3
Bank and corporate debt securities	Valued using DCF, quoted market prices and/or recent market transactions of identical or similar debt securities, if available. Significant inputs may include: <ul style="list-style-type: none"> <li>• Yield curves</li> <li>• Recovery rates</li> <li>• Asset swap spreads</li> <li>• Credit spreads of the issuer</li> </ul>	Level 2 or 3
Collateralized debt/loan obligations ("CDOs"/"CLOs")	Valued using DCF, quoted market prices and/or recent market transactions of identical or similar securities, if available. Significant inputs may include: <ul style="list-style-type: none"> <li>• Loss severities</li> <li>• Yields</li> <li>• Prepayment rates</li> <li>• Default probabilities</li> </ul>	Level 2 or 3

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

Product/Instrument	Valuation methodology, inputs and assumptions	Valuation Hierarchy Classification
Asset-backed securities ("ABS")	<p>Valued based on price or spread data obtained from observed transactions or independent external parties such as vendors or brokers, benchmarking to similar instruments and/or analyzing expected credit losses, default and recovery rates.</p> <p>In evaluating the fair value of each security, the Company may consider collateral-specific attributes including:</p> <ul style="list-style-type: none"> <li>• Payment priority</li> <li>• Credit enhancement levels</li> <li>• Type of collateral</li> <li>• Delinquency rates</li> <li>• Prepayment rates</li> <li>• Loss severities</li> </ul>	<p>Generally Level 2</p> <p>Level 3 if external prices or significant spread inputs are unobservable or if the comparability assessment involves significant subjectivity related to property type differences, cash flows, performance and other inputs.</p>
Derivatives	<p>Exchange-traded derivatives (excluding equity contracts).</p> <p>Exchange-traded equity derivatives are valued using option models. Use of a model valuation is more representative of fair value than exchange price because of the higher volume and frequency of trading in the underlying equity instruments.</p> <p>OTC derivative transactions are valued using DCF techniques as well as options models such as Black-Scholes and Monte Carlo simulation. Valuation adjustments are also made to model valuations in order to reflect counterparty credit risk on derivative assets and the Company's own creditworthiness on derivative liabilities.</p> <p>Equity contracts significant inputs may include:</p> <ul style="list-style-type: none"> <li>• Equity prices</li> <li>• Dividend yields</li> <li>• Volatilities</li> <li>• Correlations</li> </ul> <p>Interest rate contracts significant inputs may include:</p> <ul style="list-style-type: none"> <li>• Interest rates</li> <li>• Forward foreign exchange ("FX") rates</li> <li>• Volatilities</li> <li>• Correlations</li> </ul> <p>Credit contracts significant inputs may include:</p> <ul style="list-style-type: none"> <li>• Interest rates</li> <li>• Credit spreads</li> <li>• Recovery rates</li> <li>• Loss severities</li> <li>• Default probabilities</li> <li>• Volatilities</li> <li>• Correlations</li> </ul> <p>FX contracts significant inputs may include:</p> <ul style="list-style-type: none"> <li>• Interest rates</li> <li>• Forward FX rates</li> <li>• Spot FX rates</li> <li>• Volatilities</li> </ul>	<p>Level 1 when valued using unadjusted exchange price</p> <p>Level 2 when valued using models</p> <p>Level 2</p> <p>Level 2 or 3</p>
Securities purchased under agreements to resell	<p>Valuations are based on DCF.</p> <p>Significant inputs may include:</p> <ul style="list-style-type: none"> <li>• Credit Spreads</li> </ul>	Level 2 or 3
Borrowings at fair value	Value driven by the fair value of the underlying referenced equity securities for a transaction documented as a derivative that failed the ASC 815 definition of a derivative. Debt of consolidated VIEs are valued the way the Company values its own inventory.	Level 2

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

**Valuation Processes**

In order to ensure the appropriateness of any fair value measurement of a financial instrument used within this Consolidated Statement of Financial Condition, including those classified as Level 3 within the fair value hierarchy, the Company operates a governance framework which mandates determination or validation of a fair value measurement by control and support functions independent of the trading businesses assuming the risk of the financial instrument. Such functions within the Company with direct responsibility for either defining, implementing or maintaining valuation policies and procedures are as follows:

- The Product Control Valuations Group (“PCVG”) has primary responsibility for determining and implementing valuation policies and procedures in connection with the determination of fair value measurements. While it is the responsibility of front office traders in the Company’s trading businesses to price its financial instruments, the PCVG is responsible for independently verifying or validating these prices. In the event of a difference in opinion or where the estimate of fair value requires judgment, the valuation used within this Consolidated Statement of Financial Condition is made by senior management independent of the trading businesses. The PCVG reports to the Head of Product Control and ultimately to the NHA Chief Financial Officer;
- The Accounting Policy Group defines the Company’s accounting policies and procedures in accordance with US GAAP, including those associated with determination of fair value. This group reports to the NHA Chief Financial Officer;
- The MVG within the Risk Management Division validates the appropriateness and consistency of pricing models used to determine fair value measurements independently of those who design and build the models. This group reports to the NHA Chief Risk Officer.

The fundamental components of this governance framework over valuation processes within the Company, particularly around Level 3 financial instruments, are the procedures in place around independent price verification, pricing model validation and revenue substantiation.

The valuation of financial instruments and determination of the provision for credit losses are more difficult when severe economic and market shocks occur such as in the current market environment due to the COVID-19 pandemic. Dislocations between asset prices, higher volatility, reduced price transparency and deterioration in the credit worthiness of borrowers requires greater use of judgment. Increases in collateral calls and disputes on the valuation of derivative positions and in some cases, collateral has become more challenging.

*Independent Price Verification Processes*

The key objective of the independent price verification processes within the Company is to verify the appropriateness of fair value measurements applied to all financial instruments within the Company. In applying these control processes, observable inputs are used whenever possible and when unobservable inputs are necessary, the processes seek to ensure the valuation methodology and inputs are appropriate, reasonable and consistently applied.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

The independent price verification processes aim to verify the fair value of all positions to external sources on a regular basis. The process involves obtaining independent data such as trades, marks and prices from external sources and examining the impact of marking the positions at the independent prices.

Where third-party pricing information sourced from brokers, dealers and consensus pricing services is used as part of the price verification process, consideration is given as to whether that information reflects actual recent market transactions or prices at which transactions involving identical or similar financial instruments are currently executable. If such transactions or prices are not available, the financial instrument will generally be classified as Level 3.

Where there is a lack of observable market information around the inputs used in a fair value measurement, the PCVG and the MVG will assess the inputs used for reasonableness considering available information including comparable products, volatility surfaces, curves and past trades.

Additional valuation adjustments may be taken for the uncertainty in the inputs used, such as correlation and where appropriate, trading desks may be asked to execute trades to evidence market levels.

*Model Review and Validation*

For more complex and illiquid financial instruments, pricing models are used to determine fair value measurements. Before models are put into official use, the MVG is responsible for validating their integrity and comprehensiveness independently from those who design and build them. As part of this validation process, the MVG analyzes a number of factors to assess a model's suitability and to quantify model risk by applying model reserves and capital adjustments.

Valuation models are developed and maintained by the front-office and risk models by the Risk Methodology Group within the Risk Management Division. Some models may also be developed by third party providers. The Risk Methodology Group has primary responsibility for the ongoing refinement and improvement of risk models and methodologies. All models are also subject to an annual re-approval process by MVG to ensure they remain suitable.

*Revenue Substantiation*

PCVG also ensures adherence to the Company's valuation policies through daily and periodic analytical review of net revenues. This process involves substantiating revenue amounts through explanations and attribution of revenue sources based on the underlying factors such as interest rates, credit spreads, volatility, FX rates etc. In combination with the independent price verification processes, this daily, weekly, monthly and quarterly review substantiates the revenues made while helping to identify and resolve potential booking, pricing or risk quantification issues.

*Quantitative Information Regarding Significant Unobservable Inputs and Assumptions*

The following table presents quantitative information about the significant unobservable inputs and assumptions used by the Company for certain material Level 3 financial instruments as of March 31, 2020 (dollars in thousands):

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

Class of financial instrument	Fair value	Valuation technique(s)	Unobservable inputs	Level 3 Input or Range of Inputs (%)	Weighted Average (%)
<b>Assets</b>					
Residential mortgage-backed securities - non-agency	\$ 547,050	Market approach	Loss severities	100.0	40.6
U.S. and foreign government and agency securities	\$ 582	Discounted cash flow	Recovery rates	4.0-12.0	10.8
Equity securities	\$ 449	Discounted cash flow	Recovery rates	1.0-100	100.0
Bank and corporate debt securities	\$ 160,608	Discounted cash flow	Credit spreads	2.2-3.2	2.3
			Recovery rates	80.6	17.7
Collateralized debt/loan obligations	\$ 168,495	Discounted cash flow	Yields	6.4-56.8	21.6
			Prepayment rates	20.0	20.0
			Default probabilities	2.0	2.0
			Loss severities	100.0	72.9
Asset-backed securities	\$ 113,280	Discounted cash flow	Loss severities	100.0	72.9
Securities purchased under agreements to resell <sup>(1)</sup>	\$ 140,331	Discounted cash flow	Credit spreads	3.8-5.6	4.9
Derivatives, net Equity derivatives	2,432	Option models	Volatilities	37.2	37.2
<b>Liabilities</b>					
U.S. and foreign government and agency securities	\$ (512)	Discounted cash flow	Recovery rates	11.5-12.0	11.6
Bank and corporate debt securities	\$ (90)	Discounted cash flow	Recovery rates	7.8-8.0	7.9
Collateralized debt/loan obligations	\$ (4,862)	Discounted cash flow	Yields	13.6-18.8	15.9
			Prepayment rates	20.0	20.0
			Default probabilities	2.0	2.0
Borrowings at fair value <sup>(1)</sup>	\$ (136,948)	Discounted cash flow	Loss severities	100	40.6

<sup>(1)</sup> Items for which the Company elected the Fair value option under ASC 825.

