

Jefferies Group LLC  
Form 10-Q  
April 08, 2016  
Table of Contents

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended February 29, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number 1-14947

JEFFERIES GROUP LLC  
(Exact name of registrant as specified in its charter)

Delaware 95-4719745  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

520 Madison Avenue, New York, New York 10022  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (212) 284-2550

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The Registrant is a wholly-owned subsidiary of Leucadia National Corporation and meets the conditions set forth in General Instructions H(1)(a) and (b) of Form 10-Q and is therefore filing this Form 10-Q with a reduced disclosure

format as permitted by Instruction H(2).

---

Table of Contents

JEFFERIES GROUP LLC

INDEX TO QUARTERLY REPORT ON FORM 10-Q

February 29, 2016

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated Statements of Financial Condition (Unaudited)- February 29, 2016 and November 30, 2015 2

Consolidated Statements of Earnings (Unaudited)- Three Months Ended February 29, 2016 and Three Months Ended February 28, 2015 3

Consolidated Statements of Comprehensive Income (Unaudited)- Three Months Ended February 29, 2016 and Three Months Ended February 28, 2015 4

Consolidated Statements of Changes in Equity (Unaudited)- Three Months Ended February 29, 2016 and Year Ended November 30, 2015 5

Consolidated Statements of Cash Flows (Unaudited)- Three Months Ended February 29, 2016 and Three Months Ended February 28, 2015 6

Notes to Consolidated Financial Statements (Unaudited) 8

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations 60

Item 3. Quantitative and Qualitative Disclosures About Market Risk 87

Item 4. Controls and Procedures 87

PART II. OTHER INFORMATION

Item 1. Legal Proceedings 88

Item 1A. Risk Factors 88

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 88

Item 6. Exhibits 88

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES  
 CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)  
 (In thousands)

	February 29, 2016	November 30, 2015
<b>ASSETS</b>		
Cash and cash equivalents (\$2,492 and \$2,015 at February 29, 2016 and November 30, 2015, respectively, related to consolidated VIEs)	\$2,599,637	\$3,510,163
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	679,812	751,084
Financial instruments owned, at fair value, (including securities pledged of \$11,174,383 and \$12,207,123 at February 29, 2016 and November 30, 2015, respectively; and \$79,667 and \$68,951 at February 29, 2016 and November 30, 2015, respectively, related to consolidated VIEs)	13,629,559	16,559,116
Investments in managed funds	57,200	85,775
Loans to and investments in related parties	756,119	825,908
Securities borrowed	7,347,587	6,975,136
Securities purchased under agreements to resell	3,526,686	3,857,306
Receivables:		
Brokers, dealers and clearing organizations	1,769,450	1,574,759
Customers	1,177,330	1,191,316
Fees, interest and other (\$476 and \$329 at February 29, 2016 and November 30, 2015, respectively, related to consolidated VIEs)	275,117	260,924
Premises and equipment	247,284	243,486
Goodwill	1,649,547	1,656,588
Other assets (\$27,332 and \$0 at February 29, 2016 and November 30, 2015, respectively, related to consolidated VIEs)	1,477,541	1,072,411
<b>Total assets</b>	<b>\$35,192,869</b>	<b>\$38,563,972</b>
<b>LIABILITIES AND EQUITY</b>		
Short-term borrowings	\$311,885	\$310,659
Financial instruments sold, not yet purchased, at fair value	7,476,658	6,785,064
Collateralized financings:		
Securities loaned	2,670,611	2,979,300
Securities sold under agreements to repurchase	8,252,356	10,004,428
Other secured financings (\$897,344 and \$762,909 at February 29, 2016 and November 30, 2015, respectively, related to consolidated VIEs)	897,344	762,909
Payables:		
Brokers, dealers and clearing organizations	1,242,473	2,742,001
Customers	2,599,508	2,780,493
	781,707	1,049,019

Edgar Filing: Jefferies Group LLC - Form 10-Q

Accrued expenses and other liabilities (\$2,652 and \$893 at February 29, 2016 and November 30, 2015, respectively, related to consolidated VIEs)

Long-term debt (includes \$37,118 and \$0 at fair value at February 29, 2016 and November 30, 2015,

respectively; and \$22,207 and \$0 related to consolidated VIEs at February 29, 2016, 5,698,169 5,640,722

and November 30, 2015, respectively)

Total liabilities 29,930,711 33,054,595

EQUITY

Member's paid-in capital 5,355,856 5,526,855

Accumulated other comprehensive loss:

Currency translation adjustments (86,560 ) (36,811 )

Changes in instrument specific credit risk (302 ) — )

Additional minimum pension liability (8,056 ) (8,135 )

Total accumulated other comprehensive loss (94,918 ) (44,946 )

Total member's equity 5,260,938 5,481,909

Noncontrolling interests 1,220 27,468

Total equity 5,262,158 5,509,377

Total liabilities and equity \$35,192,869 \$38,563,972

See accompanying notes to consolidated financial statements.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)  
(In thousands)

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Revenues:		
Commissions and other fees	\$ 155,824	\$ 166,922
Principal transactions	(103,373	) 105,477
Investment banking	230,930	271,995
Asset management fees and investment income (loss) from managed funds	9,530	(9,837
Interest	221,945	228,870
Other	(21,751	) 19,905
Total revenues	493,105	783,332
Interest expense	194,118	191,660
Net revenues	298,987	591,672
Non-interest expenses:		
Compensation and benefits	349,743	365,215
Non-compensation expenses:		
Floor brokerage and clearing fees	40,479	55,080
Technology and communications	64,989	72,387
Occupancy and equipment rental	24,585	24,184
Business development	24,854	21,937
Professional services	23,512	24,256
Other	20,701	15,729
Total non-compensation expenses	199,120	213,573
Total non-interest expenses	548,863	578,788
Earnings (loss) before income taxes	(249,876	) 12,884
Income tax expense (benefit)	(83,107	) 331
Net earnings (loss)	(166,769	) 12,553
Net earnings attributable to noncontrolling interests	44	871
Net earnings (loss) attributable to Jefferies Group LLC	\$(166,813	) \$11,682
See accompanying notes to consolidated financial statements.		

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)  
(In thousands)

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015	
Net earnings (loss)	\$(166,769	)	\$12,553
Other comprehensive income (loss), net of tax:			
Currency translation and other adjustments	(49,670	)	(4,331
Changes in instrument specific credit risk	(302	)	—
Total other comprehensive income (loss), net of tax (1)	(49,972	)	(4,331
Comprehensive income (loss)	(216,741	)	8,222
Net earnings attributable to noncontrolling interests	44		871
Comprehensive income (loss) attributable to Jefferies Group LLC	\$(216,785	)	\$7,351

(1)None of the components of other comprehensive income (loss) are attributable to noncontrolling interests.  
See accompanying notes to consolidated financial statements.

Table of ContentsJEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)

(In thousands)

	Three Months Ended February 29, 2016	Year Ended November 30, 2015	
Member's paid-in capital:			
Balance, beginning of period	\$5,526,855	\$5,439,256	
Net earnings (loss) attributable to Jefferies Group LLC	(166,813	) 93,534	)
Tax benefit (detriment) for issuance of share-based awards	(4,186	) (5,935	)
Balance, end of period	\$5,355,856	\$5,526,855	
Accumulated other comprehensive income (loss) (1) (2):			
Balance, beginning of period	\$(44,946	) \$(14,673	)
Currency adjustments	(49,749	) (27,157	)
Changes in instrument specific credit risk	(302	) —	)
Pension adjustment, net of tax	79	(3,116	)
Balance, end of period	(94,918	) (44,946	)
Total member's equity	\$5,260,938	\$5,481,909	
Noncontrolling interests:			
Balance, beginning of period	\$27,468	\$38,848	
Net earnings attributable to noncontrolling interests	44	1,795	
Distributions	—	(4,982	)
Deconsolidation of asset management company	(26,292	) (8,193	)
Balance, end of period	\$1,220	\$27,468	
Total equity	\$5,262,158	\$5,509,377	

(1) The components of other comprehensive income (loss) are attributable to Jefferies Group LLC. None of the components of other comprehensive income (loss) are attributable to noncontrolling interests.

(2) There were no material reclassifications out of Accumulated other comprehensive income during the three months ended February 29, 2016 and the year ended November 30, 2015.

See accompanying notes to consolidated financial statements.



Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)  
(In thousands)

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015	
Cash flows from operating activities:			
Net earnings (loss)	\$(166,769	) \$12,553	
Adjustments to reconcile net earnings (loss) to net cash used in operating activities:			
Depreciation and amortization	(2,735	) 3,327	
(Income) loss on loans to and investments in related parties	23,416	(20,689	)
Distributions received on investments in related parties	—	9,765	
Other adjustments	8,670	(62,770	)
Net change in assets and liabilities:			
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	70,939	257,319	
Receivables:			
Brokers, dealers and clearing organizations	(211,449	) (39,313	)
Customers	13,863	(93,823	)
Fees, interest and other	(15,898	) (14,530	)
Securities borrowed	(385,463	) 285,891	
Financial instruments owned	2,830,082	(471,101	)
Investments in managed funds	1,551	19,686	
Securities purchased under agreements to resell	298,260	179,290	
Other assets	(392,950	) (107,908	)
Payables:			
Brokers, dealers and clearing organizations	(1,477,131	) 384,163	
Customers	(180,980	) (1,481,640	)
Securities loaned	(295,559	) 575,750	
Financial instruments sold, not yet purchased	750,826	(966,190	)
Securities sold under agreements to repurchase	(1,721,276	) 654,705	
Accrued expenses and other liabilities	(247,374	) (494,018	)
Net cash used in operating activities	(1,099,977	) (1,369,533	)
Cash flows from investing activities:			
Contributions to loans to and investments in related parties	(141,735	) (600,844	)
Distributions from loans to and investments in related parties	188,108	558,335	
Net payments on premises and equipment	(20,958	) (17,381	)
Payment on purchase of aircraft	(27,500	) —	
Deconsolidation of asset management entity	(39	) —	
Cash received from contingent consideration	466	996	
Net cash used in investing activities	(1,658	) (58,894	)

Continued on next page.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED (UNAUDITED)  
(In thousands)

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Cash flows from financing activities:		
Excess tax benefits from the issuance of share-based awards	\$ 162	\$245
Proceeds from short-term borrowings	1,397,552	3,385,000
Payments on short-term borrowings	(1,396,326	) (2,985,002
Proceeds from secured credit facility	—	611,000
Payments on secured credit facility	—	(576,000
Net proceeds from other secured financings	134,435	254,778
Net proceeds from issuance of structured notes, net of issuance costs	43,538	—
Net proceeds from issuance of secured notes, net of issuance costs	22,196	—
Net cash provided by financing activities	201,557	690,021
Effect of exchange rate changes on cash and cash equivalents	(10,448	) (1,597
Net decrease in cash and cash equivalents	(910,526	) (740,003
Cash and cash equivalents at beginning of period	3,510,163	4,079,968
Cash and cash equivalents at end of period	\$2,599,637	\$3,339,965
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	\$ 188,217	\$ 180,068
Income taxes, net	(7,450	) 701
See accompanying notes to consolidated financial statements.		

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

Index	
Note	Page
<u>Note 1. Organization and Basis of Presentation</u>	<u>9</u>
<u>Note 2. Summary of Significant Accounting Policies</u>	<u>10</u>
<u>Note 3. Accounting Developments</u>	<u>16</u>
<u>Note 4. Fair Value Disclosures</u>	<u>17</u>
<u>Note 5. Derivative Financial Instruments</u>	<u>32</u>
<u>Note 6. Collateralized Transactions</u>	<u>37</u>
<u>Note 7. Securitization Activities</u>	<u>40</u>
<u>Note 8. Variable Interest Entities</u>	<u>41</u>
<u>Note 9. Investments</u>	<u>45</u>
<u>Note 10. Goodwill and Other Intangible Assets</u>	<u>47</u>
<u>Note 11. Short-Term Borrowings</u>	<u>48</u>
<u>Note 12. Long-Term Debt</u>	<u>49</u>
<u>Note 13. Noncontrolling Interests</u>	<u>50</u>
<u>Note 14. Benefit Plans</u>	<u>50</u>
<u>Note 15. Compensation Plans</u>	<u>51</u>
<u>Note 16. Income Taxes</u>	<u>53</u>
<u>Note 17. Commitments, Contingencies and Guarantees</u>	<u>53</u>
<u>Note 18. Net Capital Requirements</u>	<u>55</u>
<u>Note 19. Segment Reporting</u>	<u>56</u>
<u>Note 20. Related Party Transactions</u>	<u>57</u>
<u>Note 21. Exit Costs</u>	<u>58</u>

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Note 1. Organization and Basis of Presentation

Organization

Jefferies Group LLC and its subsidiaries operate as a global full service, integrated securities and investment banking firm. The accompanying Consolidated Financial Statements represent the accounts of Jefferies Group LLC and all our subsidiaries (together “we” or “us”). The subsidiaries of Jefferies Group LLC include Jefferies LLC (“Jefferies”), Jefferies Execution Services, Inc. (“Jefferies Execution”), Jefferies International Limited, Jefferies Hong Kong Limited, Jefferies Financial Services, Inc., Jefferies Funding LLC, Jefferies Derivative Products, LLC, Jefferies Financial Products, LLC, and Jefferies Leveraged Credit Products, LLC and all other entities in which we have a controlling financial interest or are the primary beneficiary. On April 9, 2015, we entered into an agreement to transfer certain of the client activities of our Futures business to Société Générale S.A. and initiated a plan to substantially exit the remaining aspects of our futures business. At February 29, 2016, we have transferred all of our client accounts to Société Générale S.A. and other brokers. We substantially completed the exit of the Bache business during the third quarter of fiscal 2015. For further information on the exit of the Bache business, refer to Note 21, Exit Costs.

Jefferies Group LLC is an indirect wholly owned subsidiary of Leucadia National Corporation (“Leucadia”). Leucadia does not guarantee any of our outstanding debt securities. Our 3.875% Convertible Senior Debentures due 2029 are convertible into Leucadia common shares (see Note 12, Long-Term Debt, for further details). Jefferies Group LLC operates as a full-service investment banking firm and as the holding company of its various regulated and unregulated operating subsidiaries, retains a credit rating separate from Leucadia and is a Securities and Exchange Commission (“SEC”) reporting company, filing annual, quarterly and periodic financial reports. Richard Handler, our Chief Executive Officer and Chairman, is the Chief Executive Officer of Leucadia, as well as a Director of Leucadia. Brian P. Friedman, our Chairman of the Executive Committee, is Leucadia’s President and a Director of Leucadia. We operate in two business segments, Capital Markets and Asset Management. Capital Markets, which represents substantially our entire business, includes our securities, commodities, futures and foreign exchange trading and investment banking activities, which provides the research, sales, trading, origination and advisory effort for various equity, fixed income and advisory products and services. Asset Management provides investment management services to various private investment funds and separate accounts.

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) and should be read in conjunction with our Annual Report on Form 10-K for the year ended November 30, 2015.

We have made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with U.S. GAAP. The most important of these estimates and assumptions relate to fair value measurements, compensation and benefits, goodwill and intangible assets, the ability to realize deferred tax assets and the recognition and measurement of uncertain tax positions. Although these and other estimates and assumptions are based on the best available information, actual results could be materially different from these estimates.

Consolidation

Our policy is to consolidate all entities in which we control by ownership a majority of the outstanding voting stock. In addition, we consolidate entities which meet the definition of a variable interest entity (“VIE”) for which we are the primary beneficiary. The primary beneficiary is the party who has the power to direct the activities of a VIE that most significantly impact the entity’s economic performance and who has an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity. For consolidated entities that are less than wholly owned, the third-party’s holding of equity interest is presented as Noncontrolling interests in the Consolidated Statements of Financial Condition and Consolidated Statements of Changes in Equity. The portion of net earnings attributable to the noncontrolling interests are presented as Net earnings to noncontrolling interests in the Consolidated Statements of Earnings.

In situations where we have significant influence, but not control, of an entity that does not qualify as a variable interest entity, we apply either the equity method of accounting or fair value accounting pursuant to the fair value option election under U.S. GAAP, with our portion of net earnings or gains and losses recorded within Other revenues or Principal transaction revenues, respectively. We also have formed nonconsolidated investment vehicles with third-party investors that are typically organized as

9

---

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

partnerships or limited liability companies and are carried at fair value. We act as general partner or managing member for these investment vehicles and have generally provided the third-party investors with termination or “kick-out” rights.

Intercompany accounts and transactions are eliminated in consolidation.

Note 2. Summary of Significant Accounting Policies

Revenue Recognition Policies

Commissions and Other Fees. All customer securities transactions are reported on the Consolidated Statements of Financial Condition on a settlement date basis with related income reported on a trade-date basis. We permit institutional customers to allocate a portion of their gross commissions to pay for research products and other services provided by third parties. The amounts allocated for those purposes are commonly referred to as soft dollar arrangements. These arrangements are accounted for on an accrual basis and, as we are not the primary obligor for these arrangements, netted against commission revenues in the Consolidated Statements of Earnings. The commissions and related expenses on client transactions executed by Jefferies, a futures commission merchant (“FCM”), are recorded on a half-turn basis. In addition, we earn asset-based fees associated with the management and supervision of assets, account services and administration related to customer accounts.

Principal Transactions. Financial instruments owned and Financial instruments sold, but not yet purchased (all of which are recorded on a trade-date basis) are carried at fair value with gains and losses reflected in Principal transaction revenues in the Consolidated Statements of Earnings on a trade date basis. Fees received on loans carried at fair value are also recorded within Principal transaction revenues.

Investment Banking. Underwriting revenues and fees from mergers and acquisitions, restructuring and other investment banking advisory assignments or engagements are recorded when the services related to the underlying transactions are completed under the terms of the assignment or engagement. Expenses associated with such assignments are deferred until reimbursed by the client, the related revenue is recognized or the engagement is otherwise concluded. Expenses are recorded net of client reimbursements and netted against revenues. Unreimbursed expenses with no related revenues are included in Business development and Professional services expenses in the Consolidated Statements of Earnings.

Asset Management Fees and Investment Income From Managed Funds. Asset management fees and investment income from managed funds include revenues we earn from management, administrative and performance fees from funds and accounts managed by us, revenues from management and performance fees we earn from related-party managed funds and investment income from our investments in these funds. We earn fees in connection with management and investment advisory services performed for various funds and managed accounts. These fees are based on assets under management or an agreed upon notional amount and may include performance fees based upon the performance of the funds. Management and administrative fees are generally recognized over the period that the related service is provided. Generally, performance fees are earned when the return on assets under management exceeds certain benchmark returns, “high-water marks” or other performance targets. Performance fees are accrued (or reversed) on a monthly basis based on measuring performance to date versus any relevant benchmark return hurdles stated in the investment management agreement. Performance fees are not subject to adjustment once the measurement period ends (generally annual periods) and the performance fees have been realized.

Interest Revenue and Expense. We recognize contractual interest on Financial instruments owned and Financial instruments sold, but not yet purchased, on an accrual basis as a component of interest revenue and expense. Interest flows on derivative trading transactions and dividends are included as part of the fair valuation of these contracts and recognized in Principal transaction revenues in the Consolidated Statements of Earnings rather than as a component of interest revenue or expense. We account for our short- and long-term borrowings on an accrual basis with related interest recorded as Interest expense. Discounts/premiums arising on our long-term debt are accreted/amortized to

Interest expense using the effective yield method over the remaining lives of the underlying debt obligations. In addition, we recognize interest revenue related to our securities borrowed and securities purchased under agreements to resell activities and interest expense related to our securities loaned and securities sold under agreements to repurchase activities on an accrual basis.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Cash Equivalents

Cash equivalents include highly liquid investments, including certificates of deposit and money market funds, not held for resale with original maturities of three months or less.

Cash and Securities Segregated and on Deposit for Regulatory Purposes or Deposited With Clearing and Depository Organizations

In accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, Jefferies as a broker-dealer carrying client accounts, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients. In addition, certain financial instruments used for initial and variation margin purposes with clearing and depository organizations are recorded in this caption. Certain other entities are also obligated by rules mandated by their primary regulators to segregate or set aside cash or equivalent securities to satisfy regulations, promulgated to protect customer assets.

Financial Instruments and Fair Value

Financial instruments owned and Financial instruments sold, not yet purchased are recorded at fair value, either as required by accounting pronouncements or through the fair value option election. These instruments primarily represent our trading activities and include both cash and derivative products. Gains and losses are recognized in Principal transaction revenues in our Consolidated Statements of Earnings. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price).

Fair Value Hierarchy

In determining fair value, we maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. We apply a hierarchy to categorize our fair value measurements broken down into three levels based on the transparency of inputs as follows:

Level 1: Quoted prices are available in active markets for identical assets or liabilities at the reported date.

Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these financial instruments include cash instruments for

Level 2: which quoted prices are available but traded less frequently, derivative instruments whose fair value have been derived using a model where inputs to the model are directly observable in the market, or can be derived principally from or corroborated by observable market data, and instruments that are fair valued using other financial instruments, the parameters of which can be directly observed.

Instruments that have little to no pricing observability at the reported date. These financial instruments are

Level 3: measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Financial instruments are valued at quoted market prices, if available. Certain financial instruments have bid and ask prices that can be observed in the marketplace. For financial instruments whose inputs are based on bid-ask prices, the financial instrument is valued at the point within the bid-ask range that meets our best estimate of fair value. We use prices and inputs that are current at the measurement date. For financial instruments that do not have readily determinable fair values using quoted market prices, the determination of fair value is based upon consideration of available information, including types of financial instruments, current financial information, restrictions on dispositions, fair values of underlying financial instruments and quotations for similar instruments.

The valuation of financial instruments may include the use of valuation models and other techniques. Adjustments to valuations derived from valuation models may be made when, in management's judgment, features of the financial instrument such as its complexity, the market in which the financial instrument is traded and risk uncertainties about market conditions require that an adjustment be made to the value derived from the models. Adjustments from the



price derived from a valuation model reflect management's judgment that other participants in the market for the financial instrument being measured at fair value would also

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

consider in valuing that same financial instrument. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment.

The availability of observable inputs can vary and is affected by a wide variety of factors, including, for example, the type of financial instrument and market conditions. As the observability of prices and inputs may change for a financial instrument from period to period, this condition may cause a transfer of an instrument among the fair value hierarchy levels. Transfers among the levels are recognized at the beginning of each period. The degree of judgment exercised in determining fair value is greatest for instruments categorized in Level 3.

Valuation Process for Financial Instruments

Our Independent Price Verification (“IPV”) Group, which is part of our Finance department, in partnership with Risk Management, is responsible for establishing our valuation policies and procedures. The IPV Group and Risk Management, which are independent of our business functions, play an important role and serve as a control function in determining that our financial instruments are appropriately valued and that fair value measurements are reliable. This is particularly important where prices or valuations that require inputs are less observable. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. The IPV Group reports to the Global Controller and is subject to the oversight of the IPV Committee, which is comprised of our Chief Financial Officer, Global Controller, Chief Risk Officer and Principal Accounting Officer, among other personnel. Our independent price verification policies and procedures are reviewed, at a minimum, annually and changes to the policies require the approval of the IPV Committee.

Price Testing Process. The business units are responsible for determining the fair value of our financial instruments using approved valuation models and methodologies. In order to ensure that the business unit valuations represent a fair value exit price, the IPV Group tests and validates the fair value of our financial instruments inventory. In the testing process, the IPV Group obtains prices and valuation inputs from independent sources, consistently adheres to established procedures set forth in our valuation policies for sourcing prices and valuation inputs and utilizing valuation methodologies. Sources used to validate fair value prices and inputs include, but are not limited to, exchange data, recently executed transactions, pricing data obtained from third party vendors, pricing and valuation services, broker quotes and observed comparable transactions.

To the extent discrepancies between the business unit valuations and the pricing or valuations resulting from the price testing process are identified, such discrepancies are investigated by the IPV Group and fair values are adjusted, as appropriate. The IPV Group maintains documentation of its testing, results, rationale and recommendations and prepares a monthly summary of its valuation results. This process also forms the basis for our classification of fair values within the fair value hierarchy (i.e., Level 1, Level 2 or Level 3). The IPV Group utilizes the additional expertise of Risk Management personnel in valuing more complex financial instruments and financial instruments with less or limited pricing observability. The results of the valuation testing are reported to the IPV Committee on a monthly basis, which discusses the results and is charged with the final conclusions as to the financial instrument fair values in the consolidated financial statements. This process specifically assists the Chief Financial Officer in asserting as to the fair presentation of our financial condition and results of operations as included within our Quarterly Reports on Form 10-Q and Annual Report on Form 10-K. At each quarter end, the overall valuation results, as concluded upon by the IPV Committee, are presented to the Audit Committee.

Judgment exercised in determining Level 3 fair value measurements is supplemented by daily analysis of profit and loss performed by the Product Control functions. Gains and losses, which result from changes in fair value, are evaluated and corroborated daily based on an understanding of each of the trading desks’ overall risk positions and developments in a particular market on the given day. Valuation techniques generally rely on recent transactions of suitably comparable financial instruments and use the observable inputs from those comparable transactions as a validation basis for Level 3 inputs. Level 3 fair value measurements are further validated through subsequent sales testing and market comparable sales, if such information is available. Level 3 fair value measurements require

documentation of the valuation rationale applied, which is reviewed for consistency in application from period to period; and the documentation includes benchmarking the assumptions underlying the valuation rationale against relevant analytic data.

**Third Party Pricing Information.** Pricing information obtained from external data providers (including independent pricing services and brokers) may incorporate a range of market quotes from dealers, recent market transactions and benchmarking model derived prices to quoted market prices and trade data for comparable securities. External pricing data is subject to evaluation for reasonableness by the IPV Group using a variety of means including comparisons of prices to those of similar product types,

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

quality and maturities, consideration of the narrowness or wideness of the range of prices obtained, knowledge of recent market transactions and an assessment of the similarity in prices to comparable dealer offerings in a recent time period. We have a process whereby we challenge the appropriateness of pricing information obtained from external data providers (including independent pricing services and brokers) in order to validate the data for consistency with the definition of a fair value exit price. Our process includes understanding and evaluating the external data providers' valuation methodologies. For corporate, U.S. government and agency and municipal debt securities, and loans, to the extent independent pricing services or broker quotes are utilized in our valuation process, the vendor service providers are collecting and aggregating observable market information as to recent trade activity and active bid-ask submissions. The composite pricing information received from the independent pricing service is thus not based on unobservable inputs or proprietary models. For mortgage- and other asset-backed securities and collateralized debt obligations, our independent pricing services use a matrix evaluation approach incorporating both observable yield curves and market yields on comparable securities as well as implied inputs from observed trades for comparable securities in order to determine prepayment speeds, cumulative default rates and loss severity. Further, we consider pricing data from multiple service providers as available as well as compare pricing data to prices we have observed for recent transactions, if any, in order to corroborate our valuation inputs.

**Model Review Process.** Where a pricing model is to be used to determine fair value, the pricing model is reviewed for theoretical soundness and appropriateness by Risk Management, independent from the trading desks, and then approved by Risk Management to be used in the valuation process. Review and approval of a model for use may include benchmarking the model against relevant third party valuations, testing sample trades in the model, backtesting the results of the model against actual trades and stress-testing the sensitivity of the pricing model using varying inputs and assumptions. In addition, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model. Models are independently reviewed and validated by Risk Management annually or more frequently if market conditions or use of the valuation model changes.

**Investments in Managed Funds**

Investments in managed funds include our investments in funds managed by us and our investments in related-party managed funds in which we are entitled to a portion of the management and/or performance fees. Investments in nonconsolidated managed funds are accounted for at fair value based on the net asset value ("NAV") of the funds provided by the fund managers with gains or losses included in Asset management fees and investment income (loss) from managed funds in the Consolidated Statements of Earnings.

**Loans to and Investments in Related Parties**

Loans to and investments in related parties include investments in private equity and other operating entities made in connection with our capital markets activities in which we exercise significant influence over operating and capital decisions and loans issued in connection with such activities. Loans to and investments in related parties are accounted for using the equity method or at cost, as appropriate. Revenues on Loans to and investments in related parties are included in Other revenues in the Consolidated Statements of Earnings. See Note 9, Investments, and Note 20, Related Party Transactions, for additional information regarding certain of these investments.

**Securities Borrowed and Securities Loaned**

Securities borrowed and securities loaned are carried at the amounts of cash collateral advanced and received in connection with the transactions and accounted for as collateralized financing transactions. In connection with both trading and brokerage activities, we borrow securities to cover short sales and to complete transactions in which customers have failed to deliver securities by the required settlement date, and lend securities to other brokers and dealers for similar purposes. We have an active securities borrowed and lending matched book business in which we borrow securities from one party and lend them to another party. When we borrow securities, we generally provide cash to the lender as collateral, which is reflected in our Consolidated Statements of Financial Condition as Securities

borrowed. We earn interest revenues on this cash collateral. Similarly, when we lend securities to another party, that party provides cash to us as collateral, which is reflected in our Consolidated Statements of Financial Condition as Securities loaned. We pay interest expense on the cash collateral received from the party borrowing the securities. The initial collateral advanced or received approximates or is greater than the fair value of the securities borrowed or loaned. We monitor the fair value of the securities borrowed and loaned on a daily basis and request additional collateral or return excess collateral, as appropriate.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Securities Purchased Under Agreements to Resell and Securities Sold Under Agreements to Repurchase  
Securities purchased under agreements to resell and Securities sold under agreements to repurchase (collectively “repos”) are accounted for as collateralized financing transactions and are recorded at their contracted resale or repurchase amount plus accrued interest. We earn and incur interest over the term of the repo, which is reflected in Interest income and Interest expense on our Consolidated Statements of Earnings on an accrual basis. Repos are presented in the Consolidated Statements of Financial Condition on a net-basis by counterparty, where permitted by U.S. GAAP. We monitor the fair value of the underlying securities daily versus the related receivable or payable balances. Should the fair value of the underlying securities decline or increase, additional collateral is requested or excess collateral is returned, as appropriate.

Premises and Equipment

Premises and equipment are depreciated using the straight-line method over the estimated useful lives of the related assets (generally three to ten years). Leasehold improvements are amortized using the straight-line method over the term of the related leases or the estimated useful lives of the assets, whichever is shorter. Premises and equipment includes internally developed software. The carrying values of internally developed software ready for its intended use are depreciated over the remaining useful life.

Goodwill and Intangible Assets

Goodwill. Goodwill represents the excess acquisition cost over the fair value of net tangible and intangible assets acquired. Goodwill is not amortized and is subject to annual impairment testing on August 1 or between annual tests if an event or change in circumstance occurs that would more likely than not reduce the fair value of a reporting unit below its carrying value. In testing for goodwill impairment, we have the option to first assess qualitative factors to determine whether the existence of events or circumstances lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events and circumstances, we conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is not required. If we conclude otherwise, we are required to perform the two-step impairment test. The goodwill impairment test is performed at the reporting unit level by comparing the estimated fair value of a reporting unit with its respective carrying value. If the estimated fair value exceeds the carrying value, goodwill at the reporting unit level is not impaired. If the estimated fair value is less than carrying value, further analysis is necessary to determine the amount of impairment, if any, by comparing the implied fair value of the reporting unit's goodwill to the carrying value of the reporting unit's goodwill.