*Sensitivity of Fair Value to Changes in Unobservable Inputs*

For each class of financial instrument described in the above table, changes in each of the significant unobservable inputs and assumptions used by the Company will impact the determination of a fair value

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Notes to Consolidated Statement of Financial Condition (continued)

measurement for the financial instrument. The sensitivity of these Level 3 fair value measurements to changes in unobservable inputs and interrelationships between those inputs as described below, impact the determination of a fair value measurement for the financial instrument:

*RMBS, CDOs/CLOs, ABS* – Significant increases (decreases) in yields, prepayment rates, probability of default and loss severity in the event of default, in isolation, would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the loss severity and a directionally opposite change in the assumption used for prepayment rates.

*U.S. and foreign government and agency securities, Equity securities* – Significant increases (decreases) in the recovery rates used in a DCF valuation technique would result in a significantly higher (lower) fair value measurement.

*Bank and corporate debt securities* – Significant increases (decreases) in the credit spreads used in a DCF valuation technique would result in a significantly lower (higher) fair value measurement, while significant increases (decreases) in recovery rates would result in a significantly higher (lower) fair value measurement.

*Resale agreements* – Significant increases (decreases) in the credit spreads used in a DCF valuation technique would result in a significantly lower (higher) fair value measurement.

The following table explains increases and decreases, including gains and losses, of Level 3 financial assets and financial liabilities measured at fair value on a recurring basis for the year ended March 31, 2020. Financial instruments classified as Level 3 are often economically hedged with instruments within Level 1 or Level 2 of the fair value hierarchy. The gains or losses presented below do not reflect the offsetting gains or losses for these hedging instruments. Level 3 instruments are at times measured using both observable and unobservable inputs. Fair value changes presented below, therefore, reflect realized and unrealized gains and losses resulting from movements in both observable and unobservable parameters.



**Nomura Securities International, Inc.**  
**Notes to Consolidated Statement of Financial Condition (continued)**

	Opening balance, April 1, 2019	Purchases	Issuances	Sales/ Redemptions	Settlements <sup>(1)</sup>	Total unrealized and realized gains/ (losses)	Transfers from Level 3	Transfers into Level 3	Balance, March 31, 2020
(Dollars in thousands)									
<b>Trading Assets:</b>									
RMBS - non-agency	\$ 20,297	\$ 543,129	\$ -	\$ (361,227)	\$ -	\$ (49,553)	\$ (11,891)	\$ 406,295	\$ 547,050
Commercial mortgage backed securities	3	-	-	-	-	-	-	-	3
U.S. and foreign government and agency securities	3,414	-	-	-	-	(2,832)	-	-	582
Equity securities	18,666	1,210	-	(440)	-	(476)	(18,799)	288	449
Bank and corporate debt securities	165,868	1	-	(12,861)	-	5,703	-	1,897	160,608
Asset backed securities	-	695,647	-	(642,262)	-	(9,305)	-	69,200	113,280
Collateralized debt/loan obligations	162,852	971,767	-	(883,548)	-	(177,871)	(65,008)	160,303	168,495
Total assets	371,100	2,211,754	-	(1,900,338)	-	(234,334)	(95,698)	637,983	990,467
Derivatives, net:									
Equity contracts	-	9,378	-	-	-	(6,946)	-	-	2,432
Total derivatives, net	-	9,378	-	-	-	(6,946)	-	-	2,432
<b>Trading Liabilities:</b>									
U.S. and foreign government and agency securities	\$ (1,414)	\$ -	\$ -	\$ -	\$ -	\$ 902	\$ -	\$ -	\$ (512)
Bank and corporate debt securities	(958)	-	-	403	-	465	-	-	(90)
Collateralized debt obligation	-	(33,517)	-	28,642	-	13	-	-	(4,862)
Net trading assets	\$ 368,728	\$ 2,187,615	\$ -	\$ (1,871,293)	\$ -	\$ (239,900)	\$ (95,698)	\$ 637,983	\$ 987,435
Securities Purchased Under Agreements To Resell <sup>(2)</sup>	\$ 294,003	\$ -	\$ -	\$ (244,000)	\$ -	\$ 1,869	\$ -	\$ 88,459	\$ 140,331
Security Sold Under Agreements To Repurchase <sup>(2)</sup>	\$ (199,721)	\$ -	\$ -	\$ 199,721	\$ -	\$ -	\$ -	\$ -	\$ -
Borrowings at fair value <sup>(2)</sup>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 136,948	\$ 136,948

<sup>(1)</sup> All cash payments or receipts on new or existing derivatives are included in settlements.

<sup>(2)</sup> Items for which the Company elected the Fair value option under ASC 825.

### Transfers Between Levels of the Fair Value Hierarchy

#### Transfers From Level 2 to Level 3:

- RMBS of approximately \$406.3 million assets were transferred from Level 2 to Level 3 at year-end as inputs (loss severities) became unobservable.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

- *Borrowings at fair value* of approximately \$136.9 million assets were transferred from Level 2 to Level 3 as inputs (loss severities) became unobservable.
- *Bank and corporate debt securities* of approximately \$1.9 million assets were transferred from Level 2 to Level 3 as a result of a decrease in trading activity and lack of external pricing on certain bank and corporate debt securities.
- *Asset backed securities* of approximately \$69.2 million were transferred from Level 2 to Level 3 as a result of a decrease in trading activity and lack of external pricing on certain asset backed securities.
- *CDOs/CLOs* of approximately \$160.3 million were transferred from Level 2 to Level 3 at year-end as a result of a decrease in trading activity, and thus a decrease in the observability of external pricing on certain CDO/CLO positions.
- *Resale agreements* of approximately \$88.5 million were transferred from Level 2 to Level 3 as a result of lack of external pricing on certain resale agreements.

*Transfers From Level 3 to Level 2:*

- *RMBS* of approximately \$11.9 million were transferred from Level 3 to Level 2 earlier in the year as a result of an increase in trading activity, and thus an increase in the observability of external pricing on certain RMBS.
- *Equity securities* of approximately \$18.8 million were transferred from Level 3 to Level 2 as a result of an increase in trading activity, and thus an increase in the observability of external pricing on certain equity securities position.
- *CDOs/CLOs* assets of approximately \$65.0 million were transferred from Level 3 to Level 2 earlier in the year as a result of an increase in trading activity, and thus an increase in the observability of external pricing on certain CDO/CLO positions.

**Fair Value Option for Financial Assets and Liabilities**

The Company carries certain eligible financial assets and liabilities at fair value through the election of the fair value option permitted by ASC 815 and ASC 825. When the Company elects the fair value option for an eligible item, changes in that item's fair value are recognized within income. Election of the fair value option is irrevocable unless an event that gives rise to a new basis of accounting for that instrument occurs. Interest and dividend income and expense arising from financial instruments for which the fair value option has been elected are recognized within income.

The financial assets and financial liabilities elected for the fair value option by the Company, the reasons for the election during the year ended March 31, 2020 are as follows:

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

- *Resale agreements* – The Company elected the fair value option for certain of these agreements to mitigate volatility in the income caused by the difference in measurement basis that otherwise would arise between these agreements and the derivatives used to risk manage those instruments.
- *Borrowings at fair value* – The fair value option was elected for a transaction documented as a derivative that failed the ASC 815 definition of a derivative. This transaction was recorded as a financing transaction with an embedded derivative. The fair value of this borrowing is driven by the fair value of the underlying investment in equity securities. The fair value option was elected for this transaction as the Company risk manages the position on a fair value basis. The Company also elected the fair value option for all of the long term borrowings of its consolidated VIEs to mitigate the volatility in income that would arise from carrying the assets of the VIEs at fair value.
- *Securities received as collateral at fair value / Obligation to return securities received as collateral at fair value* – The Company elected the fair value option for these transactions to record collateral received and repledged similar to trading inventory.

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

Certain financial instruments are not carried at fair value on a recurring basis on the Consolidated Statement of Financial Condition since they are neither held for trading purposes nor elected for the fair value option. These are typically carried at contractual amounts due or amortized cost.

The carrying value of the majority of the following financial instruments will approximate fair value since they are liquid, short-term in nature and/or contain minimal credit risk. These include *Cash and cash equivalents*, miscellaneous financial assets included in *Other assets*, *Securities borrowed*, *Securities loaned*, *Other secured financing*, repurchase agreements and resale agreements.

However, the fair value of other financial instruments may be different than carrying value if they are longer term in nature or contain more than minimal credit risk. Examples may include *Borrowings from Parent* and *Subordinated borrowings*. All of these financial assets and financial liabilities would be generally classified as Level 2 or Level 3 within the fair value hierarchy. As of March 31, 2020, the only longer dated instrument with a material difference between fair value and carrying value was *Subordinated borrowings*.

The following table presents carrying values, estimated fair values and classification within the fair value hierarchy of those fair values for financial instruments which are carried on a basis other than fair value within our Consolidated Statement of Financial Condition as of March 31, 2020. Where line items in our Consolidated Statement of Financial Condition include both financial and non-financial instruments, only the financial instruments are disclosed below. Financial instruments carried at fair value are separately reported in the tables above.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

	Fair value by Level				
	Carrying	Fair value	Level 1	Level 2	Level 3
	value				
	(Dollars in thousands)				
<b>Assets:</b>					
Cash and cash equivalents	\$ 5,500,780	\$ 5,500,780	\$ 5,500,780	\$ -	\$ -
Deposits with exchanges and cash segregated under federal and other regulations or requirements	784,664	784,664	784,664	-	-
Securities purchased under agreements to resell <sup>(1)(2)</sup>	58,211,750	58,211,750	-	57,712,994	498,756
Securities borrowed	15,286,829	15,286,829	-	15,286,829	-
Receivables from customers, brokers, dealers and clearing organizations	5,049,690	5,049,690	-	5,049,690	-
Other assets	11,524	29,725	5,187	24,539	-
<b>Liabilities:</b>					
Securities sold under agreements to repurchase <sup>(2)</sup>	100,806,875	100,806,875	-	99,009,333	1,797,542
Securities loaned	11,518,932	11,519,434	-	11,518,932	502
Borrowings from Parent	4,650,146	4,650,146	-	4,650,146	-
Other secured financing	80,000	80,000	-	80,000	-
Payables to customers, brokers, dealers and clearing organizations	5,879,188	5,879,188	-	5,879,188	-
Subordinated borrowings	3,300,000	3,381,477	-	1,526,096	1,855,381

<sup>(1)</sup> Excludes balances carried at fair value under a fair value option election.

<sup>(2)</sup> Represents amounts after counterparty netting in accordance with ASC 210-20.

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

In addition to the financial instruments carried at fair value on a recurring basis, the Company also carries other financial instruments at fair value on a nonrecurring basis, where the primary measurement basis is not fair value. Examples of such financial instruments include *Receivables from brokers, dealers and clearing organizations* and *Receivables from customers*. Fair value is only used in specific circumstances after initial recognition such as to measure impairment. At March 31, 2020 there was no impairment recorded.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

## 5. Derivative Instruments and Hedging Activities

In the normal course of business, the Company enters into transactions in derivative instruments in order to meet the financing and hedging needs of its customers, to reduce its own exposure to market, credit and liquidity risks, and in connection with its proprietary trading activities. These financial instruments may include interest rate and credit default swaps, exchange traded and OTC options, futures, forward and FX contracts, mortgage-backed to-be-announced securities (“TBAs”), extended settlement trades and securities purchased and sold on a when-issued basis.

Risks arise from unfavorable changes in interest rates, foreign currency exchange rates or the market values of the securities underlying the instruments as well as the possible inability of counterparties to meet the terms of their contracts. The credit risk associated with these contracts is typically limited to the cost of replacing all contracts on which the Company has recorded an unrealized gain.

The Company enters into OTC derivatives, which are negotiated and settled bi-laterally with the derivative counterparty. In addition, the Company enters into certain exchange traded derivatives such as futures and options, and cleared OTC derivative contracts with central counterparties (“CCP”). Exchange traded contracts are generally standardized contracts traded on an exchange and cleared by the CCP. OTC centrally cleared contracts are those contracts which are traded bi-laterally and then novated to a CCP for clearing.

The fair value of all derivatives and associated cash collateral is recorded on a net-by-counterparty basis on the Consolidated Statement of Financial Condition where the Company believes a legal right of offset exists under an enforceable master netting arrangement.

The following table quantifies the volume of the Company’s derivative activity recorded in *Trading assets* and *Trading liabilities* on the Consolidated Statement of Financial Condition, as of March 31, 2020, through a disclosure of notional amounts, in comparison with the fair value of those derivatives. All notional and fair value amounts are disclosed on a gross basis, prior to counterparty and cash collateral netting (in thousands):

	Contract / Notional <sup>(1)</sup>	Fair Value Derivative Assets	Fair Value Derivative Liabilities
Equity contracts	\$ 175,325,311	\$ 4,808,338	\$ 4,088,415
Interest rate contracts <sup>(2)</sup>	641,853,974	5,658,759	6,333,933
Credit contracts	40,761,794	342,412	313,896
Foreign exchange contracts	3,457,377	10,314	4,714
Commodity contracts <sup>(3)</sup>	1,660	-	-
Gross derivative instruments <sup>(4)</sup>	<u>\$ 861,400,116</u>	<u>\$ 10,819,823</u>	<u>\$ 10,740,958</u>

<sup>(1)</sup> Represents the total contract/notional amount of derivative assets and liabilities outstanding.

<sup>(2)</sup> Interest rate contracts are primarily comprised of mortgage-backed TBAs.

<sup>(3)</sup> Commodity contracts are all future contracts.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

<sup>(4)</sup> Notional amounts include notionals related to futures contracts of approximately \$25,463,593. The unsettled variation margin on these futures contracts is excluded from the table above and is included in *Receivables from brokers, dealers and clearing organizations* and *Payables to brokers, dealers and clearing organizations* on the Consolidated Statement of Financial Condition.

### Offsetting of Derivatives

The Company enters into master netting agreements with substantially all of its derivative counterparties. Where legally enforceable, these master netting agreements give the Company, in the event of default by the counterparty, the right to liquidate securities held as collateral and to offset receivables and payables with the same counterparty. For purposes of the Consolidated Statement of Financial Condition, the Company offsets derivative assets and liabilities and cash collateral held with the same counterparty where it has such a legally enforceable master netting agreement.

The following table presents information about offsetting of derivative instruments and related collateral amounts in the Consolidated Statement of Financial Condition as of March 31, 2020 by type of derivative contract, together with the extent to which master netting agreements entered into with counterparties, central clearing counterparties or exchanges permit additional offsetting of derivatives and collateral in the event of counterparty default. Amounts below exclude futures contracts, which are settled daily. The unsettled variation margin on futures contracts is included in *Receivables from brokers, dealers and clearing organizations* and *Payables to brokers, dealers and clearing organizations*, on the Consolidated Statement of Financial Condition. Derivative transactions which are not documented under a master netting agreement or are documented under a master netting agreement for which the Company does not have sufficient evidence of enforceability are not offset in the following table.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

	Derivative Assets	Derivative Liabilities
	<i>(dollars in thousands)</i>	
Equity contracts		
OTC settled bilaterally	\$ -	\$ 5,950
OTC centrally cleared	-	-
Exchange-traded	4,808,338	4,082,465
Interest rate contracts		
OTC settled bilaterally	3,319,367	3,174,342
OTC centrally cleared	2,339,060	3,155,390
Exchange-traded	332	4,201
Credit contracts		
OTC settled bilaterally	342,412	313,896
OTC centrally cleared	-	-
Exchange-traded	-	-
Foreign exchange contracts		
OTC settled bilaterally	10,314	4,714
OTC centrally cleared	-	-
Exchange-traded	-	-
Total gross derivatives balances <sup>(1)</sup>	<u>10,819,823</u>	<u>10,740,958</u>
Less: Amounts offset in the consolidated statement of financial condition <sup>(2)</sup>	<u>(7,231,855)</u>	<u>(8,022,078)</u>
Total net amounts reported on the face of the consolidated statement of financial condition <sup>(3)</sup>	3,587,968	2,718,880
Less: Additional amounts not offset in the consolidated statement of financial condition		
Financial instruments and non-cash collateral <sup>(4)</sup>	-	-
Net amount	<u><u>\$ 3,587,968</u></u>	<u><u>\$ 2,718,880</u></u>

<sup>(1)</sup> Includes all gross derivative asset and liability balances irrespective of whether they are transacted under a master netting agreement or whether the Company has obtained sufficient evidence of enforceability of the master netting agreement. As of March 31, 2020, the gross balance of derivative assets and liabilities documented under master netting agreements for which the Company has not obtained sufficient evidence of enforceability was \$3,378.9 million and \$2,328.9 million, respectively.