The fair value of reporting units are based on widely accepted valuation techniques that we believe market participants would use, although the valuation process requires significant judgment and often involves the use of significant estimates and assumptions. The methodologies we utilize in estimating the fair value of reporting units include market valuation methods that incorporate price-to-earnings and price-to-book multiples of comparable exchange traded companies and multiples of merger and acquisitions of similar businesses. The estimates and assumptions used in determining fair value could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Adverse market or economic events could result in impairment charges in future periods.

Intangible Assets. Intangible assets deemed to have finite lives are amortized on a straight line basis over their estimated useful lives, where the useful life is the period over which the asset is expected to contribute directly, or indirectly, to our future cash flows. Intangible assets are reviewed for impairment on an interim basis when certain events or circumstances exist. For amortizable intangible assets, impairment exists when the carrying amount of the intangible asset exceeds its fair value. At least annually, the remaining useful life is evaluated.

An intangible asset with an indefinite useful life is not amortized but assessed for impairment annually, or more frequently, when events or changes in circumstances occur indicating that it is more likely than not that the indefinite-lived asset is impaired. Impairment exists when the carrying amount exceeds its fair value. In testing for impairment, we have the option to first perform a qualitative assessment to determine whether it is more likely than

not that an impairment exists. If it is determined that it is not more likely than not that an impairment exists, a quantitative impairment test is not necessary. If we conclude otherwise, we are required to perform a quantitative impairment test. Our annual indefinite-lived intangible asset impairment testing date is August 1.

To the extent an impairment loss is recognized, the loss establishes the new cost basis of the asset that is amortized over the remaining useful life of that asset, if any. Subsequent reversal of impairment losses is not permitted. Refer to Note 10, Goodwill and Other Intangible Assets, for further information.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Income Taxes

Our results of operations are included in the consolidated federal and applicable state income tax returns filed by Leucadia. In states that neither accept nor require combined or unitary tax returns, certain subsidiaries file separate state income tax returns. We also are subject to income tax in various foreign jurisdictions in which we operate. We account for our provision for income taxes using a “separate return” method. Amounts provided for income taxes are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable. Pursuant to a tax sharing agreement entered into between us and Leucadia, payments are made between us and Leucadia to settle current tax assets and liabilities.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and for tax loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date. Under acquisition accounting, the recognition of certain assets and liabilities at fair value created a change in the financial reporting basis for our assets and liabilities, while the tax basis of our assets and liabilities remained the same. As a result, deferred tax assets and liabilities were recognized for the change in the basis differences. We provide deferred taxes on our temporary differences and on any carryforwards that we could claim on our hypothetical tax return. The realization of deferred tax assets is assessed and a valuation allowance is recorded to the extent that it is more likely than not that any portion of the deferred tax asset will not be realized on the basis of its projected separate return results.

The tax benefit related to share-based awards are recognized as an increase to Additional paid-in capital. These amounts, and other windfall tax benefits/(detriments), are included in “Tax benefit/(detriment) for issuance of share-based awards” on the Consolidated Statements of Changes in Equity. In the event tax deductions associated with share-based awards are less than the cumulative compensation cost recognized for financial reporting purposes, we look to Leucadia’s consolidated pool of windfall tax benefits in the calculation of our income tax provision. At February 29, 2016, the consolidated pool of windfall tax benefits had been exhausted. As a result, these tax detriments are now recognized in our Consolidated Statement of Earnings until such time the Leucadia consolidated cumulative compensation cost recognized for tax purposes exceeds the amount recognized for financial reporting purposes. We record uncertain tax positions using a two-step process: (i) we determine whether it is more likely than not that each tax position will be sustained on the basis of the technical merits of the position; and (ii) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Legal Reserves

In the normal course of business, we have been named, from time to time, as a defendant in legal and regulatory proceedings. We are also involved, from time to time, in other exams, investigations and similar reviews (both formal and informal) by governmental and self-regulatory agencies regarding our businesses, certain of which may result in judgments, settlements, fines, penalties or other injunctions.

We recognize a liability for a contingency in Accrued expenses and other liabilities when it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. If the reasonable estimate of a probable loss is a range, we accrue the most likely amount of such loss, and if such amount is not determinable, then we accrue the minimum in the range as the loss accrual. The determination of the outcome and loss estimates requires significant judgment on the part of management. We believe that any other matters for which we have determined a loss to be probable and reasonably estimable are not material to the consolidated financial statements.



In many instances, it is not possible to determine whether any loss is probable or even possible or to estimate the amount of any loss or the size of any range of loss. We believe that, in the aggregate, the pending legal actions or regulatory proceedings and any other exams, investigations or similar reviews (both formal and informal) should not have a material adverse effect on our consolidated results of operations, cash flows or financial condition. In addition, we believe that any amount that could be reasonably estimated of potential loss or range of potential loss in excess of what has been provided in the consolidated financial statements is not material.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Share-based Compensation

Share-based awards are measured based on the grant-date fair value of the award and recognized over the period from the service inception date through the date the employee is no longer required to provide service to earn the award. Expected forfeitures are included in determining share-based compensation expense.

Foreign Currency Translation

Assets and liabilities of foreign subsidiaries having non-U.S. dollar functional currencies are translated at exchange rates at the end of a period. Revenues and expenses are translated at average exchange rates during the period. The gains or losses resulting from translating foreign currency financial statements into U.S. dollars, net of hedging gains or losses and taxes, if any, are included in Other comprehensive income. Gains or losses resulting from foreign currency transactions are included in Principal transaction revenues in the Consolidated Statements of Earnings.

Securitization Activities

We engage in securitization activities related to corporate loans, consumer loans, commercial mortgage loans and mortgage-backed and other asset-backed securities. Such transfers of financial assets are accounted for as sales when we have relinquished control over the transferred assets. The gain or loss on sale of such financial assets depends, in part, on the previous carrying amount of the assets involved in the transfer allocated between the assets sold and the retained interests, if any, based upon their respective fair values at the date of sale. We may retain interests in the securitized financial assets as one or more tranches of the securitization. These retained interests are included within Financial instruments owned in the Consolidated Statements of Financial Condition at fair value. Any changes in the fair value of such retained interests are recognized within Principal transactions revenues in the Consolidated Statements of Earnings.

When a transfer of assets does not meet the criteria of a sale, we account for the transfer as a secured borrowing and continue to recognize the assets of a secured borrowing in Financial instruments owned and recognize the associated financing in Other secured financings in the Consolidated Statements of Financial Condition.

Note 3. Accounting Developments

Accounting Standards to be Adopted in Future Periods

Employee Share-Based Payments. In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-09, Improvements to Employee Share-Based Payment Accounting ("ASU No. 2016-09"). The guidance simplifies various aspects related to how share-based payments are accounted for and presented in the consolidated financial statements. The amendments include income tax consequences, the accounting for forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows. The guidance is effective in the first quarter of fiscal 2018 and early adoption is permitted if all amendments are adopted in the same period. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases ("ASU No. 2016-02"). The guidance affects the accounting for leases and provides for a lessee model that brings substantially all leases onto the balance sheet. The guidance is effective in the first quarter of fiscal 2019 and early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Financial Instruments. In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. The guidance affects the accounting for equity investments, financial liabilities under the fair value option and the presentation and disclosure requirements of

financial instruments. The guidance is effective in the first quarter of fiscal 2019. We are currently evaluating the impact of the new guidance related to equity investments and the presentation and disclosure requirements of financial instruments on our consolidated financial statements. Early adoption is permitted for the accounting guidance on financial liabilities under the fair value option and we have early adopted this guidance in the first quarter of fiscal 2016. This guidance did not have a material effect on our consolidated financial statements.

Revenue Recognition. In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (“ASU No. 2014-09”) and in August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers - Deferral of Effective

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Date. The accounting guidance defines how companies report revenues from contracts with customers, and also requires enhanced disclosures. We intend to adopt the new guidance on December 1, 2017 and are currently evaluating the impact of the new guidance on our consolidated financial statements.

Adopted Accounting Standards

Debt Issuance Costs. In April 2015, the FASB issued Accounting Standards Update ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs. The accounting guidance requires that debt issuance costs related to a recognized debt liability be reported in the Consolidated Statements of Financial Condition as a direct deduction from the carrying amount of that debt liability. The guidance is effective retrospectively and we have adopted this guidance in the first quarter of fiscal 2016. The adoption of this accounting guidance did not have a material impact on our Consolidated Statements of Financial Condition.

Consolidation. In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. The amendment eliminates the deferral of certain consolidation standards for entities considered to be investment companies and modifies the consolidation analysis performed on certain types of legal entities. The guidance is effective beginning in the first quarter of fiscal 2017 and we have adopted this guidance in the first quarter of fiscal 2016 using a modified retrospective approach. The adoption of this accounting guidance resulted in the deconsolidation of an asset management vehicle, which resulted in the following adjustment to the Consolidated Statement of Financial Condition on December 1, 2015: a decrease of \$27.0 million in Investments in managed funds, a decrease of \$0.7 million in Accrued expense and other liabilities and a decrease of \$26.3 million in Noncontrolling interests. For further information on the adoption of ASU No. 2015-02, refer to Note 8, Variable Interest Entities.

Note 4. Fair Value Disclosures

The following is a summary of our financial assets and liabilities that are accounted for at fair value on a recurring basis, excluding Investments at fair value based on NAV of \$32.8 million and \$36.7 million at February 29, 2016 and November 30, 2015, respectively, by level within the fair value hierarchy (in thousands):

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	February 29, 2016			Counterparty and	
	Level 1(1)	Level 2(1)	Level 3	Cash Collateral	Total
				Netting (2)	
Assets:					
Financial instruments owned:					
Corporate equity securities	\$1,708,230	\$140,168	\$30,540	\$ —	\$1,878,938
Corporate debt securities	—	2,516,929	25,634	—	2,542,563
Collateralized debt obligations	—	61,290	67,348	—	128,638
U.S. government and federal agency securities	1,018,909	310,273	—	—	1,329,182
Municipal securities	—	609,169	—	—	609,169
Sovereign obligations	1,490,358	799,541	119	—	2,290,018
Residential mortgage-backed securities	—	2,243,865	68,019	—	2,311,884
Commercial mortgage-backed securities	—	816,047	21,994	—	838,041
Other asset-backed securities	—	263,877	33,124	—	297,001
Loans and other receivables	—	820,132	155,442	—	975,574
Derivatives	754	6,159,142	22,975	(5,850,803 )	332,068
Investments at fair value	—	54	63,582	—	63,636
Total financial instruments owned, excluding	\$4,218,251	\$14,740,487	\$488,777	\$ (5,850,803 )	\$13,596,712
Investments at fair value based on NAV					
Cash and cash equivalents	\$2,599,637	\$—	\$—	\$ —	\$2,599,637
Cash and securities segregated and on deposit for regulatory purposes (3)	\$679,812	\$—	\$—	\$ —	\$679,812
Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	\$1,593,560	\$75,166	\$38	\$ —	\$1,668,764
Corporate debt securities	—	1,877,856	—	—	1,877,856
U.S. government and federal agency securities	1,299,982	—	—	—	1,299,982
Sovereign obligations	1,131,337	710,989	—	—	1,842,326
Residential mortgage-backed securities	—	20,585	—	—	20,585
Loans	—	432,782	7,744	—	440,526
Derivatives	186	6,170,891	34,732	(5,879,190 )	326,619
Total financial instruments sold, not yet purchased	\$4,025,065	\$9,288,269	\$42,514	\$ (5,879,190 )	\$7,476,658
Other secured financings	\$—	\$—	\$538	\$ —	\$538
Long-term debt	\$—	\$37,118	\$—	\$ —	\$37,118

(1) There were no material transfers between Level 1 and Level 2 for the three months ended February 29, 2016.

(2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.

(3) Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations includes U.S. treasury securities with a fair value of \$99.9 million.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	November 30, 2015			Counterparty and Cash Collateral Netting (2)	Total
	Level 1 (1)	Level 2 (1)	Level 3		
Assets:					
Financial instruments owned:					
Corporate equity securities	\$1,853,351	\$133,732	\$40,906	\$ —	\$2,027,989
Corporate debt securities	—	2,867,165	25,876	—	2,893,041
Collateralized debt obligations	—	89,144	85,092	—	174,236
U.S. government and federal agency securities	2,555,018	90,633	—	—	2,645,651
Municipal securities	—	487,141	—	—	487,141
Sovereign obligations	1,251,366	1,407,955	120	—	2,659,441
Residential mortgage-backed securities	—	2,731,070	70,263	—	2,801,333
Commercial mortgage-backed securities	—	1,014,913	14,326	—	1,029,239
Other asset-backed securities	—	118,629	42,925	—	161,554
Loans and other receivables	—	1,123,044	189,289	—	1,312,333
Derivatives	1,037	4,395,704	19,785	(4,165,446 )	251,080
Investments at fair value	—	26,224	53,120	—	79,344
Physical commodities	—	—	—	—	—
Total financial instruments owned, excluding	\$5,660,772	\$14,485,354	\$541,702	\$ (4,165,446 )	\$16,522,382
Investments at fair value based on NAV					
Cash and cash equivalents	\$3,510,163	\$—	\$—	\$ —	\$3,510,163
Cash and securities segregated and on deposit for regulatory purposes	\$751,084	\$—	\$—	\$ —	\$751,084
Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	\$1,382,377	\$36,518	\$38	\$ —	\$1,418,933
Corporate debt securities	—	1,556,941	—	—	1,556,941
Collateralized debt obligations	—	—	—	—	—
U.S. government and federal agency securities	1,488,121	—	—	—	1,488,121
Sovereign obligations	837,614	505,382	—	—	1,342,996
Residential mortgage-backed securities	—	117	—	—	117
Loans	—	758,939	10,469	—	769,408
Derivatives	364	4,446,639	19,543	(4,257,998 )	208,548
Total financial instruments sold, not yet purchased	\$3,708,476	\$7,304,536	\$30,050	\$ (4,257,998 )	\$6,785,064
Other secured financings	\$—	\$—	\$544	\$ —	\$544

(1) There were no material transfers between Level 1 and Level 2 for the year ended November 30, 2015.

(2) Represents counterparty and cash collateral netting across the levels of the fair value hierarchy for positions with the same counterparty.





Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following is a description of the valuation basis, including valuation techniques and inputs, used in measuring our financial assets and liabilities that are accounted for at fair value on a recurring basis:

Corporate Equity Securities

Exchange Traded Equity Securities: Exchange-traded equity securities are measured based on quoted closing exchange prices, which are generally obtained from external pricing services, and are categorized within Level 1 of the fair value hierarchy, otherwise they are categorized within Level 2 or Level 3 of the fair value hierarchy.

Non-exchange Traded Equity Securities: Non-exchange traded equity securities are measured primarily using broker quotations, pricing data from external pricing services and prices observed for recently executed market transactions and are categorized within Level 2 of the fair value hierarchy. Where such information is not available, non-exchange traded equity securities are categorized within Level 3 of the fair value hierarchy and measured using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. When using pricing data of comparable companies, judgment must be applied to adjust the pricing data to account for differences between the measured security and the comparable security (e.g., issuer market capitalization, yield, dividend rate, geographical concentration).

Equity warrants: Non-exchange traded equity warrants are generally categorized within Level 3 of the fair value hierarchy and are measured using the Black-Scholes model with key inputs impacting the valuation including the underlying security price, implied volatility, dividend yield, interest rate curve, strike price and maturity date.

Corporate Debt Securities

Corporate Bonds: Corporate bonds are measured primarily using pricing data from external pricing services and broker quotations, where available, prices observed for recently executed market transactions and bond spreads or credit default swap spreads of the issuer adjusted for basis differences between the swap curve and the bond curve.

Corporate bonds measured using these valuation methods are categorized within Level 2 of the fair value hierarchy. If broker quotes, pricing data or spread data is not available, alternative valuation techniques are used including cash flow models incorporating interest rate curves, single name or index credit default swap curves for comparable issuers and recovery rate assumptions. Corporate bonds measured using alternative valuation techniques are categorized within Level 3 of the fair value hierarchy and comprise a limited portion of our corporate bonds.

High Yield Corporate and Convertible Bonds: A significant portion of our high yield corporate and convertible bonds are categorized within Level 2 of the fair value hierarchy and are measured primarily using broker quotations and pricing data from external pricing services, where available, and prices observed for recently executed market transactions of comparable size. Where pricing data is less observable, valuations are categorized within Level 3 and are based on pending transactions involving the issuer or comparable issuers, prices implied from an issuer's subsequent financings or recapitalizations, models incorporating financial ratios and projected cash flows of the issuer and market prices for comparable issuers.

Collateralized Debt Obligations

Collateralized debt obligations are measured based on prices observed for recently executed market transactions of the same or similar security or based on valuations received from third party brokers or data providers and are categorized within Level 2 or Level 3 of the fair value hierarchy depending on the observability and significance of the pricing inputs. Valuation that is based on recently executed market transactions of similar securities incorporates additional review and analysis of pricing inputs and comparability criteria including but not limited to collateral type, tranche type, rating, origination year, prepayment rates, default rates, and severities.

U.S. Government and Federal Agency Securities

•

Edgar Filing: Jefferies Group LLC - Form 10-Q

U.S. Treasury Securities: U.S. Treasury securities are measured based on quoted market prices and categorized within Level 1 of the fair value hierarchy.

U.S. Agency Issued Debt Securities: Callable and non-callable U.S. agency issued debt securities are measured primarily based on quoted market prices obtained from external pricing services and are generally categorized within Level 1 or Level 2 of the fair value hierarchy.

20

---

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Municipal Securities

Municipal securities are measured based on quoted prices obtained from external pricing services and are generally categorized within Level 2 of the fair value hierarchy.

Sovereign Obligations

Foreign sovereign government obligations are measured based on quoted market prices obtained from external pricing services, where available, or recently executed independent transactions of comparable size. To the extent external price quotations are not available or recent transactions have not been observed, valuation techniques incorporating interest rate yield curves and country spreads for bonds of similar issuers, seniority and maturity are used to determine fair value of sovereign bonds or obligations. Foreign sovereign government obligations are classified in Level 1, Level 2 or Level 3 of the fair value hierarchy, primarily based on the country of issuance.

Residential Mortgage-Backed Securities

Agency Residential Mortgage-Backed Securities: Agency residential mortgage-backed securities include mortgage pass-through securities (fixed and adjustable rate), collateralized mortgage obligations and interest-only and principal-only securities and are generally measured using market price quotations from external pricing services and categorized within Level 2 of the fair value hierarchy.

Agency Residential Interest-Only and Inverse Interest-Only Securities (“Agency Inverse IOs”): The fair value of agency inverse IOs is estimated using expected future cash flow techniques that incorporate prepayment models and other prepayment assumptions to amortize the underlying mortgage loan collateral. We use prices observed for recently executed transactions to develop market-clearing spread and yield curve assumptions. Valuation inputs with regard to the underlying collateral incorporate weighted average coupon, loan-to-value, credit scores, geographic location, maximum and average loan size, originator, servicer, and weighted average loan age. Agency inverse IOs are categorized within Level 2 or Level 3 of the fair value hierarchy. We also use vendor data in developing our assumptions, as appropriate.

Non-Agency Residential Mortgage-Backed Securities: Fair values are determined primarily using discounted cash flow methodologies and securities are categorized within Level 2 or Level 3 of the fair value hierarchy based on the observability and significance of the pricing inputs used. Performance attributes of the underlying mortgage loans are evaluated to estimate pricing inputs, such as prepayment rates, default rates and the severity of credit losses.

Attributes of the underlying mortgage loans that affect the pricing inputs include, but are not limited to, weighted average coupon; average and maximum loan size; loan-to-value; credit scores; documentation type; geographic location; weighted average loan age; originator; servicer; historical prepayment, default and loss severity experience of the mortgage loan pool; and delinquency rate. Yield curves used in the discounted cash flow models are based on observed market prices for comparable securities and published interest rate data to estimate market yields.

Commercial Mortgage-Backed Securities

Agency Commercial Mortgage-Backed Securities: Government National Mortgage Association (“GNMA”) project loans are measured based on inputs corroborated from and benchmarked to observed prices of recent securitization transactions of similar securities with adjustments incorporating an evaluation for various factors, including prepayment speeds, default rates, and cash flow structures as well as the likelihood of pricing levels in the current market environment. Federal National Mortgage Association (“FNMA”) Delegated Underwriting and Servicing (“DUS”) mortgage-backed securities are generally measured by using prices observed for recently executed market transactions to estimate market-clearing spread levels for purposes of estimating fair value. GNMA project loan bonds and FNMA DUS mortgage-backed securities are categorized within Level 2 of the fair value hierarchy.

Non-Agency Commercial Mortgage-Backed Securities: Non-agency commercial mortgage-backed securities are measured using pricing data obtained from external pricing services and prices observed for recently executed market

transactions and are categorized within Level 2 and Level 3 of the fair value hierarchy.

21

---

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Other Asset-Backed Securities

Other asset-backed securities include, but are not limited to, securities backed by auto loans, credit card receivables, student loans and other consumer loans and are categorized within Level 2 and Level 3 of the fair value hierarchy. Valuations are primarily determined using pricing data obtained from external pricing services and broker quotes and prices observed for recently executed market transactions.

Loans and Other Receivables

**Corporate Loans:** Corporate loans categorized within Level 2 of the fair value hierarchy are measured based on market price quotations where market price quotations from external pricing services are supported by market transaction data. Corporate loans categorized within Level 3 of the fair value hierarchy are measured based on market price quotations that are considered to be less transparent, market prices for debt securities of the same creditor, and estimates of future cash flow incorporating assumptions regarding creditor default and recovery rates and consideration of the issuer's capital structure.

**Participation Certificates in Agency Residential Loans:** Valuations of participation certificates in agency residential loans are based on observed market prices of recently executed purchases and sales of similar loans. The loan participation certificates are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions and availability of data provider pricing.

**Project Loans and Participation Certificates in GNMA Project and Construction Loans:** Valuations of participation certificates in GNMA project and construction loans are based on inputs corroborated from and benchmarked to observed prices of recent securitizations of assets with similar underlying loan collateral to derive an implied spread. Securitization prices are adjusted to estimate the fair value of the loans incorporating an evaluation for various factors, including prepayment speeds, default rates, and cash flow structures as well as the likelihood of pricing levels in the current market environment. The measurements are categorized within Level 2 of the fair value hierarchy given the observability and volume of recently executed transactions.

**Consumer Loans and Funding Facilities:** Consumer and small business whole loans and related funding facilities are valued based on observed market transactions incorporating additional valuation inputs including, but not limited to, delinquency and default rates, prepayment rates, borrower characteristics, loan risk grades and loan age. These assets are categorized within Level 2 or Level 3 of the fair value hierarchy.

**Escrow and Trade Claim Receivables:** Escrow and trade claim receivables are categorized within Level 3 of the fair value hierarchy where fair value is estimated based on reference to market prices and implied yields of debt securities of the same or similar issuers. Escrow and trade claim receivables are categorized within Level 2 of the fair value hierarchy where fair value is based on recent trade activity in the same security.

Derivatives

**Listed Derivative Contracts:** Listed derivative contracts that are actively traded are measured based on quoted exchange prices, which are generally obtained from external pricing services, and are categorized within Level 1 of the fair value hierarchy. Listed derivatives for which there is limited trading activity are measured based on incorporating the closing auction price of the underlying equity security, use similar valuation approaches as those applied to over-the-counter derivative contracts and are categorized within Level 2 of the fair value hierarchy.

**OTC Derivative Contracts:** Over-the-counter ("OTC") derivative contracts are generally valued using models, whose inputs reflect assumptions that we believe market participants would use in valuing the derivative in a current period transaction. Inputs to valuation models are appropriately calibrated to market data. For many OTC derivative contracts, the valuation models do not involve material subjectivity as the methodologies do not entail significant judgment and the inputs to valuation models do not involve a high degree of subjectivity as the valuation model inputs are readily observable or can be derived from actively quoted markets. OTC derivative contracts are primarily

categorized within Level 2 of the fair value hierarchy given the observability and significance of the inputs to the valuation models. Where significant inputs to the valuation are unobservable, derivative instruments are categorized within Level 3 of the fair value hierarchy.

OTC options include OTC equity, foreign exchange, interest rate and commodity options measured using various valuation models, such as the Black-Scholes, with key inputs impacting the valuation including the underlying security, foreign

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

exchange spot rate or commodity price, implied volatility, dividend yield, interest rate curve, strike price and maturity date. Discounted cash flow models are utilized to measure certain OTC derivative contracts including the valuations of our interest rate swaps, which incorporate observable inputs related to interest rate curves, valuations of our foreign exchange forwards and swaps, which incorporate observable inputs related to foreign currency spot rates and forward curves and valuations of our commodity swaps and forwards, which incorporate observable inputs related to commodity spot prices and forward curves. Credit default swaps include both index and single-name credit default swaps. External prices are available as inputs in measuring index credit default swaps and single-name credit default swaps. For commodity and equity total return swaps, market prices are observable for the underlying asset and used as the basis for measuring the fair value of the derivative contracts. Total return swaps executed on other underlyings are measured based on valuations received from external pricing services.

## Investments at Fair Value and Investments in Managed Funds

Investments at fair value based on NAV and Investments in Managed Funds include investments in hedge funds, fund of funds, private equity funds, convertible bond funds and commodity funds, which are measured at the net asset value of the funds provided by the fund managers and are excluded from the fair value hierarchy. Investments at fair value also include direct equity investments in private companies, which are measured at fair value using valuation techniques involving quoted prices of or market data for comparable companies, similar company ratios and multiples (e.g., price/EBITDA, price/book value), discounted cash flow analyses and transaction prices observed for subsequent financing or capital issuance by the company. Direct equity investments in private companies are categorized within Level 2 or Level 3 of the fair value hierarchy. Additionally, investments at fair value include investments in insurance contracts relating to our defined benefit plan in Germany. Fair value for the insurance contracts is determined using a third party and is categorized within Level 3 of the fair value hierarchy.

The following tables present information about our investments in entities that have the characteristics of an investment company (in thousands):

	February 29, 2016		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2)	\$48,951	\$—	Monthly, Quarterly
Fixed Income and High Yield Hedge Funds (3)	1,321	—	—
Fund of Funds (4)	279	—	—
Equity Funds (5)	39,496	20,512	—
Total	\$90,047	\$20,512	
	November 30, 2015		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2)	\$78,083	\$—	Monthly, Quarterly
Fixed Income and High Yield Hedge Funds (3)	1,703	—	—
Fund of Funds (4)	287	94	—
Equity Funds (5)	42,111	20,791	—
Convertible Bond Funds (6)	326	—	At Will
Total	\$122,510	\$20,885	

(1) Where fair value is calculated based on NAV, fair value has been derived from each of the funds' capital statements.

(2)

## Edgar Filing: Jefferies Group LLC - Form 10-Q

This category includes investments in hedge funds that invest, long and short, in primarily equity securities in domestic and international markets in both the public and private sectors. At February 29, 2016 and November 30, 2015, investments representing approximately 100% and 100%, respectively, of the fair value of investments in this category are redeemable with 30-90 days prior written notice.

(3) Includes investments in funds that invest in loans secured by a first trust deed on property, domestic and international public high yield debt, private high yield investments, senior bank loans, public leveraged equities, distressed debt, and private equity investments. There are no redemption provisions. At February 29, 2016 and November 30, 2015, the



Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

underlying assets of 7% and 8%, respectively, of these funds are being liquidated and we are unable to estimate when the underlying assets will be fully liquidated.

Includes investments in fund of funds that invest in various private equity funds. At February 29, 2016 and November 30, 2015, approximately 69% and 95%, respectively, of the fair value of investments in this category are managed by us and have no redemption provisions, instead distributions are received through the liquidation of the underlying assets of the fund of funds, which are estimated to start liquidating in the next nine months. For the remaining investments, we have requested redemption; however, we are unable to estimate when these funds will be received.

At February 29, 2016 and November 30, 2015, approximately 99% and 100%, respectively, of the fair value of investments in this category include investments in equity funds that invest in the equity of various U.S. and foreign private companies in the energy, technology, internet service and telecommunication service industries. These investments cannot be redeemed, instead distributions are received through the liquidation of the underlying assets of the funds which are expected to liquidate in one to eight years.

This category represents an investment in the Jefferies Umbrella Fund, an open-ended investment company managed by us that invests primarily in convertible bonds. The remaining investments were in liquidation at November 30, 2015 and the underlying assets were fully liquidated during the three months ended February 29, 2016.

**Other Secured Financings**

Other secured financings that are accounted for at fair value include notes issued by consolidated VIEs, which are classified as Level 2 or Level 3 within the fair value hierarchy. Fair value is based on recent transaction prices for similar assets.

**Long-term Debt-Structured Notes**

Long-term debt includes variable rate and fixed to floating rate structured notes that contain payment terms and redemption values based on the performance of certain interest rate indices and are generally measured using valuation models for the derivative and debt portions of the notes. These models incorporate market price quotations from external pricing sources referencing the appropriate interest rate curves and are generally categorized within Level 2 of the fair value hierarchy. The impact of the Company's own credit spreads is also included based on observed secondary bond market spreads and asset-swap spreads.

**Long-term Debt -Embedded Conversion Option**

The embedded conversion option presented within long-term debt represents the fair value of the conversion option on Leucadia shares within our 3.875% Convertible Senior Debentures, due November 1, 2029 and categorized as Level 3 within the fair value hierarchy. The conversion option was valued using a convertible bond model using as inputs the price of Leucadia's common stock, the conversion strike price, 252-day historical volatility, a maturity date of November 1, 2017 (the first put date), dividend yield and the risk-free interest rate curve.