<sup>(2)</sup> Represents amounts offset through counterparty netting of derivative assets and liabilities as well as cash collateral netting against net derivatives under master netting and similar agreements for which the Company has obtained sufficient evidence of enforceability in accordance with ASC 815. As of March 31, 2020, the Company offset a total of \$1,163.8 million of cash collateral receivables against net derivative liabilities and \$373.6 million of cash collateral payables against net derivative assets.

<sup>(3)</sup> Net derivative assets and net derivative liabilities are generally reported within *Trading assets* and *Trading liabilities*, respectively on the Consolidated Statement of Financial Condition.

<sup>(4)</sup> Represents amounts, such as securities collateral, which are not permitted to be offset on the face of the Consolidated Statement of Financial Condition in accordance with ASC 210-20 and ASC 815 but which provide the Company with a legally enforceable right of offset in the event of counterparty default. Amounts relating to derivative and collateral agreements where the Company does not have the legal

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

right of offset or has not determined with sufficient certainty whether the right of offset is legally enforceable are excluded.

As of March 31, 2020, a total of \$1,460.5 million of cash collateral receivables and \$265.1 million of cash collateral payables have not been offset against net derivatives. These amounts were not eligible to be offset, either because they represented excess cash collateral or they related to agreements for which the Company lacked evidence of enforceability. Cash collateral receivables and cash collateral payables are reported within *Receivables from customers* and *Payables to customers*, respectively on the Consolidated Statement of Financial Condition.

**Derivatives entered into in contemplation of sales of financial assets**

At the balance sheet date, the Company did not have any outstanding transactions that comprise a transfer of a financial asset recorded as a sale with an agreement (for example, a total return swap or similar derivative) entered into with the transferee in contemplation of the initial transfer, whereby the Company retains substantially all of the exposure to the economic return on the transferred financial asset throughout the term of the transaction.

**Credit Derivatives**

In the normal course of business, the Company enters into credit derivatives, primarily with an affiliate company, as part of its trading activities for credit risk mitigation, proprietary trading positions and for client transactions.

Credit derivatives are derivative instruments in which one or more of their underlying are related to the credit risk of a specified entity (or group of entities) or an index based on the credit risk of a group of entities and that expose the seller to potential loss from credit risk related events specified in the contract. The types of credit derivatives used by the Company are those linked to the performance of a credit default index and single-name credit default swaps.

The Company actively monitors and manages its credit derivative exposures. Where credit protection is sold, risks may be mitigated by purchasing credit protection from other third parties either on identical underlying reference assets or on underlying reference assets with the same issuer which would be expected to behave in a correlated fashion.

The value of these purchased contracts is presented in the following table in the row titled “Protection purchased”. These amounts represent purchased credit protection which generally act as a hedge against the Company’s written exposure. To the extent the Company is required to pay out under the written credit derivative, a similar amount would generally become due to the Company under the purchased protection.

The following table presents information about the Company’s written credit derivatives and the related protection purchased as of March 31, 2020 (in millions):



Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

	Carrying Value <sup>(1)</sup>	Maximum Payout on Protection sold or Receivable on Protection Purchased (Notionals)				
		Years to Maturity				
		Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Protection sold	\$ (256) <sup>(1)</sup>	\$ 19,825	\$ 1,505	\$ 5,991	\$ 11,643	\$ 686
Protection purchased	\$ 282 <sup>(1)</sup>	\$ 20,606	\$ 1,455	\$ 5,991	\$ 11,704	\$ 1,456

<sup>(1)</sup> Carrying values are reported on a gross basis, prior to cash collateral and counterparty netting.

Credit derivatives have a stated notional amount which represents the maximum payment the Company may be required to make under the contract. However, this is generally not a true representation of the amount the Company will actually pay as in addition to purchased credit protection, other risk mitigating factors reduce the likelihood of any payment, including the probability of default and the recovery value of the underlying asset. The Company believes that the maximum potential amount of future payments for credit protection sold does not represent the actual loss exposure based on historical experience.

The following table presents information about the Company's written credit derivatives by external credit rating of the underlying asset. Where written credit derivatives have an index as an underlying, the exposure detailed below has been decomposed into the ratings categories below based on ratings of securities or derivatives comprising the index. Where multiple external ratings exist from the major rating services, the rating designated below is determined as the middle rating when ratings are available from all three major rating services or the lower rating when only two ratings are available, consistent with guidelines specified under the Basel Accords.

Maximum Payout/Notional on Protection sold ( Dollars in Millions)						
AAA	AA	A	BBB	BB	Other <sup>(1)</sup>	Total
\$ 150	\$ 238	\$ 2,742	\$ 7,222	\$ 2,237	\$ 7,236	\$ 19,825

<sup>(1)</sup> Other includes credit derivatives where the credit rating of the underlying referenced asset is below BB or where the credit rating is unavailable.

## 6. Collateralized Financing Agreements

### Offsetting of certain collateralized transactions

The Company enters into collateralized transactions including resale agreements and repurchase agreements, securities borrowing and securities lending transactions, and other secured borrowings mainly to finance trading inventory positions, obtain securities for settlement, and meet customers' needs.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

These transactions are documented under industry standard master netting agreements which reduce the Company's credit exposure to counterparties as they permit the close-out and offset of transactions and collateral amounts in the event of default of the counterparty.

In all of these transactions, the Company either receives or provides collateral, including government, agency, mortgage-backed, bank and corporate debt and equity securities. In most cases, the Company is permitted to use the securities received to secure repurchase agreements, enter into securities lending transactions or to cover short positions with counterparties. In repurchase and resale transactions, the value of collateral typically exceeds the amount of cash transferred. Collateral is generally in the form of securities. Securities borrowing transactions generally require the Company to provide the counterparty with collateral in the form of cash or other securities. For securities lending transactions, the Company generally receives collateral in the form of cash or other securities. The Company monitors the market value of the securities borrowed or loaned and requires additional cash or securities, as necessary, to ensure that such transactions are adequately collateralized for the Company's risk management purposes throughout the life of the transactions.

Resale agreements and repurchase agreements with the same counterparty are offset in the Consolidated Statement of Financial Condition where the specific criteria defined by ASC 210-20 are met. The following table presents information about offsetting of these transactions in the Consolidated Statement of Financial Condition, together with the extent to which master netting agreements entered into with counterparties and central clearing parties permit additional offsetting in the event of counterparty default (in thousands). Transactions which are documented under a master netting agreement for which the Company does not have sufficient evidence of enforceability are not offset in the following table:

	Assets		Liabilities	
	Resale agreements	Securities borrowing transactions	Repurchase agreements	Securities lending transactions
Total gross balance <sup>(1)</sup>	\$ 143,243,572	\$ 15,286,829	\$ 185,419,888	\$ 12,753,238
Less: Amounts offset in the consolidated statement of financial condition <sup>(2)</sup>	(84,613,013)	-	(84,613,013)	-
Total net amounts reported on the face of the consolidated statement of financial condition <sup>(3)</sup>	58,630,559	15,286,829	100,806,875	12,753,238
Less: Additional amounts not offset in the consolidated statement of financial condition <sup>(4)</sup>				
Financial instruments and non-cash collateral	(56,383,018)	(7,897,775)	(41,595,154)	(11,831,428)
Cash collateral	-	-	(284,085)	-
Net amount <sup>(5)</sup>	\$ 2,247,541	\$ 7,389,054	\$ 58,927,636	\$ 921,810

<sup>(1)</sup> Includes all recognized balances irrespective of whether the Company has obtained sufficient evidence of enforceability of the master netting agreement. Amounts include transactions carried at fair value

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

through election of the fair value option and amounts carried at amortized cost. As of March 31, 2020, the gross balance of resale agreements and repurchase agreements documented under master netting agreements for which the Company has not obtained sufficient evidence of enforceability was \$2,035,425 thousand and \$55,124,049 thousand, respectively. As of March 31, 2020, the gross balance of securities borrowing transactions and securities lending transactions documented under master netting agreements for which the Company has not obtained sufficient evidence of enforceability was \$7,299,995 thousand and \$212,183 thousand, respectively.

- (2) Represents amounts offset through counterparty netting of repurchase agreements and resale agreements under master netting and similar agreements for which the Company has obtained sufficient evidence of enforceability in accordance with ASC 210-20. Amounts offset include transactions carried at amortized cost.
- (3) Resale agreements and securities borrowing transactions are reported within *Collateralized financing agreements* on the Consolidated Statement of Financial Condition as *Securities purchased under agreements to resell* and *Securities borrowed*, respectively. Repurchase agreements and securities lending transactions are reported within *Collateralized financing agreements* on the Consolidated Statement of Financial Condition as *Securities sold under agreements to repurchase* and *Securities loaned*, respectively. Amounts reported under securities lending transactions also include transactions where the Company lends securities and receives securities that can be sold or pledged as collateral. The Company recognizes the securities received at fair value and a liability for the same amount, representing the obligation to return those securities. The \$1.2 billion liability is reported within *Obligation to return securities as collateral* on the Consolidated Statement of Financial Condition.
- (4) Represents amounts which are not permitted to be offset on the face of the Consolidated Statement of Financial Condition in accordance with ASC 210-20 but which provide the Company with the right of offset in the event of counterparty default. Amounts relating to agreements where the Company has not yet determined with sufficient certainty whether the right of offset is legally enforceable are excluded.
- (5) Remaining exposures continue to be secured by financial collateral, but the Company may not have sought or been able to obtain a legal opinion evidencing enforceability of the offsetting right.

**Maturity analysis of repurchase agreements and securities lending transactions and securities transferred in repurchase agreements and securities lending transactions**

The following two tables present analyses of the total gross balance of liabilities recognized in the Consolidated Statement of Financial Condition for repurchase agreements and securities lending transactions by remaining contractual maturity of the agreement and class of securities transferred as of March 31, 2020. Amounts reported are shown prior to counterparty netting in accordance with ASC 210-20 (in thousands):

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

*Maturity analysis*

	Remaining contractual maturity					Total
	Overnight and open <sup>(1)</sup>	Up to 30 days	30-90 days	90 days - 1 year	Greater than 1 year	
Repurchase agreements	\$ 102,568,417	\$ 61,080,935	\$13,057,437	\$ 6,915,557	\$ 1,797,542	\$ 185,419,888
Securities lending transactions	11,311,800	5,100	1,066,842	368,994	502	12,753,238
Total gross recognized liabilities <sup>(2)</sup>	<u>\$ 113,880,217</u>	<u>\$ 61,086,035</u>	<u>\$14,124,279</u>	<u>\$ 7,284,551</u>	<u>\$ 1,798,044</u>	<u>\$ 198,173,126</u>

*Security analysis*

	Repurchase agreements	Securities lending transactions	Total
Residential mortgage-backed securities - agency	\$ 39,656,441	\$ -	\$ 39,656,441
Residential mortgage-backed securities - non-agency	2,115,461	-	2,115,461
Commercial mortgage-backed securities (CMBS)	239,441	-	239,441
U.S. and foreign government and agency securities	137,524,281	118,978	137,643,259
Equity securities	1,186,958	11,153,223	12,340,180
Bank and corporate debt securities	2,823,614	1,481,037	4,304,651
Collateralized debt/loan obligations	1,873,692	-	1,873,692
Total gross recognized liabilities <sup>(2)</sup>	<u>\$ 185,419,888</u>	<u>\$ 12,753,238</u>	<u>\$ 198,173,125</u>

<sup>(1)</sup> Open transactions do not have an explicit contractual maturity date and are terminable on demand by the Company or the counterparty.

<sup>(2)</sup> Repurchase agreements and securities lending transactions are reported within *Collateralized financing agreements* on the Consolidated Statement of Financial Condition under *Securities sold under agreements to repurchase* and *Securities loaned*, respectively.

**Collateral received by the Company**

The Company receives collateral in the form of securities in connection with Resale agreements and securities borrowed. When the Company borrows securities, it collateralizes the lender by pledging cash or other securities. The Company additionally receives securities as collateral in connection with certain securities-for-securities transactions in which the Company is the securities lender.

At March 31, 2020, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was \$177.5 billion and the fair value of the portion that had been sold or repledged was \$173.6 billion.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

**Collateral pledged by the Company**

The Company pledges firm-owned securities to collateralize repurchase agreements and securities loaned transactions. In addition, the Company pledges firm-owned securities in securities for securities transactions in which the Company is the borrower. Pledged securities that can be sold or repledged by the secured party are \$10.4 billion at March 31, 2020 and are disclosed in parenthesis as pledged within *Trading assets* on the Consolidated Statement of Financial Condition. *Trading assets* owned which have been pledged as collateral without allowing the secured party the right to sell or repledge them, was approximately \$37.7 billion at March 31, 2020.

**7. Receivables from and Payables to Brokers, Dealers and Clearing Organizations**

Receivables from and payables to brokers, dealers and clearing organizations consist of the following at March 31, 2020 (in thousands):

	<u>Receivables</u>	<u>Payables</u>
Receivables from/payables to brokers, dealers and clearing organizations	\$ 1,469,239	\$ 1,875,444
Securities failed-to-deliver/receive	654,498	709,108
Pending trades, net	551,370	-
	<u>2,675,107</u>	<u>2,584,552</u>

Receivables from/payables to brokers, dealers and clearing organizations primarily include cash collateral deposited with clearing organizations including initial and variation amounts related to futures contracts as well as unsettled variation margin. Securities failed-to-deliver and receive represent the contract value of securities which have not been delivered or received by the Company on settlement date. Pending trades represent the net amount payable on unsettled regular-way securities transactions.

**8. Subordinated Borrowings**

The Company's subordinated borrowings are term borrowings covered by agreements approved by FINRA and are included by the Company in regulatory net capital, as defined, under the SEC's Uniform Net Capital Rule ("SEC Rule 15c3-1"). Each term borrowing agreement contains an evergreen provision that automatically extends the maturity by one year unless specified actions are taken prior to maturity date. To the extent that such borrowings are required for the Company's continued compliance with minimum regulatory net capital requirements, repayment is deferred.

During the year, the Company restructured a revolving subordinated loan agreement with NHA into a non-revolving subordinated loan agreement. The original loan amount was \$1.45 billion, of which, the Company had drawn \$850 million. The new loan amount is \$1 billion. The original loan was terminated and the new loan took effect on May 9, 2019.

Borrowings at March 31, 2020 are as follows (dollars in thousands):

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

<b>Lender</b>	<b>Par Value</b>	<b>Type</b>	<b>Maturity Date</b>	<b>Interest Rate</b>
NHA	\$ 500,000	Term	March 31, 2022	Variable
NHA	300,000	Term	December 31, 2021	Variable
NHA	1,500,000	Term	December 30, 2020	Variable
NHA	1,000,000	Term	May 9, 2021	Variable
	<u>\$ 3,300,000</u>			

At March 31, 2020, the interest rate on these borrowings was 2.1%, which is based on LIBOR plus a spread. Interest expense for the year ended March 31, 2020, was approximately \$100.2 million, of which \$5.6 million was payable at March 31, 2020. The weighted average effective interest rate on these borrowings during the year ended March 31, 2020, was approximately 3.0%.

## 9. Leases

The Company primarily enters into lease contracts as a lessee of office space. Subsequent to adoption of ASU 2016-02, leases with terms exceeding one year are recognized as a right-of-use (“ROU”) asset and corresponding lease liability.

The following table provides information related to the Company’s leases at March 31, 2020:

ROU assets	\$ 5,871
Lease liabilities	\$ 6,603
Weighted-average for operating leases:	
Remaining lease term, in years	4.3
Discount rate	3.5%

### Supplemental cash flow information

Cash paid for amounts included in the measurement of lease liabilities - operating cash flows	\$ 1,289
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### Supplemental non-cash information

ROU assets recognized in connection with new operating lease obligations	\$ 7,697
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## 10. Off-Balance Sheet Risks and Concentration of Credit and Market Risk

### Financial Instruments with Off-Balance Sheet Risk

The Company has sold securities it does not currently own and will therefore be obligated to purchase such securities at a future date. The Company has recorded this obligation within *Trading liabilities* on the Consolidated Statement of Financial Condition at March 31, 2020, at the fair values of such securities and

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

will incur a loss if the fair value of the securities increases subsequent to March 31, 2020. Generally, the Company limits this risk by holding offsetting securities, futures or options positions.

### **Credit Risk**

The Company is engaged in various trading and brokerage activities with counterparties which include domestic financial institutions, multinational corporations, the U.S. government and its agencies, security exchanges and clearing organizations. A substantial portion of the Company's securities transactions are collateralized.

The Company's exposure to credit risk associated with the nonperformance of these customers and counterparties in fulfilling their contractual obligations may be directly impacted by volatile or illiquid trading markets.

The Company is subject to concentrated credit risk due to the amount of positions it holds in securities issued by the U.S. and foreign governments and their agencies as well as mortgage-backed securities guaranteed by the U.S. government agencies. Such amounts which are carried at fair value and reflected within *Trading assets* on the Consolidated Statement of Financial Condition, represented approximately 34% of the Company's total assets as of March 31, 2020. The Company is also exposed to credit risk that arises from the failure of a counterparty to perform according to the terms of the contract. The Company's exposure to credit risk at any point in time is approximated by the fair value of the contracts reported as assets. These amounts are reported on a net-by-counterparty basis consistent with ASC 815-10-45.

The Credit Risk Management ("CRM") department manages the credit risk exposure that arises from transactions. The CRM department is an independent control function. The Company's process for managing credit risk includes:

- Evaluation of likelihood that a counterparty defaults on its payments and obligations;
- Assignment of internal credit ratings to all active counterparties;
- Approval of extensions of credit and establishment of credit limits;
- Measurement, monitoring and management of the firm's current and potential future credit exposures;
- Setting credit terms in legal documentation including margin terms;
- Use of appropriate credit risk mitigants including netting, collateral and hedging;
- Active communication and co-operation with various stakeholders such as Trading units, Operations, Legal department, Compliance and Finance.