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the three months ended February 29, 2016 (in thousands):

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Three Months Ended February 29, 2016

	Balance at November 30, 2015	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuances	Net transfers into/ (out of) Level 3	Balance at February 29, 2016	Change in unrealized gains/ (losses) relating to instruments still held at February 29, 2016 (1)
<b>Assets:</b>									
<b>Financial instruments owned:</b>									
Corporate equity securities	\$40,906	\$ 3,071	\$ 2,087	\$—	\$—	\$—	\$(15,524)	\$ 30,540	\$ 3,560
Corporate debt securities	25,876	(2,602 )	15,337	(15,129)	(111 )	—	2,263	25,634	(2,540 )
Collateralized debt obligations	85,092	(16,573 )	1,021	(20,178)	(463 )	—	18,449	67,348	(17,003 )
Sovereign obligations	120	(1 )	—	—	—	—	—	119	(1 )
Residential mortgage-backed securities	70,263	(4,548 )	62,844	(64,926)	(114 )	—	4,500	68,019	(3,358 )
Commercial mortgage-backed securities	14,326	(971 )	2,962	—	(878 )	—	6,555	21,994	(1,387 )
Other asset-backed securities	42,925	1,662	15,425	(2,100)	(1 )	—	(24,787 )	33,124	1,679
Loans and other receivables	189,289	(5,772 )	181,264	(114,667)	795,354)	—	682	155,442	(9,113 )
Investments at fair value	53,120	(16,515 )	1,187	—	(273 )	—	26,063	63,582	(16,515 )
<b>Liabilities:</b>									
<b>Financial instruments sold, not yet purchased:</b>									
Corporate equity securities	\$38	\$—	\$—	\$—	\$—	\$—	\$—	\$38	\$—
Net derivatives (2)	(242 )	10,304	—	—	2,558	554	(1,417 )	11,757	(8,135 )
Loans	10,469	(345 )	(2,240 )	1,033	(1,077 )	—	(96 )	7,744	345
Other secured financings	544	(6 )	—	—	—	—	—	538	—

(1) Realized and unrealized gains/losses are reported in Principal transaction revenues in the Consolidated Statements of Earnings.

(2) Net derivatives represent Financial instruments owned—Derivatives and Financial instruments sold, not yet purchased —Derivatives.

Analysis of Level 3 Assets and Liabilities for the Three Months Ended February 29, 2016

During the three months ended February 29, 2016, transfers of assets of \$119.0 million from Level 2 to Level 3 of the fair value hierarchy are primarily attributed to:

• Collateralized debt obligations of \$39.5 million and non-agency residential mortgage-backed securities of \$20.4 million, for which no recent trade activity was observed for purposes of determining observable inputs;

• Investments at fair value of \$26.1 million due to a lack of observable market transactions.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

During the three months ended February 29, 2016, transfers of assets of \$100.8 million from Level 3 to Level 2 are primarily attributed to:

- Other asset-backed securities of \$28.8 million and non-agency residential mortgage-backed securities of \$15.9 million for which market trades were observed in the period for either identical or similar securities;

- Collateralized debt obligations of \$21.0 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

- Corporate equity securities of \$19.2 million due to an increase in observable market transactions.

Net losses on Level 3 assets were \$42.2 million and net losses on Level 3 liabilities were \$10.0 million for the three months ended February 29, 2016. Net losses on Level 3 assets were primarily due to decreased valuations of collateralized debt obligations, investments at fair value, loans and other receivables, residential mortgage-backed securities and corporate debt securities, partially offset by an increase in valuation of corporate equity securities and other asset-backed securities. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivative instruments.

The following is a summary of changes in fair value of our financial assets and liabilities that have been categorized within Level 3 of the fair value hierarchy for the three months ended February 28, 2015 (in thousands):

## Three Months Ended February 28, 2015

	Balance at November 2014	Total gains/ losses realized and unrealized (1)	Purchases	Sales	Settlements	Issuances	Net transfers into/ (out of) Level 3	Balance at February 28, 2015	Change in unrealized gains/ (losses) relating to instruments still held at February 28, 2015 (1)
Assets:									
Financial instruments owned:									
Corporate equity securities	\$20,964	\$ 63	\$ —	\$(168 )	\$ —	\$ —	\$(2,649 )	\$18,210	\$ 243
Corporate debt securities	22,766	(311 )	469	(533 )	—	—	2,404	24,795	43
Collateralized debt obligations	124,650	(17,642 )	—	(13,519 )	(1,296 )	—	4,644	96,837	(17,506 )
Sovereign obligations	—	13	—	(1 )	—	—	321	333	12
Residential mortgage-backed securities	82,557	(2,863 )	2,100	(1,375 )	(23 )	—	(443 )	79,953	783
Commercial mortgage-backed securities	26,655	(531 )	—	(382 )	(6,864 )	—	5,751	24,629	(1,369 )
Other asset-backed securities	2,294	(167 )	26	(1 )	—	—	4,994	7,146	(167 )
Loans and other	97,258	(5,033 )	40,019	(16,122 )	(15,448 )	—	10,736	111,410	(3,262 )

Edgar Filing: Jefferies Group LLC - Form 10-Q

receivables									
Investments, at fair value	53,224	1,256	5,010	(184 )	(277 )	—	69,203	128,232	1,262
Liabilities:									
Financial instruments sold, not yet purchased:									
Corporate equity securities	\$38	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$38	\$ —
Corporate debt securities	223	(115 )	(6,683 )	6,698	—	—	(123 )	—	—
Net derivatives (2)	(4,638 )	6,938	—	—	(58 )	1,072	—	3,314	(8,771 )
Loans	14,450	(39 )	(2,877 )	825	—	—	(3,032 )	9,327	39
Other secured financings	30,825	—	—	—	(2,218 )	36,995	—	65,602	—
Embedded conversion option	693	132	—	—	—	—	—	825	(132 )

26

---

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

(1) Realized and unrealized gains/losses are reported in Principal transaction revenues in the Consolidated Statements of Earnings.

(2) Net derivatives represent Financial instruments owned—Derivatives and Financial instruments sold, not yet purchased —Derivatives.

Analysis of Level 3 Assets and Liabilities for the Three Months Ended February 28, 2015

During the three months ended February 28, 2015, transfers of assets of \$205.2 million from Level 2 to Level 3 of the fair value hierarchy are primarily attributed to:

• Non-agency residential mortgage-backed securities of \$35.3 million and commercial mortgage-backed securities of \$10.3 million for which no recent trade activity was observed for purposes of determining observable inputs;

• Loans and other receivables of \$16.4 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;

• Collateralized debt obligations of \$64.6 million which have little to no transparency related to trade activity;

• Investments at fair value of \$69.2 million due to a lack of observable market transactions.

During the three months ended February 28, 2015, transfers of assets of \$110.2 million from Level 3 to Level 2 are primarily attributed to:

• Non-agency residential mortgage-backed securities of \$35.7 million for which market trades were observed in the period for either identical or similar securities;

• Collateralized debt obligations of \$59.9 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

• Corporate equity securities of \$4.4 million due to an increase in observable market transactions.

Net losses on Level 3 assets were \$25.2 million and net losses on Level 3 liabilities were \$6.9 million for the three months ended February 28, 2015. Net losses on Level 3 assets were primarily due to decreased valuations of certain collateralized debt obligations, loans and other receivables, residential and commercial mortgage-backed securities and corporate debt securities, partially offset by an increase in valuation of certain investments at fair value. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivative instruments.

Quantitative Information about Significant Unobservable Inputs used in Level 3 Fair Value Measurements at February 29, 2016 and November 30, 2015

The tables below present information on the valuation techniques, significant unobservable inputs and their ranges for our financial assets and liabilities, subject to threshold levels related to the market value of the positions held, measured at fair value on a recurring basis with a significant Level 3 balance. The range of unobservable inputs could differ significantly across different firms given the range of products across different firms in the financial services sector. The inputs are not representative of the inputs that could have been used in the valuation of any one financial instrument (i.e., the input used for valuing one financial instrument within a particular class of financial instruments may not be appropriate for valuing other financial instruments within that given class). Additionally, the ranges of inputs presented below should not be construed to represent uncertainty regarding the fair values of our financial instruments; rather the range of inputs is reflective of the differences in the underlying characteristics of the financial instruments in each category.

For certain categories, we have provided a weighted average of the inputs allocated based on the fair values of the financial instruments comprising the category. We do not believe that the range or weighted average of the inputs is indicative of the reasonableness of uncertainty of our Level 3 fair values. The range and weighted average are driven by the individual financial instruments within each category and their relative distribution in the population. The disclosed inputs when compared with the inputs as disclosed in other periods should not be expected to necessarily be indicative of changes in our estimates of unobservable inputs for a particular financial instrument as the population of financial instruments comprising the category will vary from period to period based on purchases and sales of financial instruments during the period as well as transfers into and out of Level 3 each period.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

February 29, 2016

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average	
Corporate equity securities	\$27,079					
Non-exchange traded securities		Market approach	EBITDA (a) multiple Underlying stock price	15.2 \$1-\$102	—	\$15.2
Corporate debt securities	\$21,487					
		Convertible bond model	Discount rate/yield Volatility	13% 40%	—	—
		Comparable pricing	Comparable bond price	\$39	—	—
Collateralized debt obligations	\$38,604	Discounted cash flows	Constant prepayment rate Constant default rate Loss severity Yield	10%-20% 2%-10% 25%-70% 5%-20%	19 3 31 13	% % % %
Residential mortgage-backed securities	\$68,019	Discounted cash flows	Constant prepayment rate Constant default rate Loss severity Yield	0%-50% 1%-9% 25%-70% 2%-11%	12 1 30 6	% % % %
Commercial mortgage-backed securities	\$21,994	Discounted cash flows	Yield	8%-29%	14	%
			Cumulative loss rate	2%-69%	16	%
Other asset-backed securities	\$27,298	Discounted cash flows	Constant prepayment rate Constant default rate Loss severity Yield	0%-20% 0%-15% 0%-100% 4%-24%	15 11 83 19	% % % %
Loans and other receivables	\$120,475	Comparable pricing	Comparable loan price	\$100	—	
		Market approach	Discount rate/yield Transaction level	2%-51% \$81	21	%
		Scenario analysis	Estimated recovery percentage	6%-100%	76	%
Derivatives	\$22,975					
Commodity forwards		Market approach	Discount rate/yield Transaction level	60% \$6,500,000	—	—
Unfunded commitments		Comparable pricing	Comparable loan price	\$100	—	—
Credit default swaps		Market approach	Credit spread	292 bps 667 bps - 800 bps	—	718 bps
Interest rate swaps						
Total return swaps		Comparable pricing	Comparable loan price	\$90	—	—
Investments at fair value						



Edgar Filing: Jefferies Group LLC - Form 10-Q

Private equity securities	\$13,662	Market approach	EBITDA (a) multiple	8.4	—
			Transaction level	\$0-\$74	\$55
			Enterprise value	\$5,200,000	—
Liabilities					
Financial Instruments Sold, Not Yet Purchased:					
Derivatives	\$34,732				
Equity options		Option model	Volatility	45%	—
		Default rate	Default probability	0%	—
Unfunded commitments		Comparable pricing	Comparable loan price	\$100	—
		Market approach	Discount rate/yield	3%-35%	26 %
Variable funding note swaps		Discounted cash flows	Constant prepayment rate	20%	—
			Constant default rate	2%	—
			Loss severity	25%	—
			Yield	14%	—
Foreign exchange forwards		Market approach	Credit spread	500bps	—
Total return swaps		Comparable pricing	Comparable loan price	\$90	—
Loans and other receivables	\$7,744	Comparable pricing	Comparable loan price	\$100	—

(a) Earnings before interest, taxes, depreciation and amortization (“EBITDA”).

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

November 30, 2015

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average	
Corporate equity securities	\$20,285					
Non-exchange traded securities		Market approach	EBITDA multiple	4.4	—	
			Transaction level	\$1	—	
			Underlying stock price	\$5-\$102	\$19	
Corporate debt securities	\$20,257	Convertible bond model	Discount rate/yield	86%	—	
		Market approach	Transaction level	\$59	—	
Collateralized debt obligations	\$49,923	Discounted cash flows	Constant prepayment rate	5%-20%	13	%
			Constant default rate	2%-8%	2	%
			Loss severity	25%-90%	52	%
			Yield	6%-13%	10	%
Residential mortgage-backed securities	\$70,263	Discounted cash flows	Constant prepayment rate	0%-50%	13	%
			Constant default rate	1%-9%	3	%
			Loss severity	25%-70%	39	%
			Yield	1%-9%	6	%
Commercial mortgage-backed securities	\$14,326	Discounted cash flows	Yield	7%-30%	16	%
			Cumulative loss rate	2%-63%	23	%
Other asset-backed securities	\$21,463	Discounted cash flows	Constant prepayment rate	6%-8%	7	%
			Constant default rate	3%-5%	4	%
			Loss severity	55%-75%	62	%
			Yield	7%-22%	18	%
		Over-collateralization	Over-collateralization percentage	117%-125%	118	%
Loans and other receivables	\$161,470	Comparable pricing	Comparable loan price	\$99-\$100	\$99.7	
		Market approach	Yield	2%-17%	12	%
			EBITDA multiple	10.0	—	
		Scenario analysis	Estimated recovery percentage	6%-100%	83	%
Derivatives	\$19,785					
Commodity forwards		Market approach	Discount rate/yield	47%	— %	
			Transaction level	\$9,500,000	—	
Unfunded commitments		Comparable pricing	Comparable loan price	\$100	—	
		Market approach	Credit spread	298 bps	—	
Total return swaps		Comparable pricing	Comparable loan price	\$91.7-\$92.4	\$92.1	
Investments at fair value	\$7,693					

Edgar Filing: Jefferies Group LLC - Form 10-Q

Private equity securities		Market approach	Transaction level	\$64	—
			Enterprise value	\$5,200,000	—
Liabilities					
Financial Instruments Sold, Not Yet Purchased:					
Derivatives	\$19,543				
Equity options		Option model	Volatility	45%	—
		Default rate	Default probability	0%	—
Unfunded commitments		Comparable pricing	Comparable loan price	\$79-\$100	\$82.6
		Market approach	Discount rate/yield	3%-10%	10 %
		Discounted cash flows	Constant prepayment rate	20%	—
			Constant default rate	2%	—
			Loss severity	25%	—
			Yield	11%	—
Total return swaps		Comparable pricing	Comparable loan price	\$91.7-92.4	\$92.1
Loans and other receivables	\$10,469	Comparable pricing	Comparable loan price	\$100	—

The fair values of certain Level 3 assets and liabilities that were determined based on third-party pricing information, unadjusted past transaction prices, reported net asset value or a percentage of the reported enterprise fair value are excluded from the above tables. At February 29, 2016 and November 30, 2015, asset exclusions consisted of \$127.2 million and \$156.2 million, respectively,

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

primarily comprised of certain corporate debt and equity securities, investments at fair value, private equity securities, collateralized debt obligations, sovereign obligations and certain loans and other receivables. At February 29, 2016 and November 30, 2015, liability exclusions consisted of \$0.5 million and \$0.6 million, respectively of certain corporate equity securities and other secured financings.

Sensitivity of Fair Values to Changes in Significant Unobservable Inputs

For recurring fair value measurements categorized within Level 3 of the fair value hierarchy, the sensitivity of the fair value measurement to changes in significant unobservable inputs and interrelationships between those unobservable inputs (if any) are described below:

Loans and other receivables, corporate debt securities, loan and unfunded commitments and total return swaps using comparable pricing valuation techniques. A significant increase (decrease) in the comparable loan or bond price in isolation would result in a significantly higher (lower) fair value measurement.

Corporate debt securities using a convertible bond model. A significant increase (decrease) in the bond discount rate/yield or volatility would result in a significantly lower (higher) fair value measurement.

Non-exchange traded securities, corporate debt securities, loans and other receivables, unfunded commitments, commodity forwards, credit default swaps, interest rate swaps, foreign exchange forwards and private equity securities using a market approach valuation technique. A significant increase (decrease) in the EBITDA or other multiples in isolation would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the discount rate/yield of a corporate debt security, loan and other receivable or certain derivatives would result in a significantly lower (higher) fair value measurement. A significant increase (decrease) in the transaction level of a private equity security, loan and other receivable or commodity forward would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the enterprise value of a private equity security would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the underlying stock price of the non-exchange traded securities would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the credit spread of certain derivatives would result in a significantly (lower) higher fair value measurement.

Loans and other receivables using scenario analysis. A significant increase (decrease) in the possible recovery rates of the cash flow outcomes underlying the investment would result in a significantly higher (lower) fair value measurement for the financial instrument.

Collateralized debt obligations, residential and commercial mortgage-backed securities and other asset-backed securities, variable funding notes and unfunded commitments using a discounted cash flow valuation technique. A significant increase (decrease) in isolation in the constant default rate, and loss severities or cumulative loss rate would result in a significantly lower (higher) fair value measurement. The impact of changes in the constant prepayment rate would have differing impacts depending on the capital structure of the security. A significant increase (decrease) in the loan or bond yield would result in a significantly lower (higher) fair value measurement.

Certain other asset-backed securities using an over-collateralization model. A significant increase (decrease) in the over-collateralization percentage would result in a significantly higher (lower) fair value measurement.

Derivative equity options using an option model. A significant increase (decrease) in volatility would result in a significantly higher (lower) fair value measurement.

Derivative equity options using a default rate model. A significant increase (decrease) in default probability would result in a significantly lower (higher) fair value measurement.

Fair Value Option Election

We have elected the fair value option for all loans and loan commitments made by our capital markets businesses. These loans and loan commitments include loans entered into by our investment banking division in connection with client bridge financing and loan syndications, loans purchased by our leveraged credit trading desk as part of its bank loan trading activities and mortgage loan commitments and fundings in connection with mortgage- and other asset-backed securitization activities. Loans and loan commitments originated or purchased by our leveraged credit

and mortgage-backed businesses are managed on a fair value basis. Loans are included in Financial instruments owned and loan commitments are included in Financial instruments owned and Financial instruments sold, not yet purchased on the Consolidated Statements of Financial Condition. The fair value option election is not applied to loans made to affiliate entities as such loans are entered into as part of ongoing, strategic business ventures. Loans to affiliate entities are included within Loans to and investments in related parties on the Consolidated Statements of Financial

30

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Condition and are accounted for on an amortized cost basis. We have also elected the fair value option for our structured notes, which are managed by our capital markets businesses and are included in Long-term debt on the Consolidated Statements of Financial Condition. We have elected the fair value option for certain financial instruments held by subsidiaries as the investments are risk managed by us on a fair value basis. The fair value option has also been elected for certain secured financings that arise in connection with our securitization activities and other structured financings. Other secured financings, Receivables – Brokers, dealers and clearing organizations, Receivables – Customers, Receivables – Fees, interest and other, Payables – Brokers, dealers and clearing organizations and Payables – Customers, are accounted for at cost plus accrued interest rather than at fair value; however, the recorded amounts approximate fair value due to their liquid or short-term nature.

The following is a summary of gains (losses) due to changes in instrument specific credit risk on loans, other receivables and debt instruments and gains (losses) due to other changes in fair value on long-term debt measured at fair value under the fair value option (in thousands):

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Financial Instruments Owned:		
Loans and other receivables	\$(15,462	) \$5,389
Financial Instruments Sold:		
Loans	\$48	\$(1,022 )
Loan commitments	(3,746	) (7,166 )
Long-term Debt:		
Changes in instrument specific credit risk (1)	\$(302	) \$—
Other changes in fair value (2)	6,816	—

(1) Changes in instrument-specific credit risk related to structured notes are included in the Consolidated Statements of Comprehensive Income.

(2) Other changes in fair value include \$6.9 million included within Principal transactions revenues and \$42,000 included within Interest expenses on the Consolidated Statements of Earnings.

The following is a summary of the amount by which contractual principal exceeds fair value for loans and other receivables and long-term debt measured at fair value under the fair value option (in thousands).

	February 29, 2016	November 30, 2015
Financial Instruments Owned:		
Loans and other receivables (1)	\$494,444	\$408,369
Loans and other receivables greater than 90 days past due (1)	29,555	29,720
Loans and other receivables on nonaccrual status (1) (2)	154,319	54,652
Long-term debt	6,420	—

(1) Interest income is recognized separately from other changes in fair value and is included within Interest revenues on the Consolidated Statements of Earnings.

(2) Amounts include all loans and other receivables greater than 90 days past due.

The aggregate fair value of loans and other receivables that were greater than 90 days past due was \$11.0 million and \$11.3 million at February 29, 2016 and November 30, 2015, respectively.

The aggregate fair value of loans and other receivables on nonaccrual status, which includes all loans and other receivables greater than 90 days past due, was \$131.8 million and \$307.5 million at February 29, 2016 and November 30, 2015, respectively.



Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Note 5. Derivative Financial Instruments

Off-Balance Sheet Risk

We have contractual commitments arising in the ordinary course of business for securities loaned or purchased under agreements to resell, repurchase agreements, future purchases and sales of foreign currencies, securities transactions on a when-issued basis and underwriting. Each of these financial instruments and activities contains varying degrees of off-balance sheet risk whereby the fair values of the securities underlying the financial instruments may be in excess of, or less than, the contract amount. The settlement of these transactions is not expected to have a material effect upon our consolidated financial statements.

Derivative Financial Instruments

Our derivative activities are recorded at fair value in the Consolidated Statements of Financial Condition in Financial instruments owned and Financial instruments sold, not yet purchased, net of cash paid or received under credit support agreements and on a net counterparty basis when a legally enforceable right to offset exists under a master netting agreement. Net realized and unrealized gains and losses are recognized in Principal transaction revenues in the Consolidated Statements of Earnings on a trade date basis and as a component of cash flows from operating activities in the Consolidated Statements of Cash Flows. Acting in a trading capacity, we may enter into derivative transactions to satisfy the needs of our clients and to manage our own exposure to market and credit risks resulting from our trading activities. (See Note 4, Fair Value Disclosures, and Note 17, Commitments, Contingencies and Guarantees for additional disclosures about derivative financial instruments.)

Derivatives are subject to various risks similar to other financial instruments, including market, credit and operational risk. The risks of derivatives should not be viewed in isolation, but rather should be considered on an aggregate basis along with our other trading-related activities. We manage the risks associated with derivatives on an aggregate basis along with the risks associated with proprietary trading as part of our firm wide risk management policies.

In connection with our derivative activities, we may enter into International Swaps and Derivative Association, Inc. ("ISDA") master netting agreements or similar agreements with counterparties. A master agreement creates a single contract under which all transactions between two counterparties are executed allowing for trade aggregation and a single net payment obligation. Master agreements provide protection in bankruptcy in certain circumstances and, where legally enforceable, enable receivables and payables with the same counterparty to be settled or otherwise eliminated by applying amounts due against all or a portion of an amount due from the counterparty or a third party. In addition, we enter into customized bilateral trading agreements and other customer agreements that provide for the netting of receivables and payables with a given counterparty as a single net obligation.

Under our ISDA master netting agreements, we typically also execute credit support annexes, which provide for collateral, either in the form of cash or securities, to be posted by or paid to a counterparty based on the fair value of the derivative receivable or payable based on the rates and parameters established in the credit support annex. In the event of the counterparty's default, provisions of the master agreement permit acceleration and termination of all outstanding transactions covered by the agreement such that a single amount is owed by, or to, the non-defaulting party. In addition, any collateral posted can be applied to the net obligations, with any excess returned; and the collateralized party has a right to liquidate the collateral. Any residual claim after netting is treated along with other unsecured claims in bankruptcy court.

The conditions supporting the legal right of offset may vary from one legal jurisdiction to another and the enforceability of master netting agreements and bankruptcy laws in certain countries or in certain industries is not free from doubt. The right of offset is dependent both on contract law under the governing arrangement and consistency with the bankruptcy laws of the jurisdiction where the counterparty is located. Industry legal opinions with respect to the enforceability of certain standard provisions in respective jurisdictions are relied upon as a part of managing credit risk. In cases where we have not determined an agreement to be enforceable, the related amounts are not offset.

Master netting agreements are a critical component of our risk management processes as part of reducing counterparty credit risk and managing liquidity risk.



We are also a party to clearing agreements with various central clearing parties. Under these arrangements, the central clearing counterparty facilitates settlement between counterparties based on the net payable owed or receivable due and, with respect to daily settlement, cash is generally only required to be deposited to the extent of the net amount. In the event of default, a net termination amount is determined based on the market values of all outstanding positions and the clearing organization or clearing member provides for the liquidation and settlement of the net termination amount among all counterparties to the open derivative contracts.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following tables present the fair value and related number of derivative contracts at February 29, 2016 and November 30, 2015 categorized by type of derivative contract and the platform on which these derivatives are transacted. The fair value of assets/liabilities represents our receivable/payable for derivative financial instruments, gross of counterparty netting and cash collateral received and pledged. The following tables also provide information regarding 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the Consolidated Statements of Financial Condition as appropriate under U.S. GAAP and 2) the extent to which other rights of setoff associated with these arrangements exist and could have an effect on our financial position (in thousands, except contract amounts).

	February 29, 2016 (1)		Liabilities	
	Assets Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts:				
Exchange-traded	\$ 517	37,308	\$ 157	57,663
Cleared OTC	3,935,958	2,978	3,946,991	2,943
Bilateral OTC	851,824	2,068	727,533	683
Foreign exchange contracts:				
Exchange-traded	—	480	—	436
Bilateral OTC	466,668	10,332	477,380	9,520
Equity contracts:				
Exchange-traded	806,754	2,604,349	927,251	2,230,202
Bilateral OTC	77,970	899	71,604	1,067
Commodity contracts:				
Exchange-traded	—	2,498	—	1,718
Bilateral OTC	11,213	15	2,124	14
Credit contracts:				
Cleared OTC	400	10	276	11
Bilateral OTC	31,567	115	52,493	92
Total gross derivative assets/ liabilities:				
Exchange-traded	807,271		927,408	
Cleared OTC	3,936,358		3,947,267	
Bilateral OTC	1,439,242		1,331,134	
Amounts offset in the Consolidated Statements of Financial Condition (2):				
Exchange-traded	(775,729 )		(775,729 )	
Cleared OTC	(3,906,560 )		(3,906,560 )	
Bilateral OTC	(1,168,514 )		(1,196,901 )	
Net amounts per Consolidated Statements of Financial Condition (3)	\$ 332,068		\$ 326,619	

Exchange traded derivatives include derivatives executed on an organized exchange. Cleared OTC derivatives (1) include derivatives executed bilaterally and subsequently novated to and cleared through central clearing counterparties. Bilateral OTC derivatives include derivatives executed and settled bilaterally without the use of an organized exchange or central clearing counterparty.

(2) Amounts netted include both netting by counterparty and for cash collateral paid or received.

We have not received or pledged additional collateral under master netting agreements and/or other credit support (3) agreements that is eligible to be offset beyond what has been offset in the Consolidated Statements of Financial Condition.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	November 30, 2015 (1)			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Interest rate contracts:				
Exchange-traded	\$998	52,605	\$364	70,672
Cleared OTC	2,213,730	2,742	2,202,836	2,869
Bilateral OTC	695,365	1,401	646,758	1,363
Foreign exchange contracts:				
Exchange-traded	—	441	—	112
Bilateral OTC (4)	453,202	7,646	466,021	7,264
Equity contracts:				
Exchange-traded	955,287	3,054,315	1,004,699	2,943,657
Bilateral OTC	61,004	1,039	81,085	1,070
Commodity contracts:				
Exchange-traded	—	1,726	—	1,684
Bilateral OTC (4)	19,342	29	4,628	28
Credit contracts:				
Cleared OTC	621	39	841	44
Bilateral OTC	16,977	100	59,314	135
Total gross derivative assets/liabilities:				
Exchange-traded	956,285		1,005,063	
Cleared OTC	2,214,351		2,203,677	
Bilateral OTC	1,245,890		1,257,806	
Amounts offset in the Consolidated Statements of Financial Condition (2):				
Exchange-traded	(938,482 )		(938,482 )	
Cleared OTC	(2,184,438 )		(2,184,438 )	
Bilateral OTC	(1,042,526 )		(1,135,078 )	
Net amounts per Consolidated Statements of Financial Condition (3)	\$251,080		\$208,548	

(1) Exchange traded derivatives include derivatives executed on an organized exchange. Cleared OTC derivatives include derivatives executed bilaterally and subsequently novated to and cleared through central clearing counterparties. Bilateral OTC derivatives include derivatives executed and settled bilaterally without the use of an organized exchange or central clearing counterparty.

(2) Amounts netted include both netting by counterparty and for cash collateral paid or received.

(3) We have not received or pledged additional collateral under master netting agreements and/or other credit support agreements that is eligible to be offset beyond what has been offset in the Consolidated Statements of Financial Condition.

(4) Bilateral OTC commodity contracts increased in assets by a fair value of \$19.3 million and by 29 contracts and in liabilities by a fair value of \$4.6 million and by 28 contracts with corresponding decreases in bilateral OTC foreign exchange contracts from those amounts previously reported to correct for the classification of certain contracts.

The total amount of bilateral OTC contracts remained unchanged.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following table presents unrealized and realized gains (losses) on derivative contracts:

Gains (Losses)	Three Months Ended	
	February 29, 2016	February 28, 2015
Interest rate contracts	\$(72,525	) \$(42,793
Foreign exchange contracts	1,589	15,172
Equity contracts	(225,666	) 71,041
Commodity contracts	(1,875	) 14,491
Credit contracts	(12,889	) (6,042
Total	\$(311,366	) \$51,869

OTC Derivatives. The following tables set forth by remaining contract maturity the fair value of OTC derivative assets and liabilities at February 29, 2016 (in thousands):

	OTC Derivative Assets (1) (2) (3)				Total	
	0 – 12 Months	1 – 5 Years	Greater Than 5 Years	Cross-Maturity Netting (4)		
Commodity swaps, options and forwards	\$2,124	\$9,089	\$—	\$—	\$11,213	
Equity swaps and options	35,094	2,870	—	—	37,964	
Credit default swaps	—	6,472	—	(85	) 6,387	
Total return swaps	24,628	297	—	(215	) 24,710	
Foreign currency forwards, swaps and options	69,199	20,257	—	(8,067	) 81,389	
Interest rate swaps, options and forwards	84,106	188,839	113,854	(76,104	) 310,695	
Total	\$215,151	\$227,824	\$113,854	\$(84,471	) 472,358	
Cross product counterparty netting					(6,972	)
Total OTC derivative assets included in Financial instruments owned					\$465,386	

(1) At February 29, 2016, we held exchange traded derivative assets and other credit agreements with a fair value of \$36.1 million, which are not included in this table.

(2) OTC derivative assets in the table above are gross of collateral received. OTC derivative assets are recorded net of collateral received on the Consolidated Statements of Financial Condition. At February 29, 2016, cash collateral received was \$169.4 million.

(3) Derivative fair values include counterparty netting within product category.

(4) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.

	OTC Derivative Liabilities (1) (2) (3)				Total
	0 – 12 Months	1 – 5 Years	Greater Than 5 Years	Cross-Maturity Netting (4)	
Commodity swaps, options and forwards	\$2,124	\$—	\$—	\$—	\$2,124
Equity swaps and options	7,929	20,068	617	—	28,614
Credit default swaps	—	8,421	1,094	(85	) 9,430
Total return swaps	16,379	4,124	—	(215	) 20,288
Foreign currency forwards, swaps and options	86,133	14,085	—	(8,067	) 92,151

Edgar Filing: Jefferies Group LLC - Form 10-Q

Fixed income forwards	7,405	—	—	—	7,405
Interest rate swaps, options and forwards	48,138	102,141	127,194	(76,104 )	201,369
Total	\$168,108	\$148,839	\$128,905	\$ (84,471 )	361,381
Cross product counterparty netting					(6,972 )
Total OTC derivative liabilities included in Financial					\$354,409
instruments sold, not yet purchased					

35

---

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

(1) At February 29, 2016, we held exchange traded derivative liabilities and other credit agreements with a fair value of \$170.0 million, which are not included in this table.