### **Market Risk**

The Company is exposed to market risk. Market risk is the risk of loss arising from fluctuations in the value of assets and debts (including off-balance sheet items) due to fluctuations in market risk factors (interest rates, FX rates, prices of securities and others). Market risk primarily impacts the Company's trading activities.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

Global government-imposed shelter-in-place restrictions and continued uncertainties around the length and severity of the economic and public health impacts of COVID-19 have created a much more volatile operating environment that has, and will likely continue to have, an adverse effect on the Company's business, employees and clients.

Effective management of market risk requires the ability to analyze a complex and constantly changing global market environment, identify problematic trends and ensure that appropriate action is taken in a timely manner.

The Company is actively monitoring the impact of the COVID-19 pandemic on market risk exposures by leveraging existing measures and controls. Models used to measure market risk are inherently imprecise and may be limited in their ability to measure certain risks or to predict losses. This imprecision may be heightened when sudden or severe shifts in market conditions occur, such as those observed during the COVID-19 pandemic.

The Company uses a variety of complementary tools to measure, model and aggregate market risk. The principal statistical measurement tool used to assess and monitor market risk on an ongoing basis is Value at Risk ("VaR"). Limits on VaR are set in line with the Company's risk appetite as expressed through economic capital. In addition to VaR, the Company uses sensitivity analysis and stress testing to measure and analyze its market risk. Sensitivities are measures used to show the potential changes to a portfolio due to standard moves in market risk factors. They are specific to each asset class and cannot usually be aggregated across risk factors. Stress testing explores portfolio risks or tail risks, including non-linear behaviors and can be aggregated across risk factors at any level of the group hierarchy. Market risk is monitored against a set of approved limits, with daily reports and other management information provided to the business units and senior management. VaR is a measure of the potential loss in the value of the Company's trading positions due to adverse movements in markets over a defined time horizon with a specified confidence level. Market risks that are incorporated in the VaR model include equity prices, interest rates, credit, FX rates, and commodities with associated volatilities and correlations.

## **11. Commitments, Contingent Liabilities and Guarantees**

### **Commitments**

At March 31, 2020, the Company has commitments to enter into forward starting resale and repurchase agreements totaling \$41.9 billion and \$2.7 billion, respectively. There is no fair value attributed to these commitments.

In addition, the Company has a contingent obligation to provide financing in the form of resale agreements to two clearinghouses through which it clears certain transactions. The contingent facility is provided by all members of the clearinghouses and is designed to ensure liquidity to the clearinghouses in the event of a default of a major firm. The Company's commitment changes monthly based on the volumes it clears as compared to other clearing members. As of March 31, 2020, the amount of the contingent commitment facility was \$8.5 billion.



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Notes to Consolidated Statement of Financial Condition (continued)

In the normal course of business, the Company enters into underwriting commitments; there were no open transactions relating to such underwriting commitments at March 31, 2020.

### **Contingencies**

In the normal course of business the Company is involved in investigations, lawsuits and other legal proceedings and, as a result, may suffer loss from any fines, penalties or damages awarded against the Company, any settlements the Company chooses to make to resolve a matter, and legal and other advisory costs incurred to support and formulate a defense.

The ability to predict the outcome of these actions and proceedings is inherently difficult, particularly where claimants are seeking substantial or indeterminate damages, where investigations and legal proceedings are at an early stage or where the matters present novel legal theories or involve a large number of parties.

The Company regularly evaluates each legal proceeding and claim on a case-by-case basis in consultation with legal counsel to assess whether an estimate of possible loss or range of loss can be made, if recognition of a liability is not appropriate. In accordance with ASC 450 “Contingencies” (“ASC 450”), the Company recognizes a liability for this risk of loss arising on each individual matter when a loss is probable and the amount of such loss or range of loss can be reasonably estimated. The amount recognized as a liability is reviewed at least quarterly and is revised when further information becomes available. If these criteria are not met for an individual matter, such as if an estimated loss is only reasonably possible rather than probable, no liability is recognized. However, where a material loss is reasonably possible, the Company will disclose details of the legal proceeding or claim below. Under ASC 450 an event is defined as reasonably possible if the chance of the loss to the Company is more than remote but less than probable.

The most significant actions and proceedings against the Company are summarized below. The Company believes that, based on current information available as of the date of this Consolidated Statement of Financial Condition, the ultimate resolution of these actions and proceedings will not be material to the Company’s financial condition. However, an adverse outcome in certain of these matters could have a material adverse effect on income or cash flows in a particular quarter or annual period.

In April 2011, the Federal Home Loan Bank of Boston (“FHLB-Boston”) commenced proceedings in the Superior Court of Massachusetts against numerous issuers, sponsors and underwriters of RMBS, and their controlling persons, including NHA and certain of its subsidiaries, including the Company. The action alleged that FHLB-Boston purchased RMBS issued by a subsidiary of NHA and underwritten by the Company and other firms for which the offering materials contained untrue statements or omitted material facts concerning the underwriting standards used by the original lenders and the characteristics of the loans underlying the securities. FHLB-Boston sought rescission of its purchases or compensatory damages pursuant to state law. FHLB-Boston alleged that it purchased certificates in four offerings issued by a subsidiary of NHA in the original principal amount of approximately \$406 million. On December 16, 2019, the parties settled the matter for \$34 million and the action has been dismissed. The loss associated with the resolution of this matter was recognized by NHA and not the Company.

The United States Securities and Exchange Commission (“SEC”) and the DOJ investigated past activities of several former employees of the Company in respect of certain commercial and residential mortgage-

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

backed securities transactions. The Company entered into settlements with the SEC on July 15, 2019, concerning its supervision of certain former employees. Pursuant to the settlements, the Company paid penalties of \$1.5 million to the SEC and deposited \$25 million in a segregated account which is being used to reimburse certain customers in connection with the related cases.

Beginning in May 2016, several purported class actions were commenced in the United States District Court for the Southern District of New York against a number of financial institutions, including the Company, and individuals related to the supranational, sub-sovereign, and agency (“SSA”) bond market. The consolidated action alleged a conspiracy to manipulate trading in SSA bonds in violation of the federal antitrust laws. The plaintiffs sought declaratory and injunctive relief, treble damages in an unspecified amount, and attorneys’ fees. The action was dismissed in March 2020 and plaintiffs have indicated an intention to appeal the dismissal.

In March 2017, certain subsidiaries of American International Group, Inc. (“AIG”) commenced proceedings in the District Court of Harris County, Texas against certain entities and individuals, including the Company, in connection with a 2012 offering of \$750 million of certain project finance notes, of which \$92 million allegedly were purchased by AIG. AIG alleges violations of the Texas Securities Act based on material misrepresentations and omissions in connection with the marketing, offering, issuance and sale of the notes and seeks rescission of the purchases or compensatory damages. The case was removed to federal court and is currently in the discovery phase. A reserve has been established by the Company with regard to this matter.

Beginning in February 2018, several purported class actions were commenced in the United States District Court for the Southern District of New York against a number of financial institutions, including the Company, related to the market for bonds issued by Fannie Mae, Freddie Mac, Federal Home Loan Banks and Federal Farm Credit Banks (“GSE Bonds”). As of December 15, 2019, the Company entered into a stipulation between and among plaintiffs and all remaining defendants resolving the matter; the stipulation is subject to certain contingencies, including court approval after a hearing. The loss associated with this matter was recognized by the Company and is included in *Other expenses*.

At March 31, 2020, the Company had recorded approximately \$13.8 million in *Other payables and accrued liabilities* related to the contingencies detailed above.

## **Guarantees**

The Company applies the provisions of ASC 460, *Guarantees* (“ASC 460”), which provides accounting and disclosure requirements for certain guarantees. ASC 460 defines guarantees as contracts and indemnification agreements that contingently require a guarantor to make payments to the guaranteed party based on changes in an underlying (such as an interest or FX rate, security or commodity price, an index, or the occurrence or nonoccurrence of a specified event) related to an asset, liability or equity security of a guaranteed party. ASC 460 also defines guarantees as contracts that contingently require the guarantor to make payments to the guaranteed party based on another entity’s failure to perform under an agreement as well as indirect guarantees of the indebtedness of others.

In the normal course of business, the Company provides guarantees to securities clearinghouses and exchanges. These guarantees are generally required under the standard membership agreements such that

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

members are required to guarantee the performance of other members. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. The Company's liability under these arrangements is not quantifiable and could exceed the cash and securities it has posted as collateral. However, the potential for the Company to be required to make payments under such guarantees is deemed remote. Accordingly, no contingent liability is recorded on the Consolidated Statement of Financial Condition.

The Company enters into certain derivative contracts that meet the ASC 460 definition of guarantees. Because the Company does not track whether its clients enter into these derivative contracts for speculative or hedging purposes, the Company has disclosed information about derivative contracts that could meet the ASC 460 definition of guarantees.

For information about the maximum potential amount of future payments that the Company could be required to make under certain derivatives, such as written put or call options, the notional amount of contracts has been disclosed. The Company records all derivative contracts at fair value on its Consolidated Statement of Financial Condition. The Company believes the notional amounts generally overstate its risk exposure. Because the derivative contracts are accounted for at fair value, carrying value is considered to be the best indication of payment/performance risks for individual contracts.

The following table sets forth information about the Company's derivative contracts that could meet the definition of a guarantee (other than credit derivatives disclosed as protection sold in Note 5) as of March 31, 2020 (in millions):

	Maximum Payout / Notional By Period of Expiration			
	Years to Maturity			
Carrying Value of Liability	Maximum Payout	Less than 1 year	1-2 years	2-3 years
\$ 4,090	\$ 109,006	\$ 108,419	\$ 585	\$ 2

## 12. Transactions with Related Parties

The Company regularly enters into dealer, trading, clearing and financing transactions with NHI and affiliates. In the normal course of business, the Company pays commissions to affiliates for trades executed with affiliates on behalf of its clients.

### *Operational and Administrative Arrangements*

The Company reimburses NHA and affiliates for the expenses incurred in providing office space and other equipment used by the Company, which is reflected in expenses. Additionally, the Company reimburses

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

NHA, NHI and their affiliates, (collectively “the affiliates”) for expenses and certain other costs, which the affiliates pay on behalf of the Company.

The Company receives reimbursements from the affiliates for certain expenses incurred and services rendered by the Company on the affiliates’ behalf, which include back and front office expense reimbursements. These fees are reflected in income.

*Transaction Execution Services Agreement*

The Company is a party to a Transaction Execution Services Agreement (“TESA”) involving certain other Nomura affiliates (“TESA Affiliates”) where the parties to the TESA provide trade execution services (“Services”) for certain products to one or more of the other TESA Affiliates in accordance with US transfer pricing regulations and Organization for Economic Co-operation and Development transfer pricing guidelines. The Company receives amounts related to profits on positions as well as interest revenue, less certain deductions for direct and indirect costs related to the revenues (“TESA Revenues”). TESA revenues are determined on a fiscal year to date basis. The Company records these Revenues within income.

The Company is also a party to transfer pricing arrangements in which the Company, and affiliate companies, Nomura Corporate Funding Americas, LLC (“NCFA”), a wholly owned subsidiary of NHA, and Nomura International, plc (“NIP”), a wholly owned subsidiary of NHI, agree to share in the net revenues on certain loans and loan commitments, which are extended by either NCFA or NIP. As with the TESA agreement above, for some of these arrangements the Company receives a share of overall profits after the affiliate is reimbursed for cost of funds or capital usage charge. Similarly, these revenues received and reimbursements paid are reported within income.

*Sales Credits*

The Company pays to or receives from other Nomura entities, sales credits essentially representing an internal commission to an entity involved in sales efforts. Payments and receipts of sales credits are recorded in income.

At March 31, 2020, balances with related parties are included in the accompanying Consolidated Statement of Financial Condition captions as follows (in thousands):

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

**Assets**

Securities purchased under agreements to resell <sup>(1)</sup>	\$ 23,780,762
Securities borrowed	5,241,147
Trading assets	282,751
Receivables:	
Customers	52,126
Brokers, dealers and clearing organizations	236,664
Interest and dividends	24,005
Other assets	66,054
Securities received as collateral at fair value	9,019

**Liabilities**

Securities sold under agreements to repurchase <sup>(1)</sup>	\$ 3,434,505
Securities loaned	8,812,093
Borrowings from Parent	4,650,146
Trading liabilities	298,917
Payables and accrued liabilities:	
Brokers, dealers and clearing organizations	2,197,328
Customers	70,726
Interest and dividends	12,970
Other	136,104
Subordinated borrowings	3,300,000
Borrowings at fair value	20,783
Obligation to return securities received as collateral at fair value	9,019

<sup>(1)</sup> Represents amounts after counterparty netting in accordance with ASC 210-20.

*Receivables from / Payables to brokers, dealers and clearing organizations* is primarily related to transactions with affiliate companies, mainly NIP and Nomura Global Financial Products Inc. (“NGFP”), in the Company’s capacity as clearing broker for the affiliates on exchange traded derivatives.

*Receivable from customers* is primarily comprised of collateral posted to NGFP; *Payables to customers* is primarily comprised of cash collateral payable to NIP.

In addition to the subordinated borrowings described in Note 8, at March 31, 2020, the Company had overnight loans of \$1.5 billion, and \$3.1 billion payable to NHA. At March 31, 2020, the interest rate payable on these loans was 0.6% and 2.0% respectively reflecting the different currencies in which they are denominated.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

*Other assets* and *Other liabilities* are primarily comprised of accrued revenues/expenses related to transfer pricing and other miscellaneous receivables/payables related to operational and administrative arrangements discussed above.

*Borrowings at fair value* represents a transaction documented as a derivative which failed the ASC 815 definition of a derivative due to the significance of the upfront payment required under the contract.

### 13. Income Taxes

The Company is included in the consolidated federal and certain combined state and local income tax returns filed by NHA and its subsidiaries (the “Group”). The Company and the Group have a practice whereby federal and state and local income and capital taxes are determined for financial reporting purposes on a separate company basis. The accrual for unrecognized tax benefits, on the other hand, is accrued on a weighted basis of the Company’s share of the Group’s unrecognized tax benefits. Federal, and certain state and local income and capital taxes were paid to NHA. As such, federal income taxes receivable from NHA and income taxes receivable from other state & local jurisdictions of approximately \$3.5 million is included in *Other Assets* in the Consolidated Statement of Financial Condition as of March 31, 2020. New York State (“NYS”) and New York City (“NYC”) capital taxes payable to NHA net of capital taxes receivable from other state & local jurisdiction of approximately \$256 thousand are included in *Other payables and accrued liabilities* in the Consolidated Statement of Financial Condition as of March 31, 2020.

The components of the Company’s net DTA at March 31, 2020, are as follows (in thousands):

Deferred tax asset	\$ 241,650
Less valuation allowance	<u>(240,260)</u>
	1,390
Deferred tax liability	<u>(1,390)</u>
Net deferred tax asset	<u>\$ -</u>

ASC 740 prescribes an asset and liability approach to accounting for taxes that requires the recognition of DTAs and deferred tax liabilities (“DTLs”) for the expected future tax consequences of events that have been recognized in the financial statements or tax returns. In estimating future tax consequences, ASC 740 generally considers all expected future events other than future enactment of changes in the tax law or rates. The gross DTAs relate primarily to net operating loss (“NOL”) carryforwards, compensation accruals and certain other accrued expenses.

A VA of \$240.3 million has been maintained against the Company’s DTAs in accordance with the realization criteria set forth in ASC 740. The net decrease during the fiscal year ending March 31, 2020 in the total VA is \$72.2 million, which was primarily attributable to the Company’s pre-tax book income that reduced the DTA and VA balances as a result of NOL utilization.

At March 31, 2020, the Company had federal NOL carryforwards of approximately \$322 million. \$151 million will expire on March 31, 2036, while \$171 million can be carried forward indefinitely. In addition, the

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

Company had NYS NOL carryforwards of approximately \$609 million and NYC NOL carryforwards of approximately \$505 million. Both NYS and NYC NOL begin to expire in the year ending March 31, 2035.

Roll forward of unrecognized tax benefits (in thousands):

Balance at April 1, 2019	\$ 5,253
Addition based on tax position related to current year	6,333
Balance at March 31, 2020	<u>\$ 11,586</u>
Net unrecognized tax benefit	<u><u>\$ 11,586</u></u>

The balance of the net unrecognized tax benefits, due to uncertainties in tax law/acceptance of application of new rules, is included in *Other payables and accrued liabilities* on the Consolidated Statement of Financial Condition as of March 31, 2020. If recognized, these benefits would favorably impact the effective tax rate in future periods.

The Company did not accrue any interest expense or tax penalty on the unrecognized tax benefits during the year. The Company does not expect any significant changes in the balance of unrecognized tax benefits within the next twelve months.

As of March 31, 2020, the Company is subject to tax examination for tax years ending March 31, 2017 through 2019 at the federal level and for tax years ending March 31, 2016 through 2018 at NYS and NYC level.

#### 14. Variable Interest Entities and Securitizations

##### *Variable Interest Entities*

In the normal course of business, the Company acts as transferor of financial assets to VIEs, and underwriter, distributor, and seller of repackaged financial instruments issued by VIEs in connection with its securitization activities. In addition, the Company retains, purchases and sells variable interests in VIEs in connection with its market-making, investing and structuring activities.

Under ASC 810-10-15, if the Company has an interest in a VIE that provides the Company with control over the most significant activities of the VIE and the right to receive benefits or the obligation to absorb losses that could be significant to the VIE, the Company is the primary beneficiary of the VIE and must consolidate the entity, provided that the Company does not meet separate tests confirming that it is acting as a fiduciary for other interest holders.