OTC derivative liabilities in the table above are gross of collateral pledged. OTC derivative liabilities are recorded (2) net of collateral pledged on the Consolidated Statements of Financial Condition. At February 29, 2016, cash collateral pledged was \$197.8 million.

(3) Derivative fair values include counterparty netting within product category.

(4) Amounts represent the netting of receivable balances with payable balances for the same counterparty within product category across maturity categories.

At February 29, 2016, the counterparty credit quality with respect to the fair value of our OTC derivatives assets was as follows (in thousands):

Counterparty credit quality (1):

A- or higher	\$217,164
BBB- to BBB+	84,878
BB+ or lower	71,655
Unrated	91,689
Total	\$465,386

We utilize internal credit ratings determined by our Risk Management. Credit ratings determined by Risk (1) Management use methodologies that produce ratings generally consistent with those produced by external rating agencies.

Contingent Features

Certain of our derivative instruments contain provisions that require our debt to maintain an investment grade credit rating from each of the major credit rating agencies. If our debt were to fall below investment grade, it would be in violation of these provisions and the counterparties to the derivative instruments could request immediate payment or demand immediate and ongoing full overnight collateralization on our derivative instruments in liability positions. The aggregate fair value of all derivative instruments with such credit-risk-related contingent features that are in a liability position at February 29, 2016 and November 30, 2015 is \$139.3 million and \$114.5 million, respectively, for which we have posted collateral of \$77.3 million and \$97.2 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on February 29, 2016 and November 30, 2015, we would have been required to post an additional \$68.0 million and \$19.7 million, respectively, of collateral to our counterparties.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Note 6. Collateralized Transactions

We enter into secured borrowing and lending arrangements to obtain collateral necessary to effect settlement, finance inventory positions, meet customer needs or re-lend as part of our dealer operations. We monitor the fair value of the securities loaned and borrowed on a daily basis as compared with the related payable or receivable, and request additional collateral or return excess collateral, as appropriate. We pledge financial instruments as collateral under repurchase agreements, securities lending agreements and other secured arrangements, including clearing arrangements. Our agreements with counterparties generally contain contractual provisions allowing the counterparty the right to sell or repledge the collateral. Pledged securities owned that can be sold or repledged by the counterparty are included within Financial instruments owned and noted parenthetically as Securities pledged on our Consolidated Statements of Financial Condition.

The following tables set forth the carrying value of securities lending arrangements and repurchase agreements by class of collateral pledged (in thousands):

	February 29, 2016		
	Securities Lending Arrangements	Repurchase Agreements	Total
Collateral Pledged:			
Corporate equity securities	\$2,102,900	\$169,750	\$2,272,650
Corporate debt securities	524,824	1,542,462	2,067,286
Mortgage- and asset-backed securities	—	2,956,153	2,956,153
U.S. government and federal agency securities	42,887	7,543,014	7,585,901
Municipal securities	—	429,167	429,167
Sovereign obligations	—	1,897,266	1,897,266
Loans and other receivables	—	441,170	441,170
Total	\$2,670,611	\$14,978,982	\$17,649,593
	November 30, 2015		
	Securities Lending Arrangements	Repurchase Agreements	Total
Collateral Pledged:			
Corporate equity securities	\$2,195,912	\$275,880	\$2,471,792
Corporate debt securities	748,405	1,752,222	2,500,627
Mortgage- and asset-backed securities	—	3,537,812	3,537,812
U.S. government and federal agency securities	34,983	12,006,081	12,041,064
Municipal securities	—	357,350	357,350
Sovereign obligations	—	1,804,103	1,804,103
Loans and other receivables	—	462,534	462,534
Total	\$2,979,300	\$20,195,982	\$23,175,282

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following tables set forth the carrying value of securities lending arrangements and repurchase agreements by remaining contractual maturity (in thousands):

	February 29, 2016				Total
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	
Securities lending arrangements	\$1,391,681	\$—	\$1,278,930	\$—	\$2,670,611
Repurchase agreements	7,216,429	2,937,670	3,856,051	968,832	14,978,982
Total	\$8,608,110	\$2,937,670	\$5,134,981	\$968,832	\$17,649,593

  

	November 30, 2015				Total
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	
Securities lending arrangements	\$1,522,475	\$—	\$973,201	\$483,624	\$2,979,300
Repurchase agreements	7,850,791	5,218,059	5,291,729	1,835,403	20,195,982
Total	\$9,373,266	\$5,218,059	\$6,264,930	\$2,319,027	\$23,175,282

We receive securities as collateral under resale agreements, securities borrowing transactions and customer margin loans. We also receive securities as collateral in connection with securities-for-securities transactions in which we are the lender of securities. In many instances, we are permitted by contract or custom to rehypothecate the securities received as collateral. These securities may be used to secure repurchase agreements, enter into securities lending transactions, satisfy margin requirements on derivative transactions or cover short positions. At February 29, 2016 and November 30, 2015, the approximate fair value of securities received as collateral by us that may be sold or repledged was \$22.6 billion and \$26.2 billion, respectively. At February 29, 2016 and November 30, 2015, a substantial portion of the securities received by us had been sold or repledged.

Offsetting of Securities Financing Agreements

To manage our exposure to credit risk associated with securities financing transactions, we may enter into master netting agreements and collateral arrangements with counterparties. Generally, transactions are executed under standard industry agreements, including, but not limited to, master securities lending agreements (securities lending transactions) and master repurchase agreements (repurchase transactions). A master agreement creates a single contract under which all transactions between two counterparties are executed allowing for trade aggregation and a single net payment obligation. Master agreements provide protection in bankruptcy in certain circumstances and, where legally enforceable, enable receivables and payables with the same counterparty to be settled or otherwise eliminated by applying amounts due against all or a portion of an amount due from the counterparty or a third party. In addition, we enter into customized bilateral trading agreements and other customer agreements that provide for the netting of receivables and payables with a given counterparty as a single net obligation.

In the event of the counterparty's default, provisions of the master agreement permit acceleration and termination of all outstanding transactions covered by the agreement such that a single amount is owed by, or to, the non-defaulting party. In addition, any collateral posted can be applied to the net obligations, with any excess returned; and the collateralized party has a right to liquidate the collateral. Any residual claim after netting is treated along with other unsecured claims in bankruptcy court.

The conditions supporting the legal right of offset may vary from one legal jurisdiction to another and the enforceability of master netting agreements and bankruptcy laws in certain countries or in certain industries is not free from doubt. The right of offset is dependent both on contract law under the governing arrangement and consistency with the bankruptcy laws of the jurisdiction where the counterparty is located. Industry legal opinions with respect to the enforceability of certain standard provisions in respective jurisdictions are relied upon as a part of managing credit risk. Master netting agreements are a critical component of our risk management processes as part of reducing counterparty credit risk and managing liquidity risk.

We are also a party to clearing agreements with various central clearing parties. Under these arrangements, the central clearing counterparty facilitates settlement between counterparties based on the net payable owed or receivable due and, with respect to daily settlement, cash is generally only required to be deposited to the extent of the net amount. In the event of default, a net

38

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

termination amount is determined based on the market values of all outstanding positions and the clearing organization or clearing member provides for the liquidation and settlement of the net termination amount among all counterparties to the open repurchase and/or securities lending transactions.

The following tables provide information regarding repurchase agreements and securities borrowing and lending arrangements that are recognized in the Consolidated Statements of Financial Condition and 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the Consolidated Statements of Financial Condition as appropriate under U.S. GAAP and 2) the extent to which other rights of setoff associated with these arrangements exist and could have an effect on our financial position (in thousands).

February 29, 2016

	Gross Amounts	Netting in Consolidated Statement of Financial Condition	Net Amounts in Consolidated Statement of Financial Condition	Additional Amounts Available for Setoff (1)	Available Collateral (2)	Net Amount (3)
<b>Assets</b>						
Securities borrowing arrangements	\$7,347,587	\$—	\$ 7,347,587	\$(533,115 )	\$(623,574 )	\$ 6,190,898
Reverse repurchase agreements	10,253,312	(6,726,626 )	3,526,686	(151,575 )	(3,345,710 )	29,401
<b>Liabilities</b>						
Securities lending arrangements	\$2,670,611	\$—	\$ 2,670,611	\$(533,115 )	\$(2,096,442 )	\$ 41,054
Repurchase agreements	14,978,982	(6,726,626 )	8,252,356	(151,575 )	(6,323,605 )	1,777,176

November 30, 2015

	Gross Amounts	Netting in Consolidated Statement of Financial Condition	Net Amounts in Consolidated Statement of Financial Condition	Additional Amounts Available for Setoff (1)	Available Collateral (2)	Net Amount (4)
<b>Assets</b>						
Securities borrowing arrangements	\$6,975,136	\$—	\$ 6,975,136	\$(478,991 )	\$(667,099 )	\$ 5,829,046
Reverse repurchase agreements	14,048,860	(10,191,554)	3,857,306	(83,452 )	(3,745,215 )	28,639
<b>Liabilities</b>						
Securities lending arrangements	\$2,979,300	\$—	\$ 2,979,300	\$(478,991 )	\$(2,464,395 )	\$ 35,914
Repurchase agreements	20,195,982	(10,191,554)	10,004,428	(83,452 )	(8,103,468 )	1,817,508

Under master netting agreements with our counterparties, we have the legal right of offset with a counterparty, which incorporates all of the counterparty's outstanding rights and obligations under the arrangement. These (1) balances reflect additional credit risk mitigation that is available by counterparty in the event of a counterparty's default, but which are not netted in the balance sheet because other netting provisions of U.S. GAAP are not met. Includes securities received or paid under collateral arrangements with counterparties that could be liquidated in (2) the event of a counterparty default and thus offset against a counterparty's rights and obligations under the respective repurchase agreements or securities borrowing or lending arrangements.

Edgar Filing: Jefferies Group LLC - Form 10-Q

(3) Amounts include \$6,158.2 million of securities borrowing arrangements, for which we have received securities collateral of \$5,970.0 million, and \$1,767.0 million of repurchase agreements, for which we have pledged securities collateral of \$1,823.3 million, which are subject to master netting agreements but we have not determined the agreements to be legally enforceable.

(4) Amounts include \$5,796.1 million of securities borrowing arrangements, for which we have received securities collateral of \$5,613.3 million, and \$1,807.2 million of repurchase agreements, for which we have pledged securities collateral of \$1,875.3, which are subject to master netting agreements but we have not determined the agreements to be legally enforceable.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Cash and Securities Segregated and on Deposit for Regulatory Purposes or Deposited with Clearing and Depository Organizations

Cash and securities deposited with clearing and depository organizations and segregated in accordance with regulatory regulations totaled \$679.8 million and \$751.1 million at February 29, 2016 and November 30, 2015, respectively. Segregated cash and securities consist of deposits in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, which subjects Jefferies as a broker-dealer carrying customer accounts to requirements related to maintaining cash or qualified securities in segregated special reserve bank accounts for the exclusive benefit of its customers.

## Note 7. Securitization Activities

We engage in securitization activities related to corporate loans, commercial mortgage loans, consumer loans and mortgage-backed and other asset-backed securities. In our securitization transactions, we transfer these assets to special purpose entities (“SPEs”) and act as the placement or structuring agent for the beneficial interests sold to investors by the SPE. A significant portion of our securitization transactions are securitization of assets issued or guaranteed by U.S. government agencies. These SPEs generally meet the criteria of variable interest entities; however we generally do not consolidate the SPEs as we are not considered the primary beneficiary for these SPEs. See Note 8, Variable Interest Entities, for further discussion on variable interest entities and our determination of the primary beneficiary.

We account for our securitization transactions as sales provided we have relinquished control over the transferred assets. Transferred assets are carried at fair value with unrealized gains and losses reflected in Principal transactions revenues in the Consolidated Statement of Earnings prior to the identification and isolation for securitization. Subsequently, revenues recognized upon securitization are reflected as net underwriting revenues. We generally receive cash proceeds in connection with the transfer of assets to an SPE. We may, however, have continuing involvement with the transferred assets, which is limited to retaining one or more tranches of the securitization (primarily senior and subordinated debt securities in the form of mortgage- and other-asset backed securities or collateralized loan obligations), which are included within Financial instruments owned and are generally initially categorized as Level 2 within the fair value hierarchy. We apply fair value accounting to the securities.

The following table presents activity related to our securitizations that were accounted for as sales in which we had continuing involvement (in millions):

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Transferred assets	\$1,948.9	\$1,562.9
Proceeds on new securitizations	1,962.7	1,564.5
Cash flows received on retained interests	9.6	2.4

We have no explicit or implicit arrangements to provide additional financial support to these SPEs, have no liabilities related to these SPEs and do not have any outstanding derivative contracts executed in connection with these securitization activities at February 29, 2016 and November 30, 2015.

The following tables summarize our retained interests in SPEs where we transferred assets and have continuing involvement and received sale accounting treatment (in millions):

Securitization Type	February 29, 2016	
	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	\$11,455.8	\$ 270.0
U.S. government agency commercial mortgage-backed securities	2,598.3	78.0
Collateralized loan obligations	4,514.4	40.5

Consumer and other loans	1,250.8	108.1
--------------------------	---------	-------

40

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Securitization Type	November 30, 2015	
	Total Assets	Retained Interests
U.S. government agency residential mortgage-backed securities	\$10,901.9	\$ 203.6
U.S. government agency commercial mortgage-backed securities	2,313.4	87.2
Collateralized loan obligations	4,538.4	51.5
Consumer and other loans	655.0	31.0

Total assets represent the unpaid principal amount of assets in the SPEs in which we have continuing involvement and are presented solely to provide information regarding the size of the transaction and the size of the underlying assets supporting our retained interests, and are not considered representative of the risk of potential loss. Assets retained in connection with a securitization transaction represent the fair value of the securities of one or more tranches issued by an SPE, including senior and subordinated tranches. Our risk of loss is limited to this fair value amount which is included within total Financial instruments owned on our Consolidated Statements of Financial Condition.

Although not obligated, in connection with secondary market-making activities we may make a market in the securities issued by these SPEs. In these market-making transactions, we buy these securities from and sell these securities to investors. Securities purchased through these market-making activities are not considered to be continuing involvement in these SPEs, although the securities are included in Financial instruments owned. To the extent we purchased securities through these market-making activities and we are not deemed to be the primary beneficiary of the variable interest entity, these securities are included in agency and non-agency mortgage- and asset-backed securitizations in the nonconsolidated variable interest entities section presented in Note 8, Variable Interest Entities.

## Note 8. Variable Interest Entities

Variable interest entities (“VIEs”) are entities in which equity investors lack the characteristics of a controlling financial interest. VIEs are consolidated by the primary beneficiary. The primary beneficiary is the party who has both (1) the power to direct the activities of a variable interest entity that most significantly impact the entity’s economic performance and (2) an obligation to absorb losses of the entity or a right to receive benefits from the entity that could potentially be significant to the entity.

Our variable interests in VIEs include debt and equity interests, commitments, guarantees and certain fees. Our involvement with VIEs arises primarily from:

- Purchases of securities in connection with our trading and secondary market making activities,
- Retained interests held as a result of securitization activities, including the resecuritization of mortgage- and other asset-backed securities and the securitization of commercial mortgage, corporate and consumer loans,
- Acting as placement agent and/or underwriter in connection with client-sponsored securitizations,
- Financing of agency and non-agency mortgage- and other asset-backed securities,
- Warehousing funding arrangements for client-sponsored consumer loan vehicles and collateralized loan obligations (“CLOs”) through participation certificates and revolving loan and note commitments, and
- Loans to, investments in and fees from various investment vehicles.

We determine whether we are the primary beneficiary of a VIE upon our initial involvement with the VIE and we reassess whether we are the primary beneficiary of a VIE on an ongoing basis. Our determination of whether we are the primary beneficiary of a VIE is based upon the facts and circumstances for each VIE and requires significant judgment. Our considerations in determining the VIE’s most significant activities and whether we have power to direct those activities include, but are not limited to, the VIE’s purpose and design and the risks passed through to investors, the voting interests of the VIE, management, service and/or other agreements of the VIE, involvement in the VIE’s initial design and the existence of explicit or implicit financial guarantees. In situations where we have determined that the power over the VIE’s significant activities is shared, we assess whether we are the party with the power over



the most significant activities. If we are the party with the power over the most significant activities, we meet the “power” criteria of the primary beneficiary. If we do not have the power over the most significant activities or we determine that decisions require consent of each sharing party, we do not meet the “power” criteria of the primary beneficiary.

41

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

We assess our variable interests in a VIE both individually and in aggregate to determine whether we have an obligation to absorb losses of or a right to receive benefits from the VIE that could potentially be significant to the VIE. The determination of whether our variable interest is significant to the VIE requires significant judgment. In determining the significance of our variable interest, we consider the terms, characteristics and size of the variable interests, the design and characteristics of the VIE, our involvement in the VIE and our market-making activities related to the variable interests.

## Consolidated VIEs

The following table presents information about our consolidated VIEs at February 29, 2016 and November 30, 2015 (in millions). The assets and liabilities in the tables below are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation.

	February 29, 2016			November 30, 2015	
	Securitization Vehicles	Aircraft Financing Vehicle	Other	Securitization Vehicles	Other
Cash	\$1.0	—	\$1.5	\$0.5	\$1.5
Financial instruments owned	79.1	—	0.6	68.3	0.6
Securities purchased under agreement to resell (1)	878.1	—	—	717.3	—
Aircraft (3)	—	27.3	—	—	—
Fees, interest and other receivables	0.5	—	0.2	0.3	0.2
	\$958.7	27.3	\$2.3	\$786.4	\$2.3
Other secured financings (2)	\$956.6	—	\$—	\$785.0	\$—
Long-term debt	—	22.7	—	—	—
Other liabilities	2.1	1.7	0.2	1.4	0.3
	\$958.7	24.4	\$0.2	\$786.4	\$0.3

(1) Securities purchased under agreement to resell represent an amount due under a collateralized transaction on a related consolidated entity, which is eliminated in consolidation.

(2) Approximately \$59.3 million and \$22.1 million of the secured financing represents an amount held by us in inventory and is eliminated in consolidation at February 29, 2016 and November 30, 2015, respectively.

(3) Aircraft included within Other assets in the Consolidated Statements of Financial Condition.

Securitization Vehicles. We are the primary beneficiary of securitization vehicles associated with our financing of consumer and small business loans. In the creation of the securitization vehicles, we were involved in the decisions made during the establishment and design of the entities and hold variable interests consisting of the securities retained that could potentially be significant. The assets of the VIEs consist of the small business loans and term loans backed by consumer installment receivables, which are available for the benefit of the vehicles' beneficial interest holders. The creditors of the VIEs do not have recourse to our general credit and the assets of the VIEs are not available to satisfy any other debt.

We are also the primary beneficiary of mortgage-backed financing vehicles to which we sell agency and non-agency residential and commercial mortgage loans and mortgage-backed securities pursuant to the terms of a master repurchase agreement. We manage the assets within these vehicles. Our variable interests in these vehicles consist of our collateral margin maintenance obligations under the master repurchase agreement. The assets of these VIEs consist of reverse repurchase agreements, which are available for the benefit of the vehicle's debt holders. The creditors of these VIEs do not have recourse to our general credit and each such VIE's assets are not available to satisfy any other debt.

**Aircraft Financing Vehicle.** We are the primary beneficiary of a secured financing vehicle associated with the purchase and lease of five aircraft. We are the owner participant and maintain an equity interest in the vehicle and were involved in the decisions made during the purchase of the aircraft and the establishment of the terms of the leases. The assets of the VIE primarily consist of the aircraft and related operating leases, which are available for the benefit of the vehicle's debt holders. The creditors of the VIE do not have recourse to our general credit and the VIE's assets are not available to satisfy any other debt.

**Other.** We are the primary beneficiary of certain investment vehicles set up for the benefit of our employees. We manage and invest alongside our employees in these vehicles. The assets of these VIEs consist of private equity securities, and are available for the

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

benefit of the entities' equity holders. Our variable interests in these vehicles consist of equity securities. The creditors of these VIEs do not have recourse to our general credit and each such VIE's assets are not available to satisfy any other debt.

## Nonconsolidated VIEs

The following tables present information about our variable interests in nonconsolidated VIEs (in millions):

	February 29, 2016		Maximum	
	Carrying Amount		Exposure to loss	VIE Assets
	Assets	Liabilities		
Collateralized loan obligations	\$64.3	\$2.7	\$ 690.1	\$5,839.4
Consumer loan vehicles	304.5	—	963.4	1,676.1
Related party private equity vehicles	37.1	0.1	63.2	153.9
Other private investment vehicles	35.8	—	37.4	3,850.7
Total	\$441.7	\$2.8	\$ 1,754.1	\$11,520.1

  

	November 30, 2015		Maximum	
	Carrying Amount		Exposure to loss	VIE Assets
	Assets	Liabilities		
Collateralized loan obligations	\$73.6	\$0.2	\$ 458.1	\$6,368.7
Consumer loan vehicles	188.3	—	845.8	1,133.0
Related party private equity vehicles	39.3	—	65.8	168.2
Other private investment vehicles	51.3	—	52.8	4,312.0
Total	\$352.5	\$0.2	\$ 1,422.5	\$11,981.9

Our maximum exposure to loss often differs from the carrying value of the variable interests. The maximum exposure to loss is dependent on the nature of our variable interests in the VIEs and is limited to the notional amounts of certain loan and equity commitments and guarantees. Our maximum exposure to loss does not include the offsetting benefit of any financial instruments that may be utilized to hedge the risks associated with our variable interests and is not reduced by the amount of collateral held as part of a transaction with a VIE.

Collateralized Loan Obligations. Assets collateralizing the CLOs include bank loans, participation interests and sub-investment grade and senior secured U.S. loans. We underwrite securities issued in CLO transactions on behalf of sponsors and provide advisory services to the sponsors. We may also sell corporate loans to the CLOs. Our variable interests in connection with collateralized loan obligations where we have been involved in providing underwriting and/or advisory services consist of the following:

- Forward sale agreements whereby we commit to sell, at a fixed price, corporate loans and ownership interests in an entity holding such corporate loans to CLOs,
- Warehouse funding arrangements in the form of participation interests in corporate loans held by CLOs and commitments to fund such participation interests,
- Trading positions in securities issued in a CLO transaction,
- Investments in variable funding notes issued by CLOs,
- A guarantee to a CLO managed by Jefferies Finance, LLC ("Jefferies Finance"), whereby we guarantee certain of the obligations of Jefferies Finance to the CLO.

In addition, we own variable interests in CLOs previously managed by us. Our variable interests consist of debt securities and a right to a portion of the CLOs' management and incentive fees. Our exposure to loss from these CLOs is limited to our investments in the debt securities held. Management and incentive fees are accrued as the amounts become realizable. These CLOs represent interests in assets consisting primarily of senior secured loans, unsecured

loans and high yield bonds.

43

---

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

**Consumer Loan Vehicles.** We provide financing and lending related services to certain client-sponsored VIEs in the form of revolving funding note agreements, revolving credit facilities and forward purchase agreements. The underlying assets, which are collateralizing the vehicles, are primarily comprised of unsecured consumer and small business loans. In addition, we may provide structuring and advisory services and act as an underwriter or placement agent for securities issued by the vehicles. We do not control the activities of these entities.

**Related Party Private Equity Vehicles.** We have committed to invest equity in private equity funds (the "JCP Funds") managed by Jefferies Capital Partners, LLC (the "JCP Manager"). Additionally, we have committed to invest equity in the general partners of the JCP Funds (the "JCP General Partners") and the JCP Manager. Our variable interests in the JCP Funds, JCP General Partners and JCP Manager (collectively, the "JCP Entities") consist of equity interests which, in total, provide us with limited and general partner investment returns of the JCP Funds, a portion of the carried interest earned by the JCP General Partners and a portion of the management fees earned by the JCP Manager. Our total equity commitment in the JCP Entities is \$148.1 million, of which \$124.9 million and \$124.6 million was funded as of February 29, 2016 and November 30, 2015, respectively. The carrying value of our equity investments in the JCP Entities was \$37.1 million and \$39.3 million at February 29, 2016 and November 30, 2015, respectively. Our exposure to loss is limited to our equity commitment. The assets of the JCP Entities primarily consist of private equity and equity related investments.

We have also provided a guarantee of a portion of Energy Partners I, LP's obligations under a credit agreement.

Energy Partners I, LP, is a private equity fund owned and managed by our employees. The maximum exposure to loss of the guarantee was \$3.0 million at February 29, 2016 and November 30, 2015. Energy Partners I, LP, has assets consisting primarily of debt and equity investments.

**Other Private Investments Vehicles.** We have equity commitments to invest \$50.8 million in various other private investment vehicles, of which \$49.3 million and \$49.3 million was funded as of February 29, 2016 and November 30, 2015, respectively. The carrying value of our equity investments was \$35.8 million and \$51.3 million at February 29, 2016 and November 30, 2015, respectively. Our exposure to loss is limited to our equity commitment. These private investment vehicles have assets primarily consisting of private and public equity investments, debt instruments and various oil and gas assets.

**Mortgage- and Other Asset-Backed Securitization Vehicles.** In connection with our secondary trading and market making activities, we buy and sell agency and nonagency mortgage-backed securities and other asset-backed securities, which are issued by third party securitization SPEs and are generally considered variable interests in VIEs. Securities issued by securitization SPEs are backed by residential mortgage loans, U.S. agency collateralized mortgage obligations, commercial mortgage loans, collateralized debt obligations and CLOs and other consumer loans, such as installment receivables, auto loans and student loans. These securities are accounted for at fair value and included in Financial instruments owned on our Consolidated Statements of Financial Condition. We have no other involvement with the related SPEs and therefore do not consolidate these entities.

We also engage in underwriting, placement and structuring activities for third-party-sponsored securitization trusts generally through agency (Fannie Mae, Freddie Mac and Ginnie Mae) or nonagency sponsored SPEs and may purchase loans or mortgage-backed securities from third parties that are subsequently transferred into the securitization trusts. The securitizations are backed by residential and commercial mortgage, home equity and auto loans. We do not consolidate agency sponsored securitizations as we do not have the power to direct the activities of the SPEs that most significantly impact their economic performance. Further, we are not the servicer of nonagency-sponsored securitizations and therefore do not have power to direct the most significant activities of the SPEs and accordingly, do not consolidate these entities. We may retain unsold senior and/or subordinated interests at the time of securitization in the form of securities issued by the SPEs.

We transfer existing securities, typically mortgage-backed securities, into resecuritization vehicles. These transactions in which debt securities are transferred to a VIE in exchange for new beneficial interests occur in connection with both

agency and nonagency sponsored VIEs. Our consolidation analysis is largely dependent on our role and interest in the resecuritization trusts. Most resecuritizations in which we are involved are in connection with investors seeking securities with specific risk and return characteristics. As such, we have concluded that the decision-making power is shared between us and the investor(s), considering the joint efforts involved in structuring the trust and selecting the underlying assets as well as the level of security interests the investor(s) hold in the SPE; therefore, we do not consolidate the resecuritization VIEs.

At February 29, 2016 and November 30, 2015, we held \$2,709.7 million and \$3,359.1 million of agency mortgage-backed securities, respectively, and \$559.9 million and \$630.5 million of nonagency mortgage- and other asset-backed securities, respectively, as a

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

result of our secondary trading and market making activities, underwriting, placement and structuring activities and securitization activities. Our maximum exposure to loss on these securities is limited to the carrying value of our investments in these securities. Mortgage- and other asset-backed securitization vehicles discussed within this section are not included in the above table containing information about our variable interests in nonconsolidated VIEs.

## Note 9. Investments

We have investments in Jefferies Finance and Jefferies LoanCore LLC (“Jefferies LoanCore”). Our investments in Jefferies Finance and Jefferies LoanCore are accounted for under the equity method and are included in Loans to and investments in related parties on the Consolidated Statements of Financial Condition with our share of the investees’ earnings recognized in Other revenues in the Consolidated Statements of Earnings. We have limited partnership interests of 11% and 50% in Jefferies Capital Partners V L.P. and the SBI USA Fund L.P. (together, “JCP Fund V”), respectively, which are private equity funds managed by a team led by Brian P. Friedman, one of our directors and our Chairman of the Executive Committee.

## Jefferies Finance

On October 7, 2004, we entered into an agreement with Massachusetts Mutual Life Insurance Company (“MassMutual”) and Babson Capital Management LLC to form Jefferies Finance, a joint venture entity. Jefferies Finance is a commercial finance company whose primary focus is the origination and syndication of senior secured debt to middle market and growth companies in the form of term and revolving loans. Loans are originated primarily through the investment banking efforts of Jefferies. Jefferies Finance may also originate other debt products such as second lien term, bridge and mezzanine loans, as well as related equity co-investments. Jefferies Finance also purchases syndicated loans in the secondary market.

At February 29, 2016, we and MassMutual each have equity commitments to Jefferies Finance of \$600.0 million for a combined total commitment of \$1.2 billion. At February 29, 2016, we have funded \$474.4 million of our \$600.0 million commitment, leaving \$125.6 million unfunded. The investment commitment is scheduled to expire on March 1, 2016 with automatic one year extensions absent a 60 day termination notice by either party.

Jefferies Finance has executed a Secured Revolving Credit Facility with us and MassMutual, to be funded equally, to support loan underwritings by Jefferies Finance. The Secured Revolving Credit Facility bears interest based on the interest rates of the related Jefferies Finance underwritten loans and is secured by the underlying loans funded by the proceeds of the facility. During the third quarter of 2015, the Secured Revolving Credit Facility was modified and reduced from a committed and discretionary total of \$1.0 billion to a total committed amount of \$500.0 million, at February 29, 2016. Advances are shared equally between us and MassMutual. The facility is scheduled to mature on March 1, 2016 with automatic one year extensions absent a 60 day termination notice by either party. At February 29, 2016 and November 30, 2015, we have funded \$0.0 and \$19.3 million, respectively, of each of our \$250.0 million and \$250.0 million commitments, respectively. During the three months ended February 29, 2016 and February 28, 2015, \$2,000 and \$0.5 million of interest income, respectively, and unfunded commitment fees of \$0.3 million and \$0.4 million, respectively, are included in the Consolidated Statements of Earnings related to the Secured Revolving Credit Facility.

The following is a summary of selected financial information for Jefferies Finance (in millions):

	February 29, 2016	November 30, 2015
Total assets	\$7,086.7	\$7,292.1
Total liabilities	6,137.9	6,297.3
Total equity	948.8	994.8



Edgar Filing: Jefferies Group LLC - Form 10-Q

Our total equity balance	474.4	497.4
--------------------------	-------	-------

The results of Jefferies Finance were a net loss of \$45.9 million and net earnings of \$21.1 million for the three months ended February 29, 2016 and February 28, 2015, respectively.

We engage in debt capital markets transactions with Jefferies Finance related to the originations of loans by Jefferies Finance. In connection with such transactions, we earned fees of \$19.4 million and \$15.6 million during the three months ended February 29, 2016 and February 28, 2015, respectively, recognized in Investment banking revenues in the Consolidated Statements of Earnings.

45

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

In addition, we paid fees to Jefferies Finance in respect of certain loans originated by Jefferies Finance of \$0.7 million during the three months ended February 28, 2015, which are recognized as Business development expenses in the Consolidated Statements of Earnings.

At February 29, 2016 and November 30, 2015, we held securities issued by CLOs managed by Jefferies Finance, which are included within Financial instruments owned, and provided a guarantee whereby we are required to make certain payments to a CLO in the event that Jefferies Finance is unable to meet its obligations to the CLO.

Additionally, we have entered into participation agreements and derivative contracts with Jefferies Finance whose underlying is based on certain securities issued by the CLO. We have recognized revenue of \$1.4 million during the three months ended February 29, 2016, relating to the derivative contracts.

Under a service agreement, we charged Jefferies Finance \$21.1 million and \$27.8 million for services provided during the three months ended February 29, 2016 and February 28, 2015, respectively. Receivables from Jefferies Finance, included within Other assets on the Consolidated Statements of Financial Condition, were \$6.0 million and \$7.8 million at February 29, 2016 and November 30, 2015, respectively.

**Jefferies LoanCore**

On February 23, 2011, we entered into a joint venture agreement with the Government of Singapore Investment Corporation and LoanCore, LLC and formed Jefferies LoanCore, a commercial real estate finance company. Jefferies LoanCore originates and purchases commercial real estate loans throughout the U.S. with the support of the investment banking and securitization capabilities of Jefferies and the real estate and mortgage investment expertise of the Government of Singapore Investment Corporation and LoanCore, LLC. Jefferies LoanCore has aggregate equity commitments of \$600.0 million. At February 29, 2016 and November 30, 2015, we had funded \$184.7 million and \$207.4 million, respectively, of our \$291.0 million equity commitment and have a 48.5% voting interest in Jefferies LoanCore.

The following is a summary of selected financial information for Jefferies LoanCore (in millions):

	February 29, 2016	November 30, 2015
Total assets	\$2,091.1	\$2,069.1
Total liabilities	1,548.6	1,469.8
Total equity	542.5	599.3
Our total equity balance	263.1	290.7

The net earnings of Jefferies LoanCore were \$5.4 million and \$20.0 million for the three months ended February 29, 2016 and February 28, 2015, respectively.

Under a service agreement, we charged Jefferies LoanCore \$47,400 and \$47,400 for the three months ended February 29, 2016 and February 28, 2015, respectively. Receivables from Jefferies LoanCore, included within Other assets on the Consolidated Statements of Financial Condition, were \$15,800 and \$15,800 at February 29, 2016 and November 30, 2015, respectively.

In connection with the securitization of commercial real estate loans originated by Jefferies LoanCore, we earned placement fees of \$0.4 million during the three months ended February 28, 2015.

**JCP Fund V**

The amount of our investments in JCP Fund V included within Investments in managed funds on the Consolidated Statements of Financial Condition was \$26.9 million and \$29.7 million at February 29, 2016 and November 30, 2015, respectively. We account for these investments at fair value based on the NAV of the funds provided by the fund managers (see Note 2, Summary of Significant Accounting Policies). Losses from these investments were \$3.0 million and \$23.5 million for the three months ended February 29, 2016 and February 28, 2015, respectively, and are included in Asset management fees and investment income (loss) from managed funds in the Consolidated Statements of

Earnings.

At February 29, 2016 and November 30, 2015, we were committed to invest equity of up to \$85.0 million in JCP Fund V. At February 29, 2016, our unfunded commitment relating to JCP Fund V was \$11.5 million.

46

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The following is a summary of selected financial information for 100% of JCP Fund V, in which we own effectively 35.2% of the combined equity interests (in thousands):

	December 31, 2015 (1)	September 30, 2015 (1)
Total assets	\$76,555	\$84,417
Total liabilities	99	75
Total partners' capital	76,456	84,342

  

	Three Months Ended December 31, 2015 (1)	Three Months Ended December 31, 2014 (1)
Net increase (decrease) in net assets resulting from operations	\$(7,886	) \$(65,700

Financial information for JCP Fund V within our financial position and results of operations at February 29, 2016 (1) and November 30, 2015 and for the three months ended February 29, 2016 and February 28, 2015 is included based on the presented periods.

## Note 10. Goodwill and Other Intangible Assets

## Goodwill

Goodwill attributed to our reportable segments are as follows (in thousands):

	February 29, 2016	November 30, 2015
Capital Markets	\$1,646,547	\$1,653,588
Asset Management	3,000	3,000
Total goodwill	\$1,649,547	\$1,656,588

The following table is a summary of the changes to goodwill for the three months ended February 29, 2016 (in thousands):

Balance at November 30, 2015	\$1,656,588
Translation adjustments	(7,041
Balance at February 29, 2016	\$1,649,547

## Intangible Assets

The following tables present the gross carrying amount, dispositions, accumulated amortization, net carrying amount and weighted average amortization period of identifiable intangible assets at February 29, 2016 and November 30, 2015 (in thousands):

	February 29, 2016				Weighted average remaining lives (years)
	Gross cost	Disposals (1)	Accumulated amortization	Net carrying amount	
Customer relationships	\$126,672	—	\$(36,520	) \$90,152	12.7
Trade name	129,836	—	(11,129	) 118,707	32.0
Exchange and clearing organization membership interests and registrations	11,849	(1,299	) —	10,550	N/A
	\$268,357	\$(1,299	) \$(47,649	) \$219,409	



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	November 30, 2015			Weighted average remaining lives (years)
	Gross cost	Accumulated amortization	Net carrying amount	
Customer relationships	\$127,667	\$(34,754 )	\$92,913	12.9
Trade name	131,288	(10,315 )	120,973	32.3
Exchange and clearing organization membership interests and registrations	11,897	—	11,897	N/A
	\$270,852	\$(45,069 )	\$225,783	

(1) Activity is related to the sale of certain exchange and clearing organization membership interests in the Futures reporting unit due to the exit of the business.

## Amortization Expense

For finite life intangible assets, aggregate amortization expense amounted to \$3.0 million and \$3.1 million for the three months ended February 29, 2016 and February 28, 2015, respectively. These expenses are included in Other expenses on the Consolidated Statements of Earnings.

The estimated future amortization expense for the five succeeding fiscal years is as follows (in thousands):

Remainder of fiscal 2016	\$9,148
Year ended November 30, 2017	12,198
Year ended November 30, 2018	12,198
Year ended November 30, 2019	12,198
Year ended November 30, 2020	12,198

## Note 11. Short-Term Borrowings

Short-term borrowings at February 29, 2016 and November 30, 2015 include bank loans that are payable on demand and that must be repaid within one year or less, as well as borrowings under revolving loan and credit facilities as follows (in thousands):

	February 29, 2016	November 30, 2015
Bank loans	\$262,000	\$262,000
Secured revolving loan facility	49,885	48,659
	\$311,885	\$310,659

At February 29, 2016, the interest rate on short-term borrowings outstanding is 1.80% per annum. Average daily short-term borrowings outstanding were \$306.2 million and \$39.0 million for three months ended February 29, 2016 and February 28, 2015, respectively. Bank loans are typically overnight loans used to finance financial instruments owned or clearing related balances, but are not part of our systemic funding model and generally bear interest at a spread over the federal funds rate.

On October 29, 2015 we entered into a secured revolving loan facility (“Loan Facility”) with Pacific Western Bank. Pacific Western Bank agrees to make available a revolving loan facility in a maximum principal amount of \$50.0 million in U.S. dollars to purchase eligible receivables that meet certain requirements as defined in the Loan Facility agreement. Interest is based on an annual rate equal to the lesser of the LIBOR rate plus three and three-quarters percent or the maximum rate as defined in the Loan Facility agreement.

On April 23, 2015, we entered into a committed revolving credit facility (“Intraday Credit Facility”) with the Bank of New York Mellon. The Bank of New York Mellon agrees to make revolving intraday credit advances for an aggregate

committed amount of \$500.0 million in U.S. dollars. The term of the Intraday Credit Facility is six months after the closing date, but can be extended for an additional six months upon our request and at the lender's discretion. On October 22, 2015, we amended and restated the Intraday Credit Facility and reduced the aggregate committed amount to \$300.0 million in U.S. dollars and extended the termination

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

date to October 21, 2016, which can be extended for 364 days upon our request and at the lender's discretion. The Intraday Credit Facility contains a financial covenant, which includes a minimum regulatory net capital requirement. Interest is based on the higher of the Federal funds effective rate plus 0.5% or the prime rate. At February 29, 2016, we were in compliance with debt covenants under the Intraday Credit Facility. At February 29, 2016 and November 30, 2015, we did not have any borrowings outstanding under the Intraday Credit Facility.

## Note 12. Long-Term Debt

The following summarizes our long-term debt carrying values (including unamortized discounts and premiums and valuation adjustment, where applicable) at February 29, 2016 and November 30, 2015 (in thousands):

	February 29, 2016	November 30, 2015
<b>Unsecured Long-Term Debt</b>		
5.5% Senior Notes, due March 15, 2016 (effective interest rate of 2.52%)	\$350,434	\$353,025
5.125% Senior Notes, due April 13, 2018 (effective interest rate of 3.46%)	827,217	830,298
8.5% Senior Notes, due July 15, 2019 (effective interest rate of 4.00%)	799,289	806,125
2.375% Euro Medium Term Notes, due May 20, 2020 (effective rate of 2.42%)	542,093	526,436
6.875% Senior Notes, due April 15, 2021 (effective interest rate of 4.40%)	835,085	838,765
2.25% Euro Medium Term Notes, due July 13, 2022 (effective rate of 4.08%)	3,905	3,779
5.125% Senior Notes, due January 20, 2023 (effective interest rate of 4.55%)	620,267	620,890
6.45% Senior Debentures, due June 8, 2027 (effective interest rate of 5.46%)	379,244	379,711
3.875% Convertible Senior Debentures, due November 1, 2029 (effective interest rate of 3.50%) (1)	347,084	347,307
6.25% Senior Debentures, due January 15, 2036 (effective interest rate of 6.03%)	512,649	512,730
6.50% Senior Notes, due January 20, 2043 (effective interest rate of 6.09%)	421,577	421,656
Fixed to Floating Rate Structured Notes, due February 26, 2019	10,494	—
Variable Rate Structured Notes, due February 18, 2028	26,624	—
	<b>\$5,675,962</b>	<b>\$5,640,722</b>
<b>Secured Long-Term Debt</b>		
Class A Notes, Due 2022 (effective interest rate of 6.75%)	\$14,781	\$—
Class B Notes, Due 2022 (effective interest rate of 13.45%)	7,426	—
	\$22,207	\$—
	<b>\$5,698,169</b>	<b>\$5,640,722</b>

The change in fair value of the conversion feature, which is included within Principal transaction revenues in the (1) Consolidated Statements of Earnings, was not material for the three months ended February 29, 2016, and amounted to a gain of \$0.1 million for the three months ended February 28, 2015.

Under our \$2.0 billion Euro Medium Term Note Program, on February 18, 2016, we issued variable rate structured notes with a principal amount of €30.0 million, due 2028, and on February 26, 2016, we issued fixed to floating rate structured notes with a principal amount of €10.0 million, due 2019. These structured notes are carried at fair value with changes in fair value resulting from a change in the instrument-specific credit risk presented in other comprehensive income and changes in fair value resulting from non-credit components recognized in Principal transaction revenues and contain payment terms and redemption values based on the performance of certain interest rate indices. In addition, on January 21, 2016, we issued \$15.0 million of Class A Notes, due 2022, which bear interest at 6.75% per annum and \$7.5 million of Class B Notes, due 2022, which bear interest at 13.45% per annum, secured



by aircraft and related operating leases and which are non-recourse to us.

Our 3.875% convertible debentures due 2029 (principal amount of \$345.0 million) (the “debentures”) remain issued and outstanding and are convertible into common shares of Leucadia. At March 10, 2016, each \$1,000 debenture is currently convertible into 22.5502 shares of Leucadia’s common stock (equivalent to a conversion price of approximately \$44.35 per share of Leucadia’s common stock). The debentures are convertible at the holders’ option any time beginning on August 1, 2029 and convertible at any time if: 1) Leucadia’s common stock price is greater than or equal to 130% of the conversion price for at least 20 trading days

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

in a period of 30 consecutive trading days; 2) if the trading price per debenture is less than 95% of the price of the common stock times the conversion ratio for any 10 consecutive trading days; 3) if the debentures are called for redemption; or 4) upon the occurrence of specific corporate actions. The debentures may be redeemed for par, plus accrued interest, on or after November 1, 2012 if the price of Leucadia's common stock is greater than 130% of the conversion price for at least 20 days in a period of 30 consecutive trading days and we may redeem the debentures for par, plus accrued interest, at our election any time on or after November 1, 2017. Holders may require us to repurchase the debentures for par, plus accrued interest, on November 1, 2017, 2019 and 2024. In addition to ordinary interest, commencing November 1, 2017, contingent interest will accrue at 0.375% if the average trading price of a debenture for five trading days ending on and including the third trading day immediately preceding a six-month interest period equals or exceed \$1,200 per \$1,000 debenture. At March 1, 2013, the conversion option to Leucadia common shares embedded within the debentures meets the definition of a derivative contract, does not qualify to be accounted for within member's equity and is not clearly and closely related to the economic interest rate or credit risk characteristics of our debt. Accordingly, the conversion option is accounted for on a standalone basis at fair value with changes in fair value recognized in Principal transaction revenues and is presented within Long-term debt in the Consolidated Statements of Financial Condition.

## Note 13. Noncontrolling Interests

Noncontrolling interests represent equity interests in consolidated subsidiaries, comprised primarily of asset management entities and investment vehicles set up for the benefit of our employees that are not attributable, either directly or indirectly, to us (i.e., minority interests). The following table presents noncontrolling interests at February 29, 2016 and November 30, 2015 (in thousands):

	February 29, 2016	November 30, 2015
Global Equity Event Opportunity Fund, LLC (1)	\$—	\$26,292
Other	1,220	1,176
Noncontrolling interests	\$1,220	\$27,468

On December 1, 2015, the entity was deconsolidated due to the adoption of ASU No. 2015-02. (See Note 3, Accounting Developments, for further information on the adoption of this guidance.) No gain or loss was recognized upon deconsolidation. Noncontrolling interests attributed to Leucadia were \$26.3 million at November 30, 2015.

## Note 14. Benefit Plans

**U.S. Pension Plan.** We maintain a defined benefit pension plan, Jefferies Group LLC Employees' Pension Plan (the "U.S. Pension Plan"), which is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended, and covers certain of our employees. Under the U.S. Pension Plan, benefits to participants are based on years of service and the employee's career average pay. Effective December 31, 2005, benefits under the U.S. Pension Plan were frozen with no further benefit accruing to participants for future service after December 31, 2005.

**German Pension Plan.** In connection with the acquisition of Jefferies Bache from Prudential on July 1, 2011, we acquired a defined benefits pension plan located in Germany (the "German Pension Plan") for the benefit of eligible employees of Jefferies Bache in that territory. The German Pension Plan has no plan assets and is therefore unfunded. We have purchased insurance contracts from multi-national insurers held in the name of Jefferies Bache Limited to provide for the plan's future obligations. The investment in these insurance contracts are included in Financial Instruments owned in the Consolidated Statements of Financial Condition and has a fair value of \$15.5 million and \$15.3 million at February 29, 2016 and November 30, 2015, respectively. We expect to pay our pension obligations from the cash flows available to us under the insurance contracts. All costs relating to the plan (including insurance

premiums and other costs as computed by the insurers) are paid by us. In connection with the acquisition, it was agreed with Prudential that any insurance premiums and funding obligations related to pre-acquisition date service will be reimbursed to us by Prudential.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The components of net periodic pension (income) cost for our pension plans are as follows (in thousands):

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
U.S. Pension Plan		
Components of net periodic pension (income) cost:		
Service cost	\$100	\$63
Interest cost on projected benefit obligation	587	585
Expected return on plan assets	(776)	(848)
Net periodic pension income	\$(89)	\$(200)
German Pension Plan		
Components of net periodic pension cost:		
Interest cost on projected benefit obligation	\$130	\$136
Net amortization	80	84
Net periodic pension cost	\$210	\$220

Employer Contributions – Our funding policy is to contribute to the plans at least the minimum amount required for funding purposes under applicable employee benefit and tax laws. We did not contribute to the U.S. Pension Plan or the German Pension Plan during the three months ended February 29, 2016 and we expect to make a contribution of \$3.0 million to the U.S. Pension Plans during the remainder of the fiscal year.

## Note 15. Compensation Plans

Leucadia sponsors our following share-based compensation plans: Incentive Compensation Plan, Employee Stock Purchase Plan ("ESPP") and the Deferred Compensation Plan. The outstanding and future share-based awards relating to these plans relate to Leucadia common shares. The fair value of share-based awards is estimated on the date of grant based on the market price of the underlying common stock less the impact of market conditions and selling restrictions subsequent to vesting, if any, and is amortized as compensation expense over the related requisite service periods. We are allocated costs associated with awards granted to our employees under such plans.

In addition, we sponsor non-share-based compensation plans. Non-share-based compensation plans sponsored by us include a profit sharing plan and other forms of restricted cash awards.

The components of total compensation cost associated with certain of our compensation plans are as follows (in millions):

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Components of compensation cost:		
Restricted cash awards	\$75.0	\$55.3
Restricted stock and RSUs (1)	5.1	25.5
Profit sharing plan	3.1	3.3
Total compensation cost	\$83.2	\$84.1

Total compensation cost associated with restricted stock and RSUs includes the amortization of sign-on, retention and senior executive awards, less forfeitures and clawbacks. Additionally, we recognize compensation cost related (1) to the discount provided to employees in electing to defer compensation under the Deferred Compensation Plan.

This compensation cost was approximately \$53,000 and \$48,000 for the three months ended February 29, 2016 and February 28, 2015, respectively.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Remaining unamortized amounts related to certain compensation plans at February 29, 2016 is as follows (in millions):

	Remaining Unamortized Amounts	Weighted Average Vesting Period (in Years)
Non-vested share-based awards	\$44.0	2
Restricted cash awards	568.1	3
Total	\$612.1	

The following are descriptions of the compensation plans.

**Incentive Compensation Plan.** The Incentive Compensation Plan (“Incentive Plan”) allows for awards in the form of incentive stock options (within the meaning of Section 422 of the Internal Revenue Code), nonqualified stock options, stock appreciation rights, restricted stock, unrestricted stock, performance awards, restricted stock units, dividend equivalents or other share-based awards. Restricted stock units (“RSUs”) give a participant the right to receive fully vested common shares at the end of a specified deferral period, allowing a participant to hold an interest tied to common stock on a tax deferred basis. Prior to settlement, RSUs carry no voting or dividend rights associated with the stock ownership, but dividend equivalents are accrued to the extent there are dividends declared on the underlying common shares as cash amounts or as deemed reinvestments in additional RSUs. Awards issued and outstanding related to the Incentive Plan relate to shares of Leucadia.

Restricted stock and RSUs may be granted to new employees as “sign-on” awards, to existing employees as “retention” awards and to certain executive officers as awards for multiple years. Sign-on and retention awards are generally subject to annual ratable vesting over a four-year service period and are amortized as compensation expense on a straight line basis over the related four years. Restricted stock and RSUs are granted to certain senior executives with market, performance and service conditions. Market conditions are incorporated into the grant-date fair value of senior executives awards using a Monte Carlo valuation model. Compensation expense for awards with market conditions is recognized over the service period and is not reversed if the market condition is not met. Awards with performance conditions are amortized over the service period if we determine that it is probable that the performance condition will be achieved. Awards granted to senior executives related to the 2015 fiscal year did not meet performance targets, and as a result, compensation expense has been adjusted to reflect the reduced number of shares that have vested.

**Employee Stock Purchase Plan.** There is also an ESPP which we consider noncompensatory effective January 1, 2007. The ESPP permits all regular full-time employees and employees who work part time over 20 hours per week to purchase, at a discount, Leucadia common shares. Annual employee contributions are limited to \$21,250, are voluntary and made through payroll deduction. The stock purchase price is equal to 95% of the closing price of common stock on the last day of the applicable session (monthly).

**Deferred Compensation Plan.** There is also a Deferred Compensation Plan, which was established in 2001. Eligible employees are able to defer compensation on a pre-tax basis, with deferred amounts deemed invested at a discount in Leucadia common shares, or by allocating among any combination of other investment funds available under the Deferred Compensation Plan. We often invest directly, as a principal, in investments corresponding to the other investment funds, relating to our obligations to perform under the Deferred Compensation Plan. The compensation deferred by our employees is expensed in the period earned. The change in fair value of our investments in assets corresponding to the specified other investment funds are recognized in Principal transaction revenues and changes in the corresponding deferred compensation liability are reflected as Compensation and benefits expense in our Consolidated Statements of Earnings.

**Profit Sharing Plan.** We have a profit sharing plan, covering substantially all employees, which includes a salary reduction feature designed to qualify under Section 401(k) of the Internal Revenue Code.

Restricted Cash Awards. We provide compensation to new and existing employees in the form of loans and/or other cash awards which are subject to ratable vesting terms with service requirements. We amortize these awards to compensation expense over the relevant service period, which is generally considered to start at the beginning of the annual compensation year.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Note 16. Income Taxes

At February 29, 2016 and November 30, 2015, we had approximately \$107.5 million and \$107.9 million, respectively, of total gross unrecognized tax benefits. The total amount of unrecognized benefit that, if recognized, would favorably affect the effective tax rate was \$71.6 million and \$71.9 million (net of benefits of taxes) at February 29, 2016 and November 30, 2015, respectively.

We recognize interest accrued related to unrecognized tax benefits in Interest expense. Penalties, if any, are recognized in Other expenses in the Consolidated Statements of Earnings. At February 29, 2016 and November 30, 2015, we had interest accrued of approximately \$34.7 million and \$32.8 million, respectively, included in Accrued expenses and other liabilities. No material penalties were accrued for the three months ended February 29, 2016 and the year ended November 30, 2015.

We are currently under examination by the Internal Revenue Service and other major tax jurisdictions. We do not expect that resolution of these examinations will have a material effect on our consolidated financial position, but could have a material impact on the consolidated results of operations for the period in which resolution occurs.

The table below summarizes the earliest tax years that remain subject to examination in the major tax jurisdictions in which we operate:

Jurisdiction	Tax Year
United States	2007
California	2007
New Jersey	2010
New York State	2001
New York City	2003
United Kingdom	2014
Hong Kong	2010

## Note 17. Commitments, Contingencies and Guarantees

## Commitments

The following table summarizes our commitments associated with our capital market and asset management business activities at February 29, 2016 (in millions):

	Expected Maturity Date (fiscal years)					Maximum Payout
	2016	2017	2018 and 2019	2020 and 2021	2022 and Later	
Equity commitments (1)	\$1.5	\$7.9	\$—	\$11.5	\$238.5	\$259.4
Loan commitments (1)	2.5	330.8	55.9	—	—	389.2
Mortgage-related and other purchase commitments	1,352.2	255.3	926.4	—	—	2,533.9
Forward starting reverse repos and repos	77.1	—	—	—	—	77.1
Other unfunded commitments (1)	47.5	215.8	37.0	5.5	35.0	340.8
	\$1,480.8	\$809.8	\$1,019.3	\$17.0	\$273.5	\$3,600.4

(1) Equity, loan and other unfunded commitments are presented by contractual maturity date. The amounts, however, are available on demand.

In addition, in March 2016, we entered into an lease agreement for office space in London. Beginning in fiscal 2020, we will have a contractual obligation to pay approximately £8.1 million per year for 18 years.



Equity Commitments. Includes commitments to invest in our joint ventures, Jefferies Finance and Jefferies LoanCore, and commitments to invest in private equity funds and in Jefferies Capital Partners, LLC, the manager of the private equity funds, which consists of a team led by Brian P. Friedman, one of our directors and Chairman of the Executive Committee. At February 29, 2016, our outstanding commitments relating to Jefferies Capital Partners, LLC and its private equity funds was \$23.3 million.

53

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

See Note 9, Investments, for additional information regarding our investments in Jefferies Finance and Jefferies LoanCore.

Additionally, at February 29, 2016, we had other outstanding equity commitments to invest up to \$4.3 million in various other investments.

**Loan Commitments.** From time to time we make commitments to extend credit to investment banking and other clients in loan syndication, acquisition finance and securities transactions and to SPE sponsors in connection with the funding of CLO and other asset-backed transactions. These commitments and any related drawdowns of these facilities typically have fixed maturity dates and are contingent on certain representations, warranties and contractual conditions applicable to the borrower. At February 29, 2016, we had \$139.2 million of outstanding loan commitments to clients.

Loan commitments outstanding at February 29, 2016 also include our portion of the outstanding secured revolving credit facility provided to Jefferies Finance, to support loan underwritings by Jefferies Finance.

**Mortgage-Related and Other Purchase Commitments.** We enter into forward contracts to purchase mortgage participation certificates, mortgage-backed securities and consumer loans. The mortgage participation certificates evidence interests in mortgage loans insured by the Federal Housing Administration and the mortgage-backed securities are insured or guaranteed by the FNMA (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the GNMA (Ginnie Mae). We frequently securitize the mortgage participation certificates and mortgage-backed securities. The fair value of mortgage-related and other purchase commitments recorded in the Consolidated Statements of Financial Condition was \$145.7 million at February 29, 2016.

**Forward Starting Reverse Repos and Repos.** We enter into commitments to take possession of securities with agreements to resell on a forward starting basis and to sell securities with agreements to repurchase on a forward starting basis that are primarily secured by U.S. government and agency securities.

**Other Unfunded Commitments.** Other unfunded commitments include obligations in the form of revolving notes to provide financing to asset-backed and CLO vehicles. Upon advancing funds, drawn amounts are collateralized by the assets of an entity.

**Guarantees**

**Derivative Contracts.** As a dealer, we make markets and trade in a variety of derivative instruments. Certain derivative contracts that we have entered into meet the accounting definition of a guarantee under U.S. GAAP, including credit default swaps, written foreign currency options and written equity put options. On certain of these contracts, such as written interest rate caps and foreign currency options, the maximum payout cannot be quantified since the increase in interest or foreign exchange rates are not contractually limited by the terms of the contract. As such, we have disclosed notional values as a measure of our maximum potential payout under these contracts.

The following table summarizes the notional amounts associated with our derivative contracts meeting the definition of a guarantee under U.S. GAAP at February 29, 2016 (in millions):

	Expected Maturity Date (fiscal years)					Notional/ Maximum Payout
	2016	2017	2018 and 2019	2020 and 2021	2022 and Later	
Guarantee Type:						
Derivative contracts—non-credit related	\$13,418.6	\$1,048.6	\$348.1	\$—	\$426.7	\$15,242.0
Written derivative contracts—credit related	—	—	90.2	197.0	2.5	289.7
Total derivative contracts	\$13,418.6	\$1,048.6	\$438.3	\$197.0	\$429.2	\$15,531.7

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

At February 29, 2016 the external credit ratings of the underlyings or referenced assets for our credit related derivatives contracts (in millions):

	External Credit Rating				Below Investment Grade	Unrated	Notional/ Maximum Payout
	AAA/ Aaa	AA/Aa	A	BBB/ Baa			
Credit related derivative contracts:							
Index credit default swaps	\$3.5	\$—	\$—	\$49.0	\$—	\$—	\$52.5
Single name credit default swaps	\$—	\$—	\$—	\$21.5	\$164.6	\$51.1	\$237.2

The derivative contracts deemed to meet the definition of a guarantee under U.S. GAAP are before consideration of hedging transactions and only reflect a partial or “one-sided” component of any risk exposure. Written equity options and written credit default swaps are often executed in a strategy that is in tandem with long cash instruments (e.g., equity and debt securities). We substantially mitigate our exposure to market risk on these contracts through hedges, such as other derivative contracts and/or cash instruments, and we manage the risk associated with these contracts in the context of our overall risk management framework. We believe notional amounts overstate our expected payout and that fair value of these contracts is a more relevant measure of our obligations. At February 29, 2016, the fair value of derivative contracts meeting the definition of a guarantee is approximately \$429.0 million.

**Loan Guarantee.** We have provided a guarantee to Jefferies Finance that matures in January 2021, whereby we are required to make certain payments to an SPE sponsored by Jefferies Finance in the event that Jefferies Finance is unable to meet its obligations to the SPE and a guarantee of a credit agreement with an indefinite term for a fund owned by employees. At February 29, 2016, the maximum amount payable under these guarantees is \$21.5 million.

**Standby Letters of Credit.** At February 29, 2016, we provided guarantees to certain counterparties in the form of standby letters of credit in the amount of \$33.7 million, which expire within one year. Standby letters of credit commit us to make payment to the beneficiary if the guaranteed party fails to fulfill its obligation under a contractual arrangement with that beneficiary. Since commitments associated with these collateral instruments may expire unused, the amount shown does not necessarily reflect the actual future cash funding requirement.

**Other Guarantees.** We are members of various exchanges and clearing houses. In the normal course of business we provide guarantees to securities clearinghouses and exchanges. These guarantees generally are required under the standard membership agreements, such that members are required to guarantee the performance of other members. Additionally, if a member becomes unable to satisfy its obligations to the clearinghouse, other members would be required to meet these shortfalls. To mitigate these performance risks, the exchanges and clearinghouses often require members to post collateral. Our obligations under such guarantees could exceed the collateral amounts posted. Our maximum potential liability under these arrangements cannot be quantified; however, the potential for us to be required to make payments under such guarantees is deemed remote. Accordingly no liability has been recognized for these arrangements.

**Note 18. Net Capital Requirements**

As broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority (“FINRA”), Jefferies and Jefferies Execution are subject to the SEC Uniform Net Capital Rule (“Rule 15c3-1”), which requires the maintenance of minimum net capital, and have elected to calculate minimum capital requirements under the alternative method permitted by Rule 15c3-1 in calculating net capital. Jefferies is also registered as an FCM, and is also subject to Rule 1.17 of the CFTC, which sets forth minimum financial requirements. The minimum net capital requirement in determining excess net capital for a dually-registered U.S. broker-dealer and FCM is equal to the

Edgar Filing: Jefferies Group LLC - Form 10-Q

greater of the requirement under Rule 15c3-1 or CFTC Rule 1.17.

At February 29, 2016, Jefferies and Jefferies Execution's net capital and excess net capital were as follows (in thousands):

	Net Capital	Excess Net Capital
Jefferies	\$ 1,261,050	\$ 1,185,025
Jefferies Execution	10,280	10,030

55

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

FINRA is the designated self-regulatory organization (“DSRO”) for our U.S. broker-dealers and the National Futures Association is the DSRO for Jefferies as an FCM.

Certain other U.S. and non-U.S. subsidiaries are subject to capital adequacy requirements as prescribed by the regulatory authorities in their respective jurisdictions, including Jefferies International Limited and Jefferies Bache Limited which are authorized and regulated by the Financial Conduct Authority in the U.K.

The regulatory capital requirements referred to above may restrict our ability to withdraw capital from our regulated subsidiaries.

## Note 19. Segment Reporting

We operate in two principal segments – Capital Markets and Asset Management. The Capital Markets segment includes our securities, commodities, futures and foreign exchange brokerage trading activities and investment banking, which is comprised of underwriting and financial advisory activities. The Capital Markets reportable segment provides the sales, trading, origination and advisory effort for various fixed income, equity and advisory products and services. The Asset Management segment provides investment management services to investors in the U.S. and overseas.

Our reportable business segment information is prepared using the following methodologies:

• Net revenues and expenses directly associated with each reportable business segment are included in determining earnings before taxes.

• Net revenues and expenses not directly associated with specific reportable business segments are allocated based on the most relevant measures applicable, including each reportable business segment’s net revenues, headcount and other factors.

• Reportable business segment assets include an allocation of indirect corporate assets that have been fully allocated to our reportable business segments, generally based on each reportable business segment’s capital utilization.

Our net revenues and expenses by segment are summarized below (in millions):

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Capital Markets:		
Net revenues	\$263.3	\$562.5
Expenses	\$533.1	\$572.3
Asset Management:		
Net revenues	\$35.7	\$29.2
Expenses	\$15.8	\$6.5
Total:		
Net revenues	\$299.0	\$591.7
Expenses	\$548.9	\$578.8

The following table summarizes our total assets by segment at February 29, 2016 and November 30, 2015 (in millions):

	February 29, 2016	November 30, 2015
Segment assets:		
Capital Markets	\$34,417.9	\$37,804.9
Asset Management	775.0	759.0
Total assets	\$35,192.9	\$38,564.0



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Net Revenues by Geographic Region

Net revenues for the Capital Market segment are recorded in the geographic region in which the position was risk-managed or, in the case of investment banking, in which the senior coverage banker is located. For Asset Management, net revenues are allocated according to the location of the investment advisor. Net revenues by geographic region were as follows (in thousands):

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Americas (1)	\$187,709	\$436,786
Europe (2)	96,433	139,206
Asia	14,845	15,680
Net revenues	\$298,987	\$591,672

(1) Substantially all relates to U.S. results.

(2) Substantially all relates to U.K. results.

## Note 20. Related Party Transactions

Jefferies Capital Partners and JEP IV Related Funds. We have loans to and/or equity investments in private equity funds and in Jefferies Capital Partners, LLC, the manager of the Jefferies Capital Partners funds, which are managed by a team led by Brian P. Friedman, one of our directors and our Chairman of the Executive Committee ("Private Equity Related Funds"). At February 29, 2016 and November 30, 2015, loans to and/or equity investments in Private Equity Related Funds were in aggregate \$37.2 million and \$39.6 million, respectively. The following table presents other revenues and investment income (loss) related to net gains and losses on our investment in Private Equity Related Funds (in thousands):

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Other revenues and investment income (loss)	\$(2,648	) \$(25,159

For further information regarding our commitments and funded amounts to Private Equity Related Funds, see Note 17, Commitments, Contingencies and Guarantees.

Berkadia Commercial Mortgage, LLC. At February 29, 2016 and November 30, 2015, we have commitments to purchase \$705.0 million and \$752.4 million, respectively, in agency commercial mortgage-backed securities from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

HRG Group Inc. ("HRG"). As part of our loan secondary trading activities we have unsettled purchases and sales of loans pertaining to portfolio companies within funds managed by HRG, which is partially owned by Leucadia, of \$261.6 million at November 30, 2015. Additionally, we recognized investment banking and advisory revenues of \$0.4 million during the three months ended February 28, 2015.

National Beef Packaging Company, LLC ("National Beef"). We acted as an FCM for National Beef, which is principally owned by Leucadia. During the three months ended February 28, 2015, we recognized commissions of \$0.2 million.

Officers, Directors and Employees. At February 29, 2016 and November 30, 2015, we had \$33.4 million and \$28.3 million, respectively, of loans outstanding to certain of our employees (none of whom are executive officers or directors) that are included in Other assets on the Consolidated Statements of Financial Condition. Receivables from and payables to customers include balances arising from officers, directors and employees individual security transactions. These transactions are subject to the same regulations as all customer transactions and are provided on substantially the same terms. At February 29, 2016 and November 30, 2015, we have provided a guarantee of a credit agreement for a private equity fund owned by our employees.





Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Leucadia. The following is a description of related party transactions with Leucadia:

Under a service agreement, we charge Leucadia for certain services, which amounted to \$7.6 million and \$5.1 million, for the three months ended February 29, 2016 and February 28, 2015, respectively. At February 29, 2016 and November 30, 2015, we had a receivable from Leucadia of \$9.6 million and \$10.2 million, respectively, which is included within Other assets on the Consolidated Statements of Financial Condition. At February 29, 2016 and November 30, 2015, we had a payable to Leucadia of \$1.0 million and \$0.6 million, respectively, related to certain services provided by Leucadia, which is included within Other liabilities on the Consolidated Statements of Financial Condition.

Pursuant to a tax sharing agreement entered into between us and Leucadia, payments are made between us and Leucadia to settle current tax assets and liabilities. At February 29, 2016 and November 30, 2015, a net current tax receivable from Leucadia of \$220.1 million and \$109.5 million, respectively, is included in Other assets on the Consolidated Statements of Financial Condition.

Of the total noncontrolling interests in asset management entities that are consolidated by us at November 30, 2015, \$26.3 million are attributed to Leucadia.

We provide capital markets and asset management services to Leucadia and its affiliates. The following table presents the revenues earned by type of services provided (in thousands):

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Investment banking and advisory	\$—	\$21,000
Asset management	116	184
Commissions and other fees	—	36

For information on transactions with our equity method investees, see Note 9, Investments.

## Note 21. Exit Costs

Jefferies Bache. On April 9, 2015, we entered into an agreement with Société Générale S.A. (the “Agreement”) to transfer certain client exchange and over-the-counter transactions associated with our Futures business for the net book value of the over-the-counter transactions, calculated in accordance with certain principles set forth in the agreement, plus the repayment of certain margin loans in respect of certain exchange transactions. In addition, we initiated a plan to substantially exit the remaining aspects of our futures business. At February 29, 2016, we have transferred all of our client accounts to Société Générale S.A. and other brokers. We substantially completed the exit of the Futures business during the third quarter of fiscal 2015.

During the three months ended February 29, 2016, we recorded restructuring and impairment costs as follows (in thousands):

	Three Months Ended February 29, 2016
Severance costs	\$382
Accelerated amortization of restricted stock and restricted cash awards	31
Contract termination costs	556
Other expenses	280
Total	\$1,249

Of the above costs, \$310,000 are of a non-cash nature for the three months ended February 29, 2016, respectively.

58

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Restructuring and exit costs are wholly attributed to our Capital Markets segment and were recorded in the following categories on the Consolidated Statement of Earnings for the three months ended February 29, 2016 (in thousands):

	Three Months Ended February 29, 2016
Compensation and benefits	\$413
Technology and communications	556
Other expenses	280
Total	\$1,249

We expect to incur approximately an additional \$0.8 million of restructuring and exit costs through the remainder of fiscal 2016 in connection with our exit activities comprised of severance and related benefits, including additional amortization for restricted stock and restricted cash awards and contract termination costs.

The following summarizes our restructuring reserve activity (in thousands):

	Severance costs	Other costs	Contract termination costs	Total restructuring costs	Accelerated amortization of restricted stock and restricted cash awards	Total
Balance at November 30, 2015	\$4,805	\$—	\$—	\$4,805		
Expenses	382	280	556	1,218	\$31	\$1,249
Payments	(4,164	) (280	) (556	) (5,000	)	
Liability at February 29, 2016	\$1,023	\$—	\$—	\$1,023		

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report contains or incorporates by reference "forward looking statements" within the meaning of the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward looking statements include statements about our future and statements that are not historical facts. These forward looking statements are usually preceded by the words "believe," "intend," "may," "will," or similar expressions. Forward looking statements may contain expectations regarding revenues, earnings, operations and other results, and may include statements of future performance, plans and objectives. Forward looking statements also include statements pertaining to our strategies for future development of our business and products. Forward looking statements represent only our belief regarding future events, many of which by their nature are inherently uncertain. It is possible that the actual results may differ, possibly materially, from the anticipated results indicated in these forward-looking statements. Information regarding important factors that could cause actual results to differ, perhaps materially, from those in our forward looking statements is contained in this report and other documents we file. You should read and interpret any forward looking statement together with these documents, including the following:

- the description of our business and risk factors contained in our Annual Report on Form 10-K for the year ended November 30, 2015 and filed with the SEC on January 29, 2016;
- the discussion of our analysis of financial condition and results of operations contained in this report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations" herein;
- the discussion of our risk management policies, procedures and methodologies contained in this report under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations – Risk Management" herein;
- the notes to the consolidated financial statements contained in this report; and
- cautionary statements we make in our public documents, reports and announcements.

Any forward looking statement speaks only as of the date on which that statement is made. We will not update any forward looking statement to reflect events or circumstances that occur after the date on which the statement is made, except as required by applicable law.

Our business, by its nature, does not produce predictable or necessarily recurring earnings. Our results in any given period can be materially affected by conditions in global financial markets, economic conditions generally and our own activities and positions. For a further discussion of the factors that may affect our future operating results, see "Risk Factors" in Part I, Item IA of our Annual Report on Form 10-K for the year ended November 30, 2015.

## Consolidated Results of Operations

The following table provides an overview of our consolidated results of operations (in thousands):

	Three Months Ended February 29, 2016		Three Months Ended February 28, 2015	
Net revenues	\$298,987		\$591,672	
Non-interest expenses	548,863		578,788	
Earnings (loss) before income taxes	(249,876	)	12,884	
Income tax expense (benefit)	(83,107	)	331	
Net earnings (loss)	(166,769	)	12,553	
Net earnings to noncontrolling interests	44		871	
Net earnings (loss) attributable to Jefferies Group LLC	(166,813	)	11,682	
Effective tax rate	33.3	%	2.6	%
Executive Summary				

Three Months Ended February 29, 2016

Edgar Filing: Jefferies Group LLC - Form 10-Q

Net revenues for the three months ended February 29, 2016 decreased \$292.7 million, or 49.5%, to \$299.0 million compared with \$591.7 million for the three months ended February 28, 2015. The decrease primarily reflects lower net revenues in equities and

60

---

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

fixed income, as well as lower revenues in investment banking compared with the prior year quarter. These lower results are due to an extremely volatile bear market environment during the three months ended February 29, 2016, although our core businesses performed reasonably, considering the environment. Almost every asset class, including equities and fixed income, suffered significantly amid concerns about the pace of global economic growth, outflows from the high yield market, forced selling from hedge funds, uncertainty over the weakness in the Chinese economy, the potential of Britain withdrawing from the European Union ("Brexit") and an overall lack of liquidity. New issue equity and leveraged finance capital markets were virtually closed throughout January and February, which resulted in many of our potential investment banking capital markets transactions being postponed at least until some stability returns to the markets.

During the three months ended February 29, 2016, our results include a net loss of \$82.2 million from our investment in two equity block positions, including KCG Holdings, Inc. ("KCG"). Of this net loss, \$67.5 million was unrealized at February 29, 2016, compared with unrealized gains of \$30.2 million in the prior year quarter from these two equity block positions. Results during the three months ended February 29, 2016 also included a loss of \$22.3 million from our share of our Jefferies Finance, LLC ("Jefferies Finance") joint venture compared with net revenues of \$10.7 million in the prior year quarter. Net revenues in the three months ended February 29, 2016 included investment losses from managed funds of \$1.7 million compared with investment losses from managed funds of \$23.8 million in the prior year quarter, primarily due to lower valuations in the energy and shipping sectors in both periods.

Non-interest expenses for the three months ended February 29, 2016 decreased \$29.9 million, or 5.2%, to \$548.9 million compared with \$578.8 million for the three months ended February 28, 2015, reflecting a decrease in both Compensation and benefits expense and Non-compensation expenses. Compensation and benefits expense for the three months ended February 29, 2016 were \$349.7 million, a decrease of \$15.5 million, or 4.2% from the comparable prior-year period. Compensation and benefits expenses as a percentage of Net revenues was 117.0% for the three months ended February 29, 2016 compared with 61.7% in the prior year quarter. The unusually high compensation ratio is due to the exceptionally low net revenues and certain higher fixed compensation costs in the three months ended February 29, 2016. Non-compensation expenses for the three months ended February 29, 2016 were \$199.1 million, a decrease of \$14.5 million, or 6.8% from the comparable prior-year period.

On April 9, 2015, we entered into an agreement to transfer certain of the client activities of our Jefferies Bache (also referred to as Futures) business to Société Générale S.A. At February 29, 2016, we have transferred all of our client accounts to Société Générale S.A. and other brokers. We substantially completed the exit of the Bache business during the third quarter of fiscal 2015. Net revenues globally from this business activity for the three months ended February 28, 2015, which are included within our fixed income results, were \$49.2 million. This is comprised of commissions, principal transaction revenues and net interest revenues. Expenses directly related to the Bache business, which are included within non-interest expenses, for the three months ended February 28, 2015 were \$62.6 million. For further information, refer to Note 21, Exit Costs in our consolidated financial statements.

At February 29, 2016, we had 3,439 employees globally, a decrease of 497 employees from our headcount at February 28, 2015 of 3,936. Since February 28, 2015, our headcount has decreased primarily due to headcount reductions related to the exiting of the Bache business and corporate services outsourcing, partially offset by increases across our asset management businesses.

Revenues by Source

The Capital Markets reportable segment includes our securities and commodities trading activities, and our investment banking activities. The Capital Markets reportable segment provides the sales, trading and origination and advisory effort for various equity, fixed income, commodities, futures, foreign exchange and advisory products and services. The Capital Markets segment comprises many business units, with many interactions and much integration among

them. In addition, we separately discuss our Asset Management business.

For presentation purposes, the remainder of “Results of Operations” is presented on a detailed product and expense basis, rather than on a business segment basis. Net revenues presented for our equity and fixed income businesses include allocations of interest income and interest expense as we assess the profitability of these businesses inclusive of the net interest revenue or expense associated with the respective activities, which is a function of the mix of each business’s associated assets and liabilities and the related funding costs.

The composition of our net revenues has varied over time as financial markets and the scope of our operations have changed. The composition of net revenues can also vary from period to period due to fluctuations in economic and market conditions, and our own performance. The following provides a summary of “Revenues by Source” (amounts in thousands):

61

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

	Three Months Ended February 29, 2016		Three Months Ended February 28, 2015		
	Amount	% of Net Revenues	Amount	% of Net Revenues	
Equities	\$1,745	0.6	% \$203,479	34.4	%
Fixed income	56,782	19.0	126,035	21.3	
Total sales and trading	58,527	19.6	329,514	55.7	
Equity	43,999	14.8	79,071	13.4	
Debt	57,273	19.1	60,876	10.3	
Capital markets	101,272	33.9	139,947	23.7	
Advisory	129,658	43.4	132,048	22.3	
Total investment banking	230,930	77.3	271,995	46.0	
Asset management fees and investment income (loss) from managed funds:					
Asset management fees	11,205	3.7	13,985	2.4	
Investment income (loss) from managed funds	(1,675)	) (0.6	) (23,822	) (4.1	)
Total	9,530	3.1	(9,837)	(1.7	)
Net revenues	\$298,987	100.0	% \$591,672	100.0	%

## Net Revenues

## Three Months Ended February 29, 2016

Net revenues for the three months ended February 29, 2016 of \$299.0 million decreased 49.5% from the prior year quarter, primarily reflecting lower net revenues in equities and fixed income compared with the prior year quarter. Equities net revenues for the three months ended February 29, 2016 were \$1.7 million compared with \$203.5 million in the prior year quarter. Fixed income net revenues for the three months ended February 29, 2016 were \$56.8 million compared with \$126.0 million in the prior year quarter. These lower results are due to an extremely volatile market environment during the three months ended February 29, 2016, although our core businesses performed reasonably, considering the environment. Almost every asset class, including equities and fixed income, suffered significantly amid concerns about the pace of global economic growth, outflows from the high yield market, forced selling from hedge funds, uncertainty over China, a potential Brexit, and an overall void in liquidity. The wind-down of our Bache business also contributed to the decline in fixed income revenues.

During the three months ended February 29, 2016, our results include a net loss of \$82.2 million from our investment in two equity block positions, including KCG. Of this net loss, \$67.5 million was unrealized at February 29, 2016 compared with unrealized gains of \$30.2 million in the prior year quarter from these two equity block positions. Investment banking revenues for the three months ended February 29, 2016 were \$230.9 million compared with \$272.0 million in the prior year quarter. New issue equity and leveraged finance capital markets were virtually closed throughout January and February, which resulted in many of our potential investment banking capital markets transactions being postponed at least until some stability returns to the markets. Overall, capital markets revenues of \$101.3 million decreased 27.6% from the prior year quarter. Net revenues in the three months ended February 29, 2016 included investment losses from managed funds of \$1.7 million compared with investment losses from managed funds of \$23.8 million in the prior year quarter, primarily due to lower valuations in the energy and shipping sectors in both periods.

## Equities Revenue



Equities net revenue is comprised of equity commissions, principal transactions and net interest revenue relating to cash equities, electronic trading, equity derivatives, convertible securities, prime brokerage, securities finance and alternative investment strategies. Equities revenue is heavily dependent on the overall level of trading activity of our clients. Equities revenue also includes our share of the net earnings from our joint venture investments in Jefferies Finance and Jefferies LoanCore, LLC ("Jefferies LoanCore"), which are accounted for under the equity method, as well as changes in the value of our investments in KCG and other equity block positions.

Three Months Ended February 29, 2016

Total equities net revenues were \$1.7 million for the three months ended February 29, 2016, a decrease of \$201.7 million compared with \$203.5 million for the three months ended February 28, 2015. During the three months ended February 29, 2016, our results

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

include net mark-to-market losses from our investments in certain equity block positions compared with net mark-to-market gains in the prior year quarter.

During the three months ended February 29, 2016, U.S. equity market conditions were characterized by a downward trend in stock prices, as a quiet December was followed by challenging January and first few weeks of February. In the equity markets, the NASDAQ Composite Index, the S&P 500 Index and the Dow Jones Industrial Average decreased by 10.8%, 7.1% and 6.8%, respectively, due to concerns about the pace of global economic growth. In Europe and Asia, economic development varied across regions. At their low points, the NASDAQ Composite Index, the S&P 500 Index and the Dow Jones Industrial Average decreased by 17.6%, 13.0% and 12.8%, respectively. Our U.S. cash equity desk experienced a decline in revenues as losses were incurred in our block trading activities. Revenues in our convertibles trading business also declined, driven by weakness in the energy sector. Partially offsetting the decline in trading revenues was an increase in commissions generated by our electronic trading platform, as trading volumes increased across the broader markets on higher volatility. Additionally, certain strategic investments contributed positively to equities revenues due to strategic positioning within the energy markets. Equities revenues from our Jefferies LoanCore joint venture decreased during the three months ended February 29, 2016 as compared to the prior year quarter due to a decrease in loan closings and syndications by the venture over the comparable period. Results during the three months ended February 29, 2016 also included a loss of \$22.3 million from our share of our Jefferies Finance joint venture primarily due to the mark down of two loans that Jefferies Finance closed during the three months ended February 29, 2016 compared with net revenues of \$10.7 million in the prior year quarter.

Fixed Income Revenue

Fixed income revenue includes commissions, principal transactions and net interest revenue from investment grade corporate bonds, mortgage- and asset-backed securities, government and agency securities, municipal bonds, emerging markets debt, high yield and distressed securities, bank loans, foreign exchange and commodities trading activities.

Three Months Ended February 29, 2016

Fixed income net revenues totaled \$56.8 million for the three months ended February 29, 2016, a decrease of \$69.3 million compared with net revenues \$126.0 million in the three months ended February 28, 2015. The 2015 period included \$49.2 million of net revenues globally from the futures business activity, which we substantially completed the exit of during the third quarter of fiscal 2015. We recorded higher revenues in our emerging markets and U.S. rates businesses compared with the prior year quarter, but lower revenues due to tighter trading conditions across most core businesses and losses in our leveraged credit and international credit businesses, as well as lower revenues in our international rates business.

The three months ended February 29, 2016 was characterized by an extremely volatile market environment due to concerns about the pace of global economic growth, outflows from the high yield market, forced selling from hedge funds, uncertainty over the weakness in the Chinese economy, the potential Brexit and an overall lack of liquidity. During the three months ended February 29, 2016, the uncertainty in the global economy coupled with lower energy prices led to mark-to-market write-downs in our inventory. Losses in our leveraged credit business for the quarter were driven by distressed positions as lower global demand continued to exert downward pressure on oil prices and hedge fund redemptions put pressure on the leveraged credit market generally, while volatile oil prices, along with weak Chinese markets and uncertainty as to bank liquidity negatively impacted revenues in our international credit business. The lower revenues in our international rates business resulted from lower transaction volumes due to a reduction in international yields. Revenues for the quarter from our corporate business declined as

compared to the prior year quarter due to market volatility and widening spreads. Results in our emerging markets business were higher due to increased levels of volatility in the emerging markets during the quarter and our U.S. rates business benefited from the growth of our swaps trading business.

#### Investment Banking Revenue

We provide capital markets and financial advisory services to our clients across most industry sectors in the Americas, Europe and Asia. Capital markets revenue includes underwriting and placement revenue related to corporate debt, municipal bonds, mortgage- and asset-backed securities and equity and equity-linked securities. Advisory revenue consists primarily of advisory and transaction fees generated in connection with merger, acquisition and restructuring transactions. The following table sets forth our investment banking revenue (in thousands):

63

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Equity	\$43,999	\$79,071
Debt	57,273	60,876
Capital markets	101,272	139,947
Advisory	129,658	132,048
Total	\$230,930	\$271,995

## Three Months Ended February 29, 2016

Total investment banking revenue was \$230.9 million for the three months ended February 29, 2016, a decrease of \$41.1 million from the three months ended February 28, 2015, substantially due to a decrease in equity capital markets transaction volume. New issue equity and leveraged finance capital markets were virtually closed throughout January and February, which resulted in many of our potential investment banking capital markets transactions being postponed until some stability returns to the markets. Overall, capital markets revenues in the three months ended February 29, 2016 decreased 27.6% from the prior year quarter and advisory revenues for the three months ended February 29, 2016 were approximately flat compared to the prior year quarter.

From equity and debt capital raising activities, we generated \$44.0 million and \$57.3 million in revenues, respectively, for the three months ended February 29, 2016. During the three months ended February 29, 2016, we completed 164 public and private debt financings that raised \$35 billion in aggregate and we completed 19 public equity offerings that raised \$4.1 billion (all of which we acted as sole or joint bookrunner). Financial advisory revenues totaled \$129.7 million, including revenues from 27 merger and acquisition transactions and 2 restructuring transactions with an aggregate transaction value of \$40.5 billion.

Investment banking revenue was \$272.0 million for the three months ended February 28, 2015. From equity and debt capital raising activities, we generated \$79.1 million and \$60.9 million in revenues, respectively. During the three months ended February 28, 2015, we completed 232 public and private debt financings that raised \$42.9 billion in aggregate and we completed 47 public equity and convertible offerings that raised \$7.5 billion (40 of which we acted as sole or joint bookrunner). Financial advisory revenues totaled \$132.0 million, including revenues from 35 merger and acquisition transactions with an aggregate transaction value of \$27.0 billion.

## Asset Management Fees and Investment Income (Loss) from Managed Funds

Asset management revenue includes management and performance fees from funds and accounts managed by us, management and performance fees from related party managed funds and accounts and investment income (loss) from our investments in these funds, accounts and related party managed funds. The key components of asset management revenue are the level of assets under management and the performance return, whether on an absolute basis or relative to a benchmark or hurdle. These components can be affected by financial markets, profits and losses in the applicable investment portfolios and client capital activity. Further, asset management fees vary with the nature of investment management services. The terms under which clients may terminate our investment management authority, and the requisite notice period for such termination, varies depending on the nature of the investment vehicle and the liquidity of the portfolio assets.

During the fourth quarter of 2014, as part of a strategic review of our business, we decided to liquidate our International Asset Management business, which provided long only investment solutions in global convertible bonds

to institutional investors. Asset management fees from this business comprise our convertibles asset strategy in the table below.

64

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

The following summarizes the results of our Asset Management businesses by asset class (in thousands):

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015 (1)
Asset management fees:		
Fixed income	\$ 348	\$ 746
Equities	535	2,382
Multi-asset	10,322	8,512
Convertibles	—	2,345
Total asset management fees	11,205	13,985
Investment income (loss) from managed funds	(1,675	) (23,822
Total	\$9,530	\$(9,837

(1) Prior period amounts have been recast to conform to the current year's presentation due to the presentation of the multi-asset asset class. Previously, these fees have been classified within the equities asset class. We have also concluded that certain fees previously reported within the convertibles asset class are better aligned within the equities asset class. The total amount of asset management fees remains unchanged in the prior period.

Fixed income asset management fees represent ongoing consideration we receive from the sale of contracts to manage certain collateralized loan obligations ("CLOs") to Babson Capital Management, LLC in January 2010. As sale consideration, we are entitled to a portion of the asset management fees earned under the contracts for their remaining lives. Investment income (loss) from managed funds primarily is comprised of net unrealized markups (markdowns) in private equity funds managed by related parties.

## Assets under Management

Period end assets under management by predominant asset strategy were as follows (in millions):

	February 29, 2016	November 30, 2015
Assets under management (1):		
Equities	\$ 45	\$ 18
Multi-asset	715	688
Total	\$ 760	\$ 706

Assets under management include assets actively managed by us, including hedge funds and certain managed (1) accounts. Assets under management do not include the assets of funds that are consolidated due to the level or nature of our investment in such funds.

## Non-interest Expenses

Non-interest expenses were as follows (in thousands):

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Compensation and benefits	\$ 349,743	\$ 365,215
Non-compensation expenses:		
Floor brokerage and clearing fees	40,479	55,080
Technology and communications	64,989	72,387
Occupancy and equipment rental	24,585	24,184
Business development	24,854	21,937
Professional services	23,512	24,256

Edgar Filing: Jefferies Group LLC - Form 10-Q

Other	20,701	15,729
Total non-compensation expenses	199,120	213,573
Total non-interest expenses	\$548,863	\$578,788

65

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Compensation and Benefits

Compensation and benefits expense consists of salaries, benefits, cash bonuses, commissions, annual cash compensation awards and the amortization of certain non-annual share-based and cash compensation awards to employees. Cash and historical share-based awards granted to employees as part of year end compensation generally contain provisions such that employees who terminate their employment or are terminated without cause may continue to vest in their awards, so long as those awards are not forfeited as a result of other forfeiture provisions (primarily non-compete clauses) of those awards. Accordingly, the compensation expense for a substantial portion of awards granted at year end as part of annual compensation is fully recorded in the year of the award.

Included within Compensation and benefits expense are share-based amortization expense for senior executive awards granted in September 2012, non-annual share-based and cash-based awards to other employees and certain year end awards that contain future service requirements for vesting. Such awards are being amortized over their respective future service periods and amounted to compensation expense of \$80.1 million and \$80.8 million for the three months ended February 29, 2016 and February 28, 2015, respectively. In addition, compensation and benefits expense for the three months ended February 29, 2016 and February 28, 2015 includes approximately \$0.5 million and \$3.4 million, respectively, of additional amortization expense related to the write-up of the cost of outstanding share-based awards which had future service requirements and was recognized in connection with the Leucadia Transaction.

Compensation and benefits expense directly related to our Bache business was \$1.3 million and \$24.0 million for the three months ended February 29, 2016 and February 28, 2015, respectively.

Compensation and benefits expense as a percentage of Net revenues was 117.0% and 61.7% for the three months ended February 29, 2016 and February 28, 2015, respectively. The increase in the compensation ratio for the three months ended February 29, 2016 as compared to the prior year quarter is due to the decline in net revenues in relationship to non-discretionary compensation. Employee headcount was 3,439 at February 29, 2016 and 3,936 at February 28, 2015. Since February 28, 2015, our headcount has decreased due to headcount reductions related to the exiting of the Bache business and corporate services outsourcing, partially offset by increases across our asset management businesses.

## Non-Compensation Expenses

## Three Months Ended February 29, 2016

Non-compensation expenses were \$199.1 million for the three months ended February 29, 2016, a decrease of \$14.5 million, or 6.8% compared with \$213.6 million in the three months ended February 28, 2015. Non-compensation expenses as a percentage of Net revenues was 66.6% and 36.1% for the three months ended February 29, 2016 and February 28, 2015, respectively.

The decrease in Non-compensation expenses during the three months ended February 29, 2016 was primarily due to a decrease in Floor brokerage and clearing expenses and Technology and communications expenses, partially offset by an increase in Business development and other expenses. Floor brokerage and clearing expenses during the three months ended February 29, 2016 decreased 26.5%, primarily reflecting the wind down of the Jefferies Bache business. Technology and communications expense decreased 10.2% during the three months ended February 29, 2016, primarily due to accelerated depreciation on capitalized software related to our Jefferies Bache business recognized during the three months ended February 28, 2015. Business development expense increased 13.3%, primarily reflecting our continued efforts to build market share. In both periods, we continued to incur legal and consulting fees as part of implementing various regulatory requirements, which are recognized in Professional services expense. Non-compensation expenses associated directly with the activities of the Bache business were \$2.7 million and \$38.6 million for the three months ended February 29, 2016 and February 28, 2015, respectively.

## Income Taxes

For the three months ended February 29, 2016, the income tax benefit was \$83.1 million, equating to an effective tax rate of 33.3%. For the three months ended February 28, 2015, the provision for income taxes was \$0.3 million, equating to an effective tax rate of 2.6%. The change in the effective tax rate during the three months ended February 29, 2016 as compared with the prior year quarter is primarily due to the resolution of certain state income tax



examinations during the prior year quarter which had a significant impact on the effective tax rate given that quarter's modest level of earnings. In addition, for the three months ended February 29, 2016, the provision for income taxes includes a charge related to tax deductions associated with share-based compensation that was less than the compensation cost recognized for financial reporting purposes.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Accounting Developments

For a discussion of recently issued accounting developments and their impact on our consolidated financial statements, see Note 3, Accounting Developments, in our consolidated financial statements.

## Critical Accounting Policies

The consolidated financial statements are prepared in conformity with U.S. GAAP, which require management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and related notes. Actual results can and may differ from estimates. These differences could be material to the financial statements.

We believe our application of U.S. GAAP and the associated estimates are reasonable. Our accounting estimates are constantly reevaluated, and adjustments are made when facts and circumstances dictate a change. Historically, we have found our application of accounting policies to be appropriate, and actual results have not differed materially from those determined using necessary estimates.

We believe our critical accounting policies (policies that are both material to the financial condition and results of operations and require our most subjective or complex judgments) are our valuation of financial instruments, assessment of goodwill and our use of estimates related to compensation and benefits during the year.

## Valuation of Financial Instruments

Financial instruments owned and Financial instruments sold, not yet purchased are recorded at fair value. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price). Unrealized gains or losses are generally recognized in Principal transaction revenues in our Consolidated Statements of Earnings.

The following is a summary of the fair value of major categories of financial instruments owned and financial instruments sold, not yet purchased at February 29, 2016 and November 30, 2015 (in thousands):

	February 29, 2016		November 30, 2015	
	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased	Financial Instruments Owned	Financial Instruments Sold, Not Yet Purchased
Corporate equity securities	\$1,878,938	\$1,668,764	\$2,027,989	\$1,418,933
Corporate debt securities	2,542,563	1,877,856	2,893,041	1,556,941
Government, federal agency and other sovereign obligations	4,228,369	3,142,308	5,792,233	2,831,117
Mortgage- and asset-backed securities	3,575,564	20,585	4,166,362	117
Loans and other receivables	975,574	440,526	1,312,333	769,408
Derivatives	332,068	326,619	251,080	208,548
Investments at fair value	96,483	—	116,078	—
	\$13,629,559	\$7,476,658	\$16,559,116	\$6,785,064

Fair Value Hierarchy - In determining fair value, we maximize the use of observable inputs and minimize the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. We apply a hierarchy to categorize our fair value measurements broken down into three levels based on the transparency of inputs, where Level 1 uses observable prices in active markets and Level 3 uses valuation techniques that incorporate significant unobservable inputs and broker quotes that are considered less observable. Greater use of management judgment is required in determining fair value when inputs are less observable or unobservable in the marketplace, such as when the volume or level of trading activity for a financial instrument has decreased and when certain factors suggest that observed transactions may not

be reflective of orderly market transactions. Judgment must be applied in determining the appropriateness of available prices, particularly in assessing whether available data reflects current prices and/or reflects the results of recent market transactions. Prices or quotes are weighed when estimating fair value with greater reliability placed on information from transactions that are considered to be representative of orderly market transactions.

67

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

Fair value is a market based measure; therefore, when market observable inputs are not available, our judgment is applied to reflect those judgments that a market participant would use in valuing the same asset or liability. The availability of observable inputs can vary for different products. We use prices and inputs that are current as of the measurement date even in periods of market disruption or illiquidity. The valuation of financial instruments classified in Level 3 of the fair value hierarchy involves the greatest amount of management judgment. (See Note 2, Summary of Significant Accounting Policies, and Note 4, Fair Value Disclosures, in our consolidated financial statements for further information on the definitions of fair value, Level 1, Level 2 and Level 3 and related valuation techniques.)

Level 3 Assets and Liabilities – The following table reflects the composition of our Level 3 assets and Level 3 liabilities by asset class at February 29, 2016 and November 30, 2015 (in thousands):

	Financial Instruments Owned		Financial Instruments Sold, Not Yet Purchased		
	February 29, 2016	November 30, 2015	February 29, 2016	November 30, 2015	
Loans and other receivables	\$ 155,442	\$ 189,289	\$ 7,744	\$ 10,469	
Residential mortgage-backed securities	68,019	70,263	—	—	
Collateralized debt obligations	67,348	85,092	—	—	
Investments at fair value	63,582	53,120	—	—	
Other asset-backed securities	33,124	42,925	—	—	
Corporate equity securities	30,540	40,906	38	38	
Corporate debt securities	25,634	25,876	—	—	
Derivatives	22,975	19,785	34,732	19,543	
Commercial mortgage-backed securities	21,994	14,326	—	—	
Sovereign obligations	119	120	—	—	
Total Level 3 financial instruments	\$ 488,777	\$ 541,702	\$ 42,514	\$ 30,050	
Total Level 3 financial instruments as a percentage of total financial instruments	3.6	% 3.3	% 0.6	% 0.4	%

While our Financial instruments sold, not yet purchased, which are included within liabilities in our Consolidated Statements of Financial Condition, are accounted for at fair value, we do not account for any of our other liabilities at fair value, except for certain secured financings that arise in connection with our securitization activities included with Other secured financings of approximately \$0.5 million and \$0.5 million at February 29, 2016 and November 30, 2015, respectively.

The following table reflects activity with respect to our Level 3 assets and net liabilities (in millions):

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015
Assets:		
Transfers from Level 3 to Level 2 (1)	\$ 100.8	\$ 110.2
Transfers from Level 2 to Level 3 (1)	119.0	205.2
Net gains (losses) (1)	(42.2	) (25.2
Net Liabilities:		
Transfers from Level 3 to Level 2	\$ 1.0	\$ 3.2
Transfers from Level 2 to Level 3	0.5	—
Net gains (losses)	(10.0	) (6.9

(1) In May 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-07, "Fair Value Measurement (Topic 820) - Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)" ("ASU No. 2015-07"). In the second quarter of fiscal 2015, we early adopted ASU No. 2015-07 retrospectively. (See Note 3, Accounting Developments, and Note 4, Fair Value

Disclosures, in our consolidated financial statements for further information on the adoption of this guidance.)  
For additional discussion on transfers of assets and liabilities among the fair value hierarchy levels, see Note 4, Fair Value Disclosures, in our consolidated financial statements.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

Controls Over the Valuation Process for Financial Instruments – Our Independent Price Verification Group, independent of the trading function, plays an important role in determining that our financial instruments are appropriately valued and that fair value measurements are reliable. This is particularly important where prices or valuations that require inputs are less observable. In the event that observable inputs are not available, the control processes are designed to assure that the valuation approach utilized is appropriate and consistently applied and that the assumptions are reasonable. Where a pricing model is used to determine fair value, these control processes include reviews of the pricing model's theoretical soundness and appropriateness by risk management personnel with relevant expertise who are independent from the trading desks. In addition, recently executed comparable transactions and other observable market data are considered for purposes of validating assumptions underlying the model.

**Goodwill**

At February 29, 2016, goodwill recorded on our Consolidated Statement of Financial Condition is \$1,649.5 million (4.7% of total assets). The nature and accounting for goodwill is discussed in Note 2, Summary of Significant Accounting Policies and Note 10, Goodwill and Other Intangible Assets, in our consolidated financial statements. Goodwill must be allocated to reporting units and tested for impairment at least annually, or when circumstances or events make it more likely than not that an impairment occurred. Goodwill is tested by comparing the estimated fair value of each reporting unit with its carrying value. Our annual goodwill impairment testing date is August 1, which did not indicate any goodwill impairment in any of our reporting units at August 1, 2015.

We use allocated tangible equity plus allocated goodwill and intangible assets as a proxy for the carrying amount of each reporting unit. The amount of equity allocated to a reporting unit is based on our cash capital model deployed in managing our businesses, which seeks to approximate the capital a business would require if it were operating independently. For further information on our Cash Capital Policy, refer to the Liquidity, Financial Condition and Capital Resources section herein. Intangible assets are allocated to a reporting unit based on either specifically identifying a particular intangible asset as pertaining to a reporting unit or, if shared among reporting units, based on an assessment of the reporting unit's benefit from the intangible asset in order to generate results.

Estimating the fair value of a reporting unit requires management judgment and often involves the use of estimates and assumptions that could have a significant effect on whether or not an impairment charge is recorded and the magnitude of such a charge. Estimated fair values for our reporting units utilize market valuation methods that incorporate price-to-earnings and price-to-book multiples of comparable public companies. Under the market approach, the key assumptions are the selected multiples and our internally developed forecasts of future profitability, growth and return on equity for each reporting unit. The weight assigned to the multiples requires judgment in qualitatively and quantitatively evaluating the size, profitability and the nature of the business activities of the reporting units as compared to the comparable publicly-traded companies. In addition, as the fair values determined under the market approach represent a noncontrolling interest, we apply a control premium to arrive at the estimate fair value of each reporting unit on a controlling basis.

The carrying values of goodwill by reporting unit at February 29, 2016 are as follows: \$566.2 million in Investment banking, \$160.8 million in Equities and Wealth Management, \$919.5 million in Fixed Income and \$3.0 million in Strategic Investments.

The results of our assessment on August 1, 2015 indicated that our reporting units had a fair value in excess of their carrying amounts based on current projections. While no goodwill impairment was identified, the valuation methodology for our Fixed Income reporting unit is sensitive to management's forecasts of future profitability, which comes with a level of uncertainty given current economic conditions and the recent results of our Fixed Income business. Changes in global economic growth, fixed income market liquidity and destabilization in the commodity markets, among other factors, may adversely impact our fixed income business. Although management has taken steps to reduce our market risk and capital commitments in order to be best aligned with the market conditions and opportunities we foresee, our forecasts of Fixed Income profitability assume an increase in liquidity and trading volumes in the fixed income markets and improvement in commodity and energy prices as compared to the most

recent quarter. A combination of the continuation of our recent net revenue levels and sustained reduction in comparable company multiples could cause a decline in the estimated fair value of the Fixed Income reporting unit and a resulting impairment of a portion of our goodwill.

Refer to Note 10, Goodwill and Other Intangible Assets, for further details on goodwill.

#### Compensation and Benefits

A portion of our compensation and benefits represents discretionary bonuses, which are finalized at year end. In addition to the level of net revenues, our overall compensation expense in any given year is influenced by prevailing labor markets, revenue mix,

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

profitability, individual and business performance metrics, and our use of share-based compensation programs. We believe the most appropriate way to allocate estimated annual total compensation among interim periods is in proportion to net revenues earned. Consequently, during the year we accrue compensation and benefits based on annual targeted compensation ratios, taking into account the mix of our revenues and the timing of expense recognition.

For further discussion of these and other significant accounting policies, see Note 2, Summary of Significant Accounting Policies, in our consolidated financial statements.

## Liquidity, Financial Condition and Capital Resources

Our Chief Financial Officer and Global Treasurer are responsible for developing and implementing our liquidity, funding and capital management strategies. These policies are determined by the nature and needs of our day to day business operations, business opportunities, regulatory obligations, and liquidity requirements.

Our actual levels of capital, total assets and financial leverage are a function of a number of factors, including asset composition, business initiatives and opportunities, regulatory requirements and cost and availability of both long term and short term funding. We have historically maintained a balance sheet consisting of a large portion of our total assets in cash and liquid marketable securities, arising principally from traditional securities brokerage and trading activity. The liquid nature of these assets provides us with flexibility in financing and managing our business.

## Analysis of Financial Condition

A business unit level balance sheet and cash capital analysis is prepared and reviewed with senior management on a weekly basis. As a part of this balance sheet review process, capital is allocated to all assets and gross and adjusted balance sheet limits are established. This process ensures that the allocation of capital and costs of capital are incorporated into business decisions. The goals of this process are to protect the firm's platform, enable our businesses to remain competitive, maintain the ability to manage capital proactively and hold businesses accountable for both balance sheet and capital usage.

We actively monitor and evaluate our financial condition and the composition of our assets and liabilities.

Substantially all of our Financial instruments owned and Financial instruments sold, not yet purchased are valued on a daily basis and we monitor and employ balance sheet limits for our various businesses. In connection with our government and agency fixed income business and our role as a primary dealer in these markets, a sizable portion of our securities inventory is comprised of U.S. government and agency securities and other G-7 government securities.

The following table provides detail on key balance sheet asset and liability line items (in millions):

	February 29, 2016	November 30, 2015	% Change	
Total assets	\$35,192.9	\$38,564.0	(8.7	)%
Cash and cash equivalents	2,599.6	3,510.2	(25.9	)%
Cash and securities segregated and on deposit for regulatory purposes or deposited	679.8	751.1	(9.5	)%
with clearing and depository organizations				
Financial instruments owned	13,629.6	16,559.1	(17.7	)%
Financial instruments sold, not yet purchased	7,476.7	6,785.1	10.2	%
Total Level 3 assets	488.8	541.7	(9.8	)%
Securities borrowed	\$7,347.6	\$6,975.1	5.3	%
Securities purchased under agreements to resell	3,526.7	3,857.3	(8.6	)%
Total securities borrowed and securities purchased under agreements to resell	\$10,874.3	\$10,832.4	0.4	%
Securities loaned	\$2,670.6	\$2,979.3	(10.4	)%



Edgar Filing: Jefferies Group LLC - Form 10-Q

Securities sold under agreements to repurchase	8,252.4	10,004.4	(17.5	)%
Total securities loaned and securities sold under agreements to repurchase	\$10,923.0	\$12,983.7	(15.9	)%

Total assets at February 29, 2016 and November 30, 2015 were \$35.2 billion and \$38.6 billion, respectively, a decline of 8.7%. This decline reflects continued reductions that we implemented beginning in the fourth quarter of 2015 given our view of the current market environment, which is also reflected in a continued reduction in risk at the comparable period ends. During the three months ended February 29, 2016, average total assets were approximately 26.9% higher than total assets at February 29, 2016.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

Our total Financial instruments owned inventory at February 29, 2016 was \$13.6 billion, a decrease of 17.7% from inventory of \$16.6 billion at November 30, 2015, primarily driven by decreases across most asset classes, including government obligations, federal agency and other sovereign inventory, corporate debt and equity securities, mortgage- and asset-backed securities and loans and other receivables due to global market and economic concerns. Financial instruments sold, not yet purchased inventory was \$7.5 billion and \$6.8 billion at February 29, 2016 and November 30, 2015, respectively, with the increase primarily driven by government, federal agency and other sovereign obligations inventory and corporate debt and equity securities due to overall market conditions, partially offset by a decrease in loans due to settlements during the three months ended February 29, 2016. Our overall net inventory position was \$6.2 billion and \$9.8 billion at February 29, 2016 and November 30, 2015, respectively. The change in our net inventory balance is attributed to a reduction in all net inventory positions. While our total Financial instruments owned declined from November 30, 2015 to February 29, 2016, our Level 3 financial instruments owned as a percentage of total financial instruments owned remained relatively constant at 3.6% at February 29, 2016 and 3.3% at November 30, 2015.

We continually monitor our overall securities inventory, including the inventory turnover rate, which confirms the liquidity of our overall assets. As a Primary Dealer in the U.S. and with our similar role in several European jurisdictions, we carry inventory and make an active market for our clients in securities issued by the various governments. These inventory positions are substantially comprised of the most liquid securities in the asset class, with a significant portion in holdings of securities of G-7 countries.

Of our total Financial instruments owned, approximately 74.7% are readily and consistently financeable at haircuts of 10% or less. In addition, as a matter of our policy, all of these assets have internal capital assessed, which is in addition to the funding haircuts provided in the securities finance markets. Additionally, certain of our Financial instruments owned primarily consisting of bank loans, consumer loans and investments are predominantly funded by long term capital. Under our cash capital policy, we model capital allocation levels that are more stringent than the haircuts used in the market for secured funding; and we maintain surplus capital at these more stringent levels. Securities financing assets and liabilities include both financing for our financial instruments trading activity and matched book transactions. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The aggregate outstanding balance of our securities borrowed and securities purchased under agreements to resell increased by 0.4% from November 30, 2015 to February 29, 2016, due to an increase in firm financing of our short inventory and a decrease in the netting benefit for our collateralized financing transactions, partially offset by a decrease in our matched book activity. The outstanding balance of our securities loaned and securities sold under agreement to repurchase decreased by 15.9% from November 30, 2015 to February 29, 2016 due to a decrease in our matched book activity and a decrease in firm financing of our inventory, partially offset by a decrease in the netting benefit for our collateralized financing transactions. By primarily executing repurchase agreements with central clearing corporations to finance liquid inventory, rather than bi-lateral arrangements, we reduce the credit risk associated with these arrangements and decrease net outstanding balances. Our average month end balances of total reverse repos and stock borrows and total repos and stock loans during the three months ended February 29, 2016 were 28.8% and 45.6% higher, respectively, than the February 29, 2016 balances.

The following table presents our period end balance, average balance and maximum balance at any month end within the periods presented for Securities purchased under agreements to resell and Securities sold under agreements to repurchase (in millions):

	Three Months Ended February 29, 2016	Year Ended November 30, 2015
Securities Purchased Under Agreements to Resell:		
Period end	\$3,527	\$3,857

Edgar Filing: Jefferies Group LLC - Form 10-Q

Month end average	5,582	5,719
Maximum month end	7,001	7,577
Securities Sold Under Agreements to Repurchase:		
Period end	\$8,252	\$10,004
Month end average	13,048	14,026
Maximum month end	16,620	18,629

Fluctuations in the balance of our repurchase agreements from period to period and intraperiod are dependent on business activity in those periods. Additionally, the fluctuations in the balances of our securities purchased under agreements to resell over the periods presented are influenced in any given period by our clients' balances and our clients' desires to execute collateralized financing arrangements via the repurchase market or via other financing products. Average balances and period end balances will

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

fluctuate based on market and liquidity conditions and we consider the fluctuations intraperiod to be typical for the repurchase market.

## Leverage Ratios

The following table presents total assets, adjusted assets, total equity, total member's equity, tangible equity and tangible member's equity with the resulting leverage ratios at February 29, 2016 and November 30, 2015 (in thousands):

	February 29, 2016	November 30, 2015
Total assets	\$35,192,869	\$38,563,972
Deduct: Securities borrowed	(7,347,587 )	(6,975,136 )
Securities purchased under agreements to resell	(3,526,686 )	(3,857,306 )
Add: Financial instruments sold, not yet purchased	7,476,658	6,785,064
Less derivative liabilities	(326,619 )	(208,548 )
Subtotal	7,150,039	6,576,516
Deduct: Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(679,812 )	(751,084 )
Goodwill and intangible assets	(1,868,956 )	(1,882,371 )
Adjusted assets	\$28,919,867	\$31,674,591
Total equity	\$5,262,158	\$5,509,377
Deduct: Goodwill and intangible assets	(1,868,956 )	(1,882,371 )
Tangible equity	\$3,393,202	\$3,627,006
Total member's equity	\$5,260,938	\$5,481,909
Deduct: Goodwill and intangible assets	(1,868,956 )	(1,882,371 )
Tangible member's equity	\$3,391,982	\$3,599,538
Leverage ratio (1)	6.7	7.0
Tangible gross leverage ratio (2)	9.8	10.2
Leverage ratio – excluding impacts of the Leucadia Transaction (3)	8.6	8.8
Adjusted leverage ratio (4)	8.5	8.7

(1) Leverage ratio equals total assets divided by total equity.

Tangible gross leverage ratio (a non-GAAP financial measure) equals total assets less goodwill and identifiable

(2) intangible assets divided by tangible member's equity. The tangible gross leverage ratio is used by Rating Agencies in assessing our leverage ratio.

On March 1, 2013, we converted into a limited liability company and became an indirect wholly owned subsidiary of Leucadia, pursuant to an agreement with Leucadia, which is accounted for using the acquisition method of accounting (the "Leucadia Transaction"). Leverage ratio – excluding impacts of the Leucadia Transaction (a non-GAAP financial measure) equals total assets less the increase in goodwill and asset fair values in accounting for the Leucadia Transaction of \$1,957 million less amortization of \$128 million and \$124 million during the period since the Leucadia Transaction to February 29, 2016 and November 30, 2015, respectively, on assets

(3) recognized at fair value in accounting for the Leucadia Transaction divided by the sum of total equity less \$1,364 million and \$1,353 million at February 29, 2016 and November 30, 2015, respectively, being the increase in equity arising from consideration of \$1,426 million excluding the \$125 million attributable to the assumption of our preferred stock by Leucadia, and less the impact on equity due to amortization of \$63 million and \$52 million at February 29, 2016 and November 30, 2015, respectively, on assets and liabilities recognized at fair value in accounting for the Leucadia Transaction.

(4) Adjusted leverage ratio (a non-GAAP financial measure) equals adjusted assets divided by tangible total equity.

Adjusted assets is a non-GAAP financial measure and excludes certain assets that are considered of lower risk as they are generally self-financed by customer liabilities through our securities lending activities. We view the resulting measure of adjusted leverage, also a non-GAAP financial measure, as a more relevant measure of financial risk when comparing financial services companies.

#### Liquidity Management

The key objectives of the liquidity management framework are to support the successful execution of our business strategies while ensuring sufficient liquidity through the business cycle and during periods of financial distress. Our liquidity management policies are designed to mitigate the potential risk that we may be unable to access adequate financing to service our financial obligations without material franchise or business impact.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

The principal elements of our liquidity management framework are our Contingency Funding Plan, our Cash Capital Policy and our assessment of Maximum Liquidity Outflow.

**Contingency Funding Plan.** Our Contingency Funding Plan is based on a model of a potential liquidity contraction over a one year time period. This incorporates potential cash outflows during a liquidity stress event, including, but not limited to, the following: (a) repayment of all unsecured debt maturing within one year and no incremental unsecured debt issuance; (b) maturity rolloff of outstanding letters of credit with no further issuance and replacement with cash collateral; (c) higher margin requirements than currently exist on assets on securities financing activity, including repurchase agreements; (d) liquidity outflows related to possible credit downgrade; (e) lower availability of secured funding; (f) client cash withdrawals; (g) the anticipated funding of outstanding investment and loan commitments; and (h) certain accrued expenses and other liabilities and fixed costs.

**Cash Capital Policy.** We maintain a cash capital model that measures long-term funding sources against requirements. Sources of cash capital include our equity and the noncurrent portion of long-term borrowings. Uses of cash capital include the following: (a) illiquid assets such as equipment, goodwill, net intangible assets, exchange memberships, deferred tax assets and certain investments; (b) a portion of securities inventory that is not expected to be financed on a secured basis in a credit stressed environment (i.e., margin requirements) and (c) drawdowns of unfunded commitments. To ensure that we do not need to liquidate inventory in the event of a funding crisis, we seek to maintain surplus cash capital, which is reflected in the leverage ratios we maintain. Our total long-term capital of \$10.6 billion at February 29, 2016 exceeded our cash capital requirements.

**Maximum Liquidity Outflow.** Our businesses are diverse, and our liquidity needs are determined by many factors, including market movements, collateral requirements and client commitments, all of which can change dramatically in a difficult funding environment. During a liquidity crisis, credit-sensitive funding, including unsecured debt and some types of secured financing agreements, may be unavailable, and the terms (e.g., interest rates, collateral provisions and tenor) or availability of other types of secured financing may change. As a result of our policy to ensure we have sufficient funds to cover what we estimate may be needed in a liquidity crisis, we hold more cash and unencumbered securities and have greater long-term debt balances than our businesses would otherwise require. As part of this estimation process, we calculate a Maximum Liquidity Outflow that could be experienced in a liquidity crisis. Maximum Liquidity Outflow is based on a scenario that includes both a market-wide stress and firm-specific stress, characterized by some or all of the following elements:

- Global recession, default by a medium-sized sovereign, low consumer and corporate confidence, and general financial instability.

- Severely challenged market environment with material declines in equity markets and widening of credit spreads.

- Damaging follow-on impacts to financial institutions leading to the failure of a large bank.

- A firm-specific crisis potentially triggered by material losses, reputational damage, litigation, executive departure, and/or a ratings downgrade.

The following are the critical modeling parameters of the Maximum Liquidity Outflow:

- Liquidity needs over a 30-day scenario.

- A two-notch downgrade of our long-term senior unsecured credit ratings.

- No support from government funding facilities.

A combination of contractual outflows, such as upcoming maturities of unsecured debt, and contingent outflows (e.g., actions though not contractually required, we may deem necessary in a crisis). We assume that most contingent outflows will occur within the initial days and weeks of a crisis.

- No diversification benefit across liquidity risks. We assume that liquidity risks are additive.

The calculation of our Maximum Liquidity Outflow under the above stresses and modeling parameters considers the following potential contractual and contingent cash and collateral outflows:

-

All upcoming maturities of unsecured long-term debt, commercial paper, promissory notes and other unsecured funding products assuming we will be unable to issue new unsecured debt or rollover any maturing debt.  
Repurchases of our outstanding long-term debt in the ordinary course of business as a market maker.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

A portion of upcoming contractual maturities of secured funding trades due to either the inability to refinance or the inability to refinance only at wider haircuts (i.e., on terms which require us to post additional collateral). Our assumptions reflect, among other factors, the quality of the underlying collateral and counterparty concentration. Collateral postings to counterparties due to adverse changes in the value of our Over-the-counter ("OTC") derivatives and other outflows due to trade terminations, collateral substitutions, collateral disputes, collateral calls or termination payments required by a two-notch downgrade in our credit ratings.

Variation margin postings required due to adverse changes in the value of our outstanding exchange-traded derivatives and any increase in initial margin and guarantee fund requirements by derivative clearing houses.

Liquidity outflows associated with our prime brokerage business, including withdrawals of customer credit balances, and a reduction in customer short positions.

Liquidity outflows to clearing banks to ensure timely settlements of cash and securities transactions.

Draws on our unfunded commitments considering, among other things, the type of commitment and counterparty.

Other upcoming large cash outflows, such as tax payments.

Based on the sources and uses of liquidity calculated under the Maximum Liquidity Outflow scenarios we determine, based on a calculated surplus or deficit, additional long-term funding that may be needed versus funding through the repurchase financing market and consider any adjustments that may be necessary to our inventory balances and cash holdings. At February 29, 2016, we have sufficient excess liquidity to meet all contingent cash outflows detailed in the Maximum Liquidity Outflow. We regularly refine our model to reflect changes in market or economic conditions and the firm's business mix.

## Sources of Liquidity

The following are financial instruments that are cash and cash equivalents or are deemed by management to be generally readily convertible into cash, marginable or accessible for liquidity purposes within a relatively short period of time (in thousands):

	February 29, 2016	Average balance Quarter ended February 29, 2016 (1)	November 30, 2015	
Cash and cash equivalents:				
Cash in banks	\$772,688	\$849,638	\$973,796	
Certificate of deposit	—	40,385	75,000	
Money market investments	1,826,949	1,650,087	2,461,367	
Total cash and cash equivalents	2,599,637	2,540,110	3,510,163	
Other sources of liquidity:				
Debt securities owned and securities purchased under agreements to resell (2)	1,061,126	937,763	1,265,840	
Other (3)	629,670	639,635	305,123	
Total other sources	1,690,796	1,577,398	1,570,963	
Total cash and cash equivalents and other liquidity sources	\$4,290,433	\$4,117,508	\$5,081,126	
Total cash and cash equivalents and other liquidity sources as % of	12.2	%	13.2	%
Total Assets				
Total cash and cash equivalents and other liquidity sources as % of	12.9	%	13.9	%
Total Assets less Goodwill and Intangible assets				

(1) Average balances are calculated based on weekly balances.

(2) Consists of high quality sovereign government securities and reverse repurchase agreements collateralized by U.S. government securities and other high quality sovereign government securities; deposits with a central bank within



the European Economic Area, Canada, Australia, Japan, Switzerland or the USA; and securities issued by a designated multilateral development bank and reverse repurchase agreements with underlying collateral comprised of these securities.

Other includes unencumbered inventory representing an estimate of the amount of additional secured financing that (3) could be reasonably expected to be obtained from our financial instruments owned that are currently not pledged after considering reasonable financing haircuts.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

In addition to the cash balances and liquidity pool presented above, the majority of financial instruments (both long and short) in our trading accounts are actively traded and readily marketable. At February 29, 2016, we had the ability to readily obtain repurchase financing for 74.7% of our inventory at haircuts of 10% or less, which reflects the liquidity of our inventory. We continually assess the liquidity of our inventory based on the level at which we could obtain financing in the market place for a given asset. Assets are considered to be liquid if financing can be obtained in the repurchase market or the securities lending market at collateral haircut levels of 10% or less. The following summarizes our financial instruments by asset class that we consider to be of a liquid nature and the amount of such assets that have not been pledged as collateral at February 29, 2016 and November 30, 2015 (in thousands):

	February 29, 2016		November 30, 2015	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)
Corporate equity securities	\$1,733,631	\$ 344,324	\$1,881,419	\$ 268,664
Corporate debt securities	1,776,121	142,969	1,999,162	89,230
U.S. government, agency and municipal securities	1,779,887	352,069	2,987,784	317,518
Other sovereign obligations	2,047,701	800,512	2,444,339	1,026,842
Agency mortgage-backed securities (1)	2,849,907	—	3,371,680	—
	\$10,187,247	\$ 1,639,874	\$12,684,384	\$ 1,702,254

Consists solely of agency mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. These (1) securities include pass-through securities, securities backed by adjustable rate mortgages (“ARMs”), collateralized mortgage obligations, commercial mortgage-backed securities and interest- and principal-only securities.

(2) Unencumbered liquid balances represent assets that can be sold or used as collateral for a loan, but have not been. Average liquid financial instruments were \$13.9 billion for the three months ended February 29, 2016, and \$15.3 billion and \$15.2 billion for the three and twelve months ended November 30, 2015, respectively. Average unencumbered liquid financial instruments were \$1.7 billion for the three months ended February 29, 2016 and \$1.9 billion for both the three and twelve months ended November 30, 2015.

In addition to being able to be readily financed at modest haircut levels, we estimate that each of the individual securities within each asset class above could be sold into the market and converted into cash within three business days under normal market conditions, assuming that the entire portfolio of a given asset class was not simultaneously liquidated. There are no restrictions on the unencumbered liquid securities, nor have they been pledged as collateral.

Sources of Funding and Capital Resources

Our assets are funded by equity capital, senior debt, convertible debt, securities loaned, securities sold under agreements to repurchase, customer free credit balances, bank loans and other payables.

Secured Financing

We rely principally on readily available secured funding to finance our inventory of financial instruments. Our ability to support increases in total assets is largely a function of our ability to obtain short and intermediate-term secured funding, primarily through securities financing transactions. We finance a portion of our long inventory and cover some of our short inventory by pledging and borrowing securities in the form of repurchase or reverse repurchase agreements (collectively “repos”), respectively. Approximately 72.0% of our repurchase financing activities use collateral that is considered eligible collateral by central clearing corporations. Central clearing corporations are situated between participating members who borrow cash and lend securities (or vice versa); accordingly repo participants contract with the central clearing corporation and not one another individually. Therefore, counterparty credit risk is borne by the central clearing corporation which mitigates the risk through initial margin demands and variation margin calls from repo participants. The comparatively large proportion of our total repo activity that is eligible for central clearing reflects the high quality and liquid composition of the inventory we carry in our trading books. The tenor of our repurchase and reverse repurchase agreements generally exceeds the expected holding period of the assets we are financing.

A significant portion of our financing of European sovereign inventory is executed using central clearinghouse financing arrangements rather than via bi-lateral repo agreements. For those asset classes not eligible for central clearinghouse financing, we seek to execute our bi-lateral financings on an extended term basis.

75

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

Weighted average maturity of repurchase agreements for non-clearing corporation eligible funded inventory is approximately three months at February 29, 2016. Our ability to finance our inventory via central clearinghouses and bi-lateral arrangements is augmented by our ability to draw bank loans on an uncommitted basis under our various banking arrangements. At February 29, 2016, short-term borrowings, which include bank loans, as well as borrowings under revolving credit facilities which must be repaid within one year or less, totaled \$311.9 million. Interest under the bank lines is generally at a spread over the federal funds rate. Letters of credit are used in the normal course of business mostly to satisfy various collateral requirements in favor of exchanges in lieu of depositing cash or securities. Average daily short-term borrowings outstanding were \$306.2 million for the three months ended February 29, 2016. In addition to the above financing arrangements, in November 2012 we began to issue notes backed by eligible collateral under a master repurchase agreement, which provides an additional financing source for our inventory (our “repurchase agreement financing program”). At February 29, 2016, the outstanding amount of the notes issued under the program was \$877.6 million in aggregate, which is presented within Other secured financings in the Consolidated Statement of Financial Condition. Of the \$877.6 million aggregate notes, \$50.0 million expire in June 2016, \$195.1 million in July 2016, \$75.8 million in August 2016, \$60.0 million in December 2016, \$225.0 million in February 2017, \$60.0 million in May 2017 and \$60.0 million in October 2017, all bearing interest at a spread over one month LIBOR. The remaining \$151.7 million mature in July 2016, and bear interest at a spread over three month LIBOR. At February 29, 2016, \$390.9 million of the \$877.6 million aggregate notes are redeemable within approximately 90 days at the option of the noteholders. For additional discussion on the program, refer to Note 8, Variable Interest Entities, in our consolidated financial statements.

On April 23, 2015, Jefferies entered into a committed revolving credit facility (“Intraday Credit Facility”) with the Bank of New York Mellon. The Bank of New York Mellon agrees to make revolving intraday credit advances for an aggregate committed amount of \$500.0 million in U.S. dollars. The term of the Intraday Credit Facility is six months after the closing date, but can be extended for an additional six months upon our request and at the lender's discretion. On October 22, 2015, we amended and restated the Intraday Credit Facility and reduced the aggregate committed amount to \$300.0 million in U.S. dollars and extended the termination date to October 21, 2016, which can be extended for 364 days upon our request and at the lender's discretion. The Intraday Credit Facility contains a financial covenant, which includes a minimum regulatory net capital requirement. Interest is based on the higher of the Federal funds effective rate plus 0.5% or the prime rate. At February 29, 2016, we were in compliance with all debt covenants under the Intraday Credit Facility.

## Total Long-Term Capital

At February 29, 2016 and November 30, 2015, we have total long-term capital of \$10.6 billion and \$10.8 billion resulting in a long-term debt to equity capital ratio of 1.01:1 and 0.96:1, respectively. Our total long-term capital base at February 29, 2016 and November 30, 2015 was as follows (in thousands):

	February 29, 2016	November 30, 2015
Long-Term Debt (1)	\$5,325,528	\$5,287,697
Total Equity	5,262,158	5,509,377
Total Long-Term Capital	\$10,587,686	\$10,797,074

(1) Long-term debt for purposes of evaluating long-term capital at February 29, 2016 excludes \$22.2 million of our non-recourse outstanding borrowings. In addition, long-term capital excludes \$350.4 million and \$353.0 million of our 5.5% Senior Notes at February 29, 2016 and November 30, 2015, respectively, as these notes mature in less than one year from the period end.

## Long-Term Debt

Under our \$2.0 billion Euro Medium Term Note Program, on February 18, 2016, we issued variable rate structured notes with a principal amount of €30.0 million, due 2028 and on February 26, 2016, we issued fixed to floating rate

structured notes with a principal amount of €10.0 million, due 2019. These structured notes are carried at fair value with changes in fair value resulting from a change in the instrument-specific credit risk presented in other comprehensive income and changes in fair value resulting from non-credit components recognized in Principal transaction revenues and contain payment terms and redemption values based on the performance of certain interest rate indices. In addition, on January 21, 2016, we issued \$15.0 million of Class A Notes, due 2022, which bear interest at 6.75% per annum and \$7.5 million of Class B Notes, due 2022, which bear interest at 13.45% per annum, secured by aircraft and related operating leases and which are non-recourse to us.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

At February 29, 2016, our long-term debt has a weighted average maturity of approximately 7 years. Our long-term debt ratings at February 29, 2016 are as follows:

	Rating	Outlook
Moody's Investors Service (1)	Baa3	Stable
Standard and Poor's	BBB-	Stable
Fitch Ratings (2)	BBB-	Stable

(1) On January 21, 2016, Moody's affirmed our long-term debt rating of Baa3 and our rating outlook was changed from negative to stable. On March 15, 2016, Moody's reaffirmed this rating and rating outlook.

(2) On February 29, 2016, Fitch reaffirmed our long-term debt rating of BBB- and our rating outlook of stable.

At February 29, 2016, the long-term ratings on our principal operating broker-dealers, Jefferies LLC ("Jefferies") (a U.S. broker-dealer) and Jefferies International Limited (a U.K. broker-dealer) are as follows:

	Jefferies		Jefferies International Limited	
	Rating	Outlook	Rating	Outlook
Moody's Investors Service (1)	Baa2	Stable	Baa2	Stable
Standard and Poor's	BBB	Stable	BBB	Stable

(1) On January 21, 2016, Moody's affirmed these long-term debt ratings and the rating outlook was changed from negative to stable.

We rely upon our cash holdings and external sources to finance a significant portion of our day to day operations. Access to these external sources, as well as the cost of that financing, is dependent upon various factors, including our debt ratings. Our current debt ratings are dependent upon many factors, including industry dynamics, operating and economic environment, operating results, operating margins, earnings trend and volatility, balance sheet composition, liquidity and liquidity management, our capital structure, our overall risk management, business diversification and our market share and competitive position in the markets in which we operate. Deteriorations in any of these factors could impact our credit ratings. While certain aspects of a credit rating downgrade are quantifiable pursuant to contractual provisions, the impact on our business and trading results in future periods is inherently uncertain and depends on a number of factors, including the magnitude of the downgrade, the behavior of individual clients and future mitigating action taken by us.

In connection with certain over-the-counter derivative contract arrangements and certain other trading arrangements, we may be required to provide additional collateral to counterparties, exchanges and clearing organizations in the event of a credit rating downgrade. At February 29, 2016, the amount of additional collateral that could be called by counterparties, exchanges and clearing organizations under the terms of such agreements in the event of a downgrade of our long-term credit rating below investment grade was \$62.8 million. For certain foreign clearing organizations credit rating is only one of several factors employed in determining collateral that could be called. The above represents management's best estimate for additional collateral to be called in the event of credit rating downgrade. The impact of additional collateral requirements are considered in our Contingency Funding Plan and calculation of Maximum Liquidity Outflow, as described above.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Contractual Obligations and Commitments

The tables below provide information about our commitments related to debt obligations, investments and derivative contracts at February 29, 2016. The table presents principal cash flows with expected maturity dates (in millions):

	Expected Maturity Date					Total
	2016	2017	2018 and 2019	2020 and 2021	2022 and Later	
Debt obligations:						
Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums)	\$350.4	\$347.1	\$1,626.5	\$1,377.2	\$1,997.0	\$5,698.2
Interest payment obligations on senior notes	295.7	289.2	464.1	311.3	1,154.1	2,514.4
	\$646.1	\$636.3	\$2,090.6	\$1,688.5	\$3,151.1	\$8,212.6
Commitments and guarantees:						
Equity commitments	\$1.5	\$7.9	\$—	\$11.5	\$238.5	\$259.4
Loan commitments	2.5	330.8	55.9	—	—	389.2
Mortgage-related and other purchase commitments	1,352.2	255.3	926.4	—	—	2,533.9
Forward starting reverse repos and repos	77.1	—	—	—	—	77.1
Other unfunded commitments	47.5	215.8	37.0	5.5	35.0	340.8
Derivative Contracts (1):						
Derivative contracts – non credit related	13,418.6	1,048.6	348.1	—	426.7	15,242.0
Derivative contracts – credit related	—	—	90.2	197.0	2.5	289.7
	\$14,899.4	\$1,858.4	\$1,457.6	\$214.0	\$702.7	\$19,132.1

Certain of our derivative contracts meet the definition of a guarantee and are therefore included in the above table.

(1) For additional information on commitments, see Note 17, Commitments, Contingencies and Guarantees, in our consolidated financial statements.

In addition, in March 2016, we entered into an lease agreement for office space in London. Beginning in fiscal 2020, we will have a contractual obligation to pay approximately £8.1 million per year for 18 years.

In the normal course of business we engage in other off balance sheet arrangements, including derivative contracts. Neither derivatives' notional amounts nor underlying instrument values are reflected as assets or liabilities in our Consolidated Statements of Financial Condition. Rather, the fair value of derivative contracts are reported in the Consolidated Statements of Financial Condition as Financial instruments owned or Financial instruments sold, not yet purchased as applicable. Derivative contracts are reflected net of cash paid or received pursuant to credit support agreements and are reported on a net by counterparty basis when a legal right of offset exists under an enforceable master netting agreement. For additional information about our accounting policies and our derivative activities see Note 2, Summary of Significant Accounting Policies, Note 4, Fair Value Disclosures, and Note 5, Derivative Financial Instruments, in our consolidated financial statements.

We are routinely involved with variable interest entities ("VIEs") in the normal course of business. At February 29, 2016, we did not have any commitments to purchase assets from our VIEs. For additional information regarding our involvement with VIEs, see Note 7, Securitization Activities, and Note 8, Variable Interest Entities, in our consolidated financial statements.

Due to the uncertainty regarding the timing and amounts that will ultimately be paid, our liability for unrecognized tax benefits has been excluded from the above contractual obligations table. See Note 16, Income Taxes, in our consolidated financial statements for further information.

Equity Capital

As compared to November 30, 2015, the decrease to total member's equity at February 29, 2016 is attributed to a net loss during the three months ended February 29, 2016 and foreign currency translation adjustments.

Net Capital

As broker-dealers registered with the SEC and member firms of the Financial Industry Regulatory Authority ("FINRA"), Jefferies and Jefferies Execution are subject to the Securities and Exchange Commission Uniform Net Capital Rule ("Rule 15c3-1"), which requires the maintenance of minimum net capital, and have elected to calculate minimum capital requirements using the alternative



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

method permitted by Rule 15c3-1 in calculating net capital. Jefferies, as a dually-registered U.S. broker-dealer and FCM, is also subject to Rule 1.17 of the Commodity Futures Trading Commission ("CFTC"), which sets forth minimum financial requirements. The minimum net capital requirement in determining excess net capital for a dually-registered U.S. broker-dealer and FCM is equal to the greater of the requirement under Rule 15c3-1 or CFTC Rule 1.17.

At February 29, 2016, Jefferies and Jefferies Execution's net capital and excess net capital were as follows (in thousands):

	Net Capital	Excess Net Capital
Jefferies	\$1,261,050	\$1,185,025
Jefferies Execution	10,280	10,030

FINRA is the designated self-regulatory organization ("DSRO") for our U.S. broker-dealers and the National Futures Association is the DSRO for Jefferies as an FCM.

Certain other U.S. and non-U.S. subsidiaries are subject to capital adequacy requirements as prescribed by the regulatory authorities in their respective jurisdictions, including Jefferies International Limited and Jefferies Bache Limited which are subject to the regulatory supervision and requirements of the Financial Conduct Authority in the United Kingdom. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") was signed into law on July 21, 2010. The Dodd-Frank Act contains provisions that require the registration of all swap dealers, major swap participants, security-based swap dealers, and/or major security-based swap participants. While entities that register under these provisions will be subject to regulatory capital requirements, these regulatory capital requirements have not yet been finalized. We expect that these provisions will result in modifications to the regulatory capital requirements of some of our entities, and will result in some of our other entities becoming subject to regulatory capital requirements for the first time, including Jefferies Derivative Products, LLC and Jefferies Financial Services, Inc., which registered as swap dealers with the CFTC during January 2013 and Jefferies Financial Products LLC, which registered during August 2014.

The regulatory capital requirements referred to above may restrict our ability to withdraw capital from our regulated subsidiaries.

**Risk Management****Overview**

Risk is an inherent part of our business and activities. The extent to which we properly and effectively identify, assess, monitor and manage each of the various types of risk involved in our activities is critical to our financial soundness, viability and profitability. Accordingly, we have a comprehensive risk management approach, with a formal governance structure and processes to identify, assess, monitor and manage risk. Principal risks involved in our business activities include market, credit, liquidity and capital, operational, legal and compliance, new business, and reputational risk.

Risk management is a multifaceted process that requires communication, judgment and knowledge of financial products and markets. Accordingly, our risk management process encompasses the active involvement of executive and senior management, and also many departments independent of the revenue-producing business units, including the Risk Management, Operations, Compliance, Legal and Finance Departments. Our risk management policies, procedures and methodologies are fluid in nature and are subject to ongoing review and modification.

For discussion of liquidity and capital risk management, refer to the "Liquidity, Financial Condition and Capital Resources" section herein.

**Governance and Risk Management Structure**

Our Board of Directors. Our Board of Directors and its Audit Committee play an important role in reviewing our risk management process and risk tolerance. Our Board of Directors and Audit Committee are provided with data relating to risk at each of its regularly scheduled meetings. Our Chief Risk Officer and Global Treasurer meet with the Board

of Directors on not less than a quarterly basis to present our risk profile and liquidity profile and to respond to questions.

Risk Committees. We make extensive use of internal committees to govern risk taking and ensure that business activities are properly identified, assessed, monitored and managed. Our Risk Management Committee meets weekly to discuss our risk, capital, and liquidity profile in detail. In addition, business or market trends and their potential impact on the risk profile are discussed. Membership is comprised of our Chief Executive Officer and Chairman, Chairman of the Executive Committee, Chief Financial

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Officer, Chief Risk Officer and Global Treasurer. The Committee approves limits for us as a whole, and across risk categories and business lines. It also reviews all limit breaches. Limits are reviewed on at least an annual basis. Other risk related committees include Market Risk Management, Credit Risk Management, New Business, Underwriting Acceptance, Margin Oversight, Executive Management and Operating Committees. These Committees govern risk taking and ensure that business activities are properly managed for their area of oversight.

Risk Related Policies. We make use of various policies in the risk management process:

• **Market Risk Policy-** This policy sets out roles, responsibilities, processes and escalation procedures regarding market risk management.

• **Independent Price Verification Policy-** This policy sets out roles, responsibilities, processes and escalation procedures regarding independent price verification for securities and other financial instruments.

• **Operational Risk Policy-** This policy sets out roles, responsibilities, processes and escalation procedures regarding operational risk management.

• **Credit Risk Policy-** This policy provides standards and controls for credit risk-taking throughout our global business activities. This policy also governs credit limit methodology and counterparty review.

• **Model Validation Policy-**This policy sets out roles, processes and escalation procedures regarding model validation and model risk management.

**Risk Management Key Metrics**

We apply a comprehensive framework of limits on a variety of key metrics to constrain the risk profile of our business activities. The size of the limit reflects our risk tolerance for a certain activity under normal business conditions. Key metrics included in our framework include inventory position and exposure limits on a gross and net basis, scenario analysis and stress tests, Value-at-Risk, sensitivities (greeks), exposure concentrations, aged inventory, amount of Level 3 assets, counterparty exposure, leverage, cash capital, and performance analysis metrics.

**Market Risk**

The potential for changes in the value of financial instruments is referred to as market risk. Our market risk generally represents the risk of loss that may result from a change in the value of a financial instrument as a result of fluctuations in interest rates, credit spreads, equity prices, commodity prices and foreign exchange rates, along with the level of volatility. Interest rate risks result primarily from exposure to changes in the yield curve, the volatility of interest rates, and credit spreads. Equity price risks result from exposure to changes in prices and volatilities of individual equities, equity baskets and equity indices. Commodity price risks result from exposure to the changes in prices and volatilities of individual commodities, commodity baskets and commodity indices. Market risk arises from market making, proprietary trading, underwriting, specialist and investing activities. We seek to manage our exposure to market risk by diversifying exposures, controlling position sizes, and establishing economic hedges in related securities or derivatives. Due to imperfections in correlations, gains and losses can occur even for positions that are hedged. Position limits in trading and inventory accounts are established and monitored on an ongoing basis. Each day, consolidated position and exposure reports are prepared and distributed to various levels of management, which enable management to monitor inventory levels and results of the trading groups.

**Value-at-Risk**

We estimate Value-at-Risk (“VaR”) using a model that simulates revenue and loss distributions on substantially all financial instruments by applying historical market changes to the current portfolio. Using the results of this simulation, VaR measures the potential loss in value of our financial instruments due to adverse market movements over a specified time horizon at a given confidence level. We calculate a one-day VaR using a one year look-back period measured at a 95% confidence level.

As with all measures of VaR, our estimate has inherent limitations due to the assumption that historical changes in market conditions are representative of the future. Furthermore, the VaR model measures the risk of a current static position over a one-day horizon and might not capture the market risk of positions that cannot be liquidated or offset with hedges in a one-day period. Published VaR results reflect past trading positions while future risk depends on future positions.

While we believe the assumptions and inputs in our risk model are reasonable, we could incur losses greater than the reported VaR because the historical market prices and rates changes may not be an accurate measure of future market events and conditions. Consequently, this VaR estimate is only one of a number of tools we use in our daily risk management activities. During the first

80

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

quarter of 2016, we experienced sizable losses given the exceptionally volatile and turbulent market, which were more dramatic than the estimates included in our VaR which are based on historical observations.

When comparing our VaR numbers to those of other firms, it is important to remember that different methodologies and assumptions could produce significantly different results.

Our average daily VaR decreased to \$8.37 million for the three months ended February 29, 2016 from \$9.72 million for the three months ended November 30, 2015. The decrease was primarily driven by a decrease in equity risk exposure due to a reduction in various equity block positions, partially offset by a reduction in the diversification benefit. Excluding our investment in KCG, our average VaR decreased to \$6.69 million for the three months ended February 29, 2016 from \$8.46 million in the three months ended November 30, 2015.

The following table illustrates each separate component of VaR for each component of market risk by interest rate, equity, currency and commodity products, as well as for our overall trading positions using the past 365 days of historical data (in millions).

Risk Categories	VaR at February 29, 2016	Daily VaR (1) Value-at-Risk In Trading Portfolios Daily VaR for the Three Months Ended February 29, 2016			VaR at November 30, 2015	Daily VaR for the Three Months Ended November 30, 2015		
		Average	High	Low		Average	High	Low
		Interest Rates	\$4.58	\$5.01		\$6.25	\$3.84	\$5.01
Equity Prices	4.98	6.09	9.55	3.20	6.69	7.67	12.18	5.39
Currency Rates	0.74	0.45	1.10	0.18	0.30	0.52	0.93	0.16
Commodity Prices	1.17	0.72	1.56	0.31	0.82	0.94	1.53	0.43
Diversification Effect (2)	(3.96 )	(3.90 )	N/A	N/A	(5.09 )	(5.06 )	N/A	N/A
Firmwide	\$7.51	\$8.37	\$11.40	\$5.89	\$7.73	\$9.72	\$15.52	\$6.35

(1) For the VaR numbers reported above, a one-day time horizon, with a one year look-back period, and a 95% confidence level were used.

(2) The diversification effect is not applicable for the maximum and minimum VaR values as the firmwide VaR and the VaR values for the four risk categories might have occurred on different days during the period.

The aggregated VaR presented here is less than the sum of the individual components (i.e., interest rate risk, foreign exchange rate risk, equity risk and commodity price risk) due to the benefit of diversification among the four risk categories. Diversification benefit equals the difference between aggregated VaR and the sum of VaRs for the four risk categories and arises because the market risk categories are not perfectly correlated.

The chart below reflects our daily VaR over the last four quarters:

The primary method used to test the efficacy of the VaR model is to compare our actual daily net revenue for those positions included in our VaR calculation with the daily VaR estimate. This evaluation is performed at various levels of the trading portfolio,

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

from the holding company level down to specific business lines. For the VaR model, trading related revenue is defined as principal transaction revenue, trading related commissions, revenue from securitization activities and net interest income. For a 95% confidence one day VaR model (i.e., no intra-day trading), assuming current changes in market value are consistent with the historical changes used in the calculation, net trading losses would not be expected to exceed the VaR estimates more than twelve times on an annual basis (i.e., once in every 20 days). During the three months ended February 29, 2016, results of the evaluation at the aggregate level demonstrated two days when the net trading loss exceeded the 95% one day VaR.

Certain positions within financial instruments are not included in the VaR model because VaR is not the most appropriate measure of risk. Accordingly, Risk Management has additional procedures in place to assure that the level of potential loss that would arise from market movements are within acceptable levels. Such procedures include performing stress tests, monitoring concentration risk and tracking price target/stop loss levels. The table below presents the potential reduction in net income associated with a 10% stress of the fair value of the positions that are not included in the VaR model at February 29, 2016 (in thousands):

	10% Sensitivity
Private investments	\$ 21,843
Corporate debt securities in default	4,745
Trade claims	522
Daily Net Trading Revenue	

Excluding trading losses associated with the daily marking to market of our investment in KCG, there were 12 days with trading losses out of a total of 61 trading days in the three months ended February 29, 2016. Including these losses, there were 17 days with trading losses. The loss days were primarily attributable to two listed equity block positions. The histogram below presents the distribution of our actual daily net trading revenue for substantially all of our trading activities for the three months ended February 29, 2016 (in millions).

## Scenario Analysis and Stress Tests

While VaR measures potential losses due to adverse changes in historical market prices and rates, we use stress testing to analyze the potential impact of specific events or moderate or extreme market moves on our current portfolio both firm wide and within business segments. Stress scenarios comprise both historical market price and rate changes and hypothetical market environments, and generally involve simultaneous changes of many risk factors. Indicative market changes in our scenarios include, but are not limited to, a large widening of credit spreads, a substantial decline in equities markets, significant moves in selected emerging markets, large moves in interest rates, changes in the shape of the yield curve and large moves in European markets. In addition, we also perform ad hoc stress tests and add new scenarios as market conditions dictate. Because our stress scenarios are meant to reflect market moves that occur over a period of time, our estimates of potential loss assume some level of position reduction for liquid positions. Unlike our VaR, which measures potential losses within a given confidence interval, stress scenarios do not have an associated implied probability; rather, stress testing is used to estimate the potential loss from market moves that tend to be larger than those embedded in the VaR calculation.

Stress testing is performed and reported regularly as part of the risk management process. Stress testing is used to assess our aggregate risk position as well as for limit setting and risk/reward analysis.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Counterparty Credit Risk and Issuer Country Exposure

Counterparty Credit Risk

Credit risk is the risk of loss due to adverse changes in a counterparty's credit worthiness or its ability or willingness to meet its financial obligations in accordance with the terms and conditions of a financial contract. We are exposed to credit risk as trading counterparty to other broker-dealers and customers, as a direct lender and through extending loan commitments, as a holder of securities and as a member of exchanges and clearing organizations.

It is critical to our financial soundness and profitability that we properly and effectively identify, assess, monitor, and manage the various credit and counterparty risks inherent in our businesses. Credit is extended to counterparties in a controlled manner in order to generate acceptable returns, whether such credit is granted directly or is incidental to a transaction. All extensions of credit are monitored and managed on an enterprise level in order to limit exposure to loss related to credit risk.

Our Credit Risk Framework is responsible for identifying credit risks throughout the operating businesses, establishing counterparty limits and managing and monitoring those credit limits. Our framework includes:

- defining credit limit guidelines and credit limit approval processes;
- providing a consistent and integrated credit risk framework across the enterprise;
- approving counterparties and counterparty limits with parameters set by the Risk Management Committee;
- negotiating, approving and monitoring credit terms in legal and master documentation;
- delivering credit limits to all relevant sales and trading desks;
- maintaining credit reviews for all active and new counterparties;
- operating a control function for exposure analytics and exception management and reporting;
- determining the analytical standards and risk parameters for on-going management and monitoring of global credit risk books;
- actively managing daily exposure, exceptions, and breaches;
- monitoring daily margin call activity and counterparty performance (in concert with the Margin Department); and
- setting the minimum global requirements for systems, reports, and technology.

Credit Exposures

Credit exposure exists across a wide-range of products including cash and cash equivalents, loans, securities finance transactions and over-the-counter derivative contracts.

Loans and lending arise in connection with our capital markets activities and represents the current exposure, amount at risk on a default event with no recovery of loans. Current exposure represents loans that have been drawn by the borrower and lending commitments that were outstanding. In addition, credit exposures on forward settling traded loans are included within our loans and lending exposures for consistency with the balance sheet categorization of these items.

Securities and margin finance includes credit exposure arising on securities financing transactions (reverse repurchase agreements, repurchase agreements and securities lending agreements) to the extent the fair value of the underlying collateral differs from the contractual agreement amount and from margin provided to customers.

Derivatives represent OTC derivatives, which are reported net by counterparty when a legal right of setoff exists under an enforceable master netting agreement. Derivatives are accounted for at fair value net of cash collateral received or posted under credit support agreements. In addition, credit exposures on forward settling trades are included within our derivative credit exposures.

Cash and cash equivalents include both interest-bearing and non-interest bearing deposits at banks.

Current counterparty credit exposures at February 29, 2016 and November 30, 2015 are summarized in the tables below and provided by credit quality, region and industry (in millions). Credit exposures presented take netting and collateral into consideration by counterparty and master agreement. Collateral taken into consideration includes both collateral received as cash as well as collateral received in the form of securities or other arrangements. Current exposure is the loss that would be incurred on a particular set of positions in the event of default by the counterparty, assuming no recovery. Current exposure equals the fair value of the positions less collateral. Issuer risk is the credit risk arising from inventory positions (for example, corporate debt securities and





Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

secondary bank loans). Issuer risk is included in our country risk exposure tables below. Of our counterparty credit exposure at February 29, 2016, excluding cash and cash equivalents, the percentage of exposure from investment grade counterparties increased 2% to 81% from 79% at November 30, 2015, and are mainly concentrated in North America.

When comparing our credit exposure at February 29, 2016 with credit exposure at November 30, 2015, excluding cash and cash equivalents, current exposure has decreased 9% to approximately \$1.2 billion from \$1.3 billion.

Counterparty credit exposure from loans and lending decreased by 46%, primarily attributable to North American corporates and loans. Counterparty credit exposure from OTC derivatives increased over the period by 27% and from securities and margin finance decreased by 2% over the period.

## Counterparty Credit Exposure by Credit Rating

	Loans and Lending		Securities and Margin Finance		OTC Derivatives		Total	Cash and Cash Equivalents		Total with Cash and Cash Equivalents		
	At	At	At	At	At	At		At	At	At	At	
	February 29, 2016	November 30, 2015 (1)	February 29, 2016	November 30, 2015	February 29, 2016	November 30, 2015	February 29, 2016	November 30, 2015 (1)	February 29, 2016	November 30, 2015	February 29, 2016	November 30, 2015 (1)
AAA Range	\$—	\$—	\$0.7	\$11.8	\$—	\$—	\$0.7	\$11.8	\$1,827.5	\$2,461.4	\$1,828.2	\$2,473.2
AA Range	—	—	151.0	152.3	2.7	4.4	153.7	156.7	18.9	175.0	172.6	331.7
A Range	—	1.0	542.1	556.4	137.7	95.9	679.8	653.3	729.7	846.3	1,409.5	1,499.6
BBB Range	—	86.6	119.9	107.9	19.5	31.7	139.4	226.2	23.3	25.8	162.7	252.0
BB or Lower	137.8	181.7	14.9	14.8	45.6	30.1	198.3	226.6	—	—	198.3	226.6
Unrated	37.5	56.3	—	—	0.1	0.1	37.6	56.4	0.2	1.7	37.8	58.1
Total	\$175.3	\$325.6	\$828.6	\$843.2	\$205.6	\$162.2	\$1,209.5	\$1,331.0	\$2,599.6	\$3,510.2	\$3,809.1	\$4,841.2

## Counterparty Credit Exposure by Region

	Loans and Lending		Securities and Margin Finance		OTC Derivatives		Total	Cash and Cash Equivalents		Total with Cash and Cash Equivalents		
	At	At	At	At	At	At		At	At	At	At	
	February 29, 2016	November 30, 2015 (1)	February 29, 2016	November 30, 2015	February 29, 2016	November 30, 2015	February 29, 2016	November 30, 2015 (1)	February 29, 2016	November 30, 2015	February 29, 2016	November 30, 2015 (1)
Asia/Latin America/Other	\$10.7	\$10.1	\$20.4	\$15.3	\$40.5	\$40.6	\$71.6	\$66.0	\$140.8	\$159.6	\$212.4	\$225.6
Europe	—	0.4	197.3	212.2	48.5	43.4	245.8	256.0	203.1	341.8	448.9	597.8
North America	164.6	315.1	610.9	615.7	116.6	78.2	892.1	1,009.0	2,255.7	3,008.8	3,147.8	4,017.8
Total	\$175.3	\$325.6	\$828.6	\$843.2	\$205.6	\$162.2	\$1,209.5	\$1,331.0	\$2,599.6	\$3,510.2	\$3,809.1	\$4,841.2

## Counterparty Credit Exposure by Industry

	Loans and Lending		Securities and Margin Finance		OTC Derivatives		Total	Cash and Cash Equivalents		Total with Cash and Cash Equivalents	
	At	At	At	At	At	At		At	At	At	At

Edgar Filing: Jefferies Group LLC - Form 10-Q

	February 29, 2016	November 30, 2015 (1)	February 29, 2016	November 30, 2015	February 29, 2016	November 30, 2015	February 29, 2016	November 30, 2015 (1)	February 29, 2016	November 30, 2015	February 29, 2016	November 30, 2015 (1)
Asset Managers	\$—	\$—	\$65.5	\$69.8	\$—	\$—	\$65.5	\$69.8	\$1,826.9	\$2,461.3	\$1,892.4	\$2,531.1
Banks, Broker-dealers	—	0.9	473.3	464.9	132.4	95.1	605.7	560.9	772.7	1,048.9	1,378.4	1,609.8
Commodities	—	—	—	—	9.0	16.7	9.0	16.7	—	—	9.0	16.7
Corporates	145.6	194.0	—	—	21.9	11.3	167.5	205.3	—	—	167.5	205.3
Other	29.7	130.7	289.8	308.5	42.3	39.1	361.8	478.3	—	—	361.8	478.3
Total	\$175.3	\$325.6	\$828.6	\$843.2	\$205.6	\$162.2	\$1,209.5	\$1,331.0	\$2,599.6	\$3,510.2	\$3,809.1	\$4,841.2

Loans and lending amounts have been recast to conform to the current period's presentation. Loans and lending (1) amounts include the current exposure, the amount at risk on a default event with no recovery of loans. Previously, loans and lending amounts represented the notional value.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

For additional information regarding credit exposure