Control over the most significant activities may take a number of different forms in different types of VIEs. For certain types of transactions, such as securitizations of residential mortgage pass through securities and other mortgage-backed securities (Re-securitization transactions), there are no significant economic decisions made on an ongoing basis and no single investor has the unilateral ability to liquidate the trust. In these cases, the Company focuses its analysis on decisions made prior to the closing of the initial transaction. If one or a number of third party investors share responsibility for the design of the Re-

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

securitization trust and purchase a significant portion of the resulting securities, the Company does not consolidate the Re-securitization trust.

The Company has sponsored numerous Re-securitization transactions and in many cases has determined that it is not the primary beneficiary on the basis that control over the most significant activities of these entities are shared with third party investors.

However, the Company has consolidated two Re-securitization trust VIEs, in each case where it was determined that third party investors did not share in the responsibility for the design of the Re-securitization trust, as evidenced by less than significant purchases of the resulting securities by third party investors on the date of the Re-securitizations. As of March 31, 2020, the underlying assets of the consolidated VIEs which are primarily comprised of mortgage-backed securities, were approximately \$370.4 million and are included in *Trading Assets* on the Consolidated Statement of Financial Condition. Additionally, as of March 31, 2020, underlying liabilities of the Re-Securitization trust VIEs, were approximately \$201.9 million. These underlying liabilities are long term in nature and range in maturity from 2036 through 2048 and are included in *Borrowings at fair value* on the Consolidated Statement of Financial Condition. During the year ended March 31, 2020, the weighted average interest rate on these liabilities was 3.03%. The Company's maximum remaining exposure to economic loss related to the consolidated Re-securitization trust VIEs is limited to the amount of its interest in the VIEs, which was approximately \$168.5 million at March 31, 2020. The Company also consolidates the assets and liabilities of CLOs in which it holds a controlling equity investment. As of March 31, 2020, the Company did not hold a controlling equity investment in any CLO, thus no CLO was consolidated.

The Company also holds variable interests in VIEs where it is not the primary beneficiary. These include interests in residential re-securitizations sponsored by the Company, as well as interests in third party vehicles such as agency mortgage passthrough trusts, agency and non-agency collateralized mortgage obligations, collateralized debt obligations and collateralized loan obligations. As of March 31, 2020, the Company's variable interests in such VIEs were approximately \$33.7 billion and are included within *Trading assets* on the Consolidated Statement of Financial Condition. The Company's maximum exposure to loss associated with these VIEs is approximately \$33.7 billion; this does not include the offsetting benefit of any financial instruments that the Company may utilize to economically hedge the risks associated with the Company's variable interests.

#### *Securitizations*

As discussed above, the Company transfers assets to special purpose entities ("SPEs") that securitize residential mortgage passthrough securities and other types of financial assets. The Company's involvement with SPEs includes structuring SPEs, underwriting, distributing and selling debt instruments and beneficial interests issued by SPEs to investors. The Company accounts for the transfer of financial assets as a sale when the Company relinquishes control over the assets.

ASC 860 deems control to be relinquished when the following conditions are met: (a) the assets have been isolated from the transferor (even in bankruptcy or other receivership), (b) the transferee has the right to pledge or exchange the beneficial interests and (c) the transferor has not maintained effective control over the transferred assets. The Company may obtain an interest in the financial assets, including retained interest



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Notes to Consolidated Statement of Financial Condition (continued)

in the SPEs. These interests are accounted for at fair value and are included in *Trading assets* on the Consolidated Statement of Financial Condition.

During the year ended March 31, 2020, the Company recorded as sales, transfers of approximately \$16.3 billion in financial assets to re-securitization SPEs in which the Company has continuing involvement in the form of retained interests. The Company received cash proceeds and retained interests at closing of approximately \$11.5 billion and \$4.8 billion, respectively. Most of these retained interests were sold subsequent to the closing of the respective securitizations.

At March 31, 2020, the Company's retained interests were approximately \$1.5 billion and are included within *Trading assets* as mortgage-backed securities. All retained interests held by the Company at March 31, 2020 are classified within Level 2 and Level 3 assets within the fair value hierarchy. The outstanding principal balance of financial assets transferred to SPEs in which the Company has continuing involvement, but is not required to consolidate, was \$25.9 billion as of March 31, 2020.

For the year ended March 31, 2020, the Company received approximately \$224.0 million of proceeds from the retained interests in SPEs. During the year ended March 31, 2020, the Company did not provide financial support beyond its contractual obligations to any VIEs.

## 15. Employee Benefit Plans

Substantially all employees of the Company are covered under the Company's Retirement Investment Plan. Certain qualified employees are also eligible to participate in the Supplemental Employee Retirement Plan. The Company's contribution to these defined contribution plans is based on employees' compensation.

### Deferred Compensation

Certain of the Company's employees participate in cash settled deferred compensation awards based on NHI stock or a broad equity index. The Company also hedges a portion of this economic exposure with affiliates. Types of awards granted include Notional Stock Units ("NSU"), Collared Notional Stock Units ("CSU"), and Notional Indexed Units ("NIU"). NSUs vest annually in equal increments over a three or five year period. CSUs and NIUs vest quarterly in equal increments over a three year period.

During the year, as part of a retention effort, the Company granted one year and two year cash awards, plus performance based NSUs and cash awards, to certain employees. The performance awards will vest over a four year period.

The Company's ultimate payment is contingent on the relevant fair value calculation at the vesting date. The Company accrues compensation over time as employees progress toward vesting of each award. The Company also hedges a portion of the economic exposure of these awards and records the impact of the NSU and CSU hedges within compensation expense.

The Company recorded a reduction in accrued compensation of \$54.7 million on the Consolidated Statement of Financial Condition for the amounts paid to employees during the year ended March 31, 2020.

Nomura Securities International, Inc.  
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In addition to cash settled deferred compensation awards, certain of the Company's employees are granted the right to receive NHI stock under Restricted Stock Units ("RSU awards"). RSUs vest annually in equal increments over a three year period. RSU awards do not receive dividends or dividend equivalent amounts that would have been paid had actual NHI shares been granted during the vesting period. RSUs are measured at fair value based on the number of units granted multiplied by the stock price at the grant date, adjusted for a discount related to the present value of the expected dividends to be paid on NHI shares during the vesting period (and which will not be paid on the unvested RSU). Compensation cost is recognized on a straight-line basis over the service period from the grant date to the vesting date. The Company accounts for the RSU awards as a capital contribution from the Parent.

Cash settled deferred compensation awards and RSUs include Full Career Retirement ("FCR") provisions which permit recipients of the awards to continue to vest in the awards upon voluntary termination if certain criteria based on corporate title and length of service within Nomura are met, provided the retiring employee does not work for a competitor.

The related deferred award amortization expense of an employee eligible for FCR is fully recognized in the first year of issuance if the employee's FCR date has either passed or is within six (6) months of the issuance date, as long as the employee has not submitted notification to Nomura of an election to retire during a specific window. If the employee's FCR date is beyond six (6) months of issuance but prior to a component award's vest date, the associated amortization period of the issued deferred awards may not exceed the FCR date.

## **16. Net Capital**

As a registered broker-dealer, the Company is subject to SEC Rule 15c3-1, which requires the maintenance of minimum regulatory net capital. The Company utilizes the alternative method permitted by Rule 15c3-1, which requires that the Company maintain minimum regulatory net capital, as defined, equal to the greater of \$1,000,000 or 2% of aggregate debit items arising from customer transactions, as defined. The Company is also subject to CFTC Regulation 1.17, which requires the maintenance of regulatory net capital of 8% of the total risk margin requirement, as defined, for all positions carried in customer accounts plus 8% of the total risk margin requirement, as defined, for all positions carried in non-customer accounts or \$1,000,000, whichever is greater.

At March 31, 2020, the CFTC minimum requirement of 8% of the total risk margin requirement, as defined, for all positions carried in customer accounts plus 8% of the total risk margin requirement, as defined, for all positions carried in non-customer accounts resulted in a greater regulatory net capital requirement than the SEC's requirement. At March 31, 2020, the Company had regulatory net capital of approximately \$2,453.9 million, which was approximately \$2,338.3 million in excess of required net capital.

Advances to affiliates, repayment of subordinated borrowings, dividend payments, and other equity withdrawals are subject to certain notification and other provisions of the SEC Uniform Net Capital Rule and other regulatory bodies.

Nomura Securities International, Inc.  
Notes to Consolidated Statement of Financial Condition (continued)

**17. Subsequent Events**

The Company has evaluated subsequent events through May 29, 2020, the date as of which this Consolidated Statement of Financial Condition are available to be issued.

On April 24, 2020, the Company entered into a subordinated loan agreement with NHA for \$400 million. The loan has a scheduled maturity date of April 24, 2021 and contains an evergreen provision that automatically extends the maturity by one year unless specified actions are taken prior to maturity date. The interest rate on the loan is LIBOR plus a spread related to NHA's average cost of funds.

The recent global outbreak of COVID-19 has caused significant volatility within the economic markets, for which the duration and spread of the outbreak is uncertain and cannot be predicted. Given the uncertainty of the COVID-19 pandemic and resulting economic impact on the Company, estimates may need to be revised in the future, which could materially impact the Company's future results of operations and/or financial condition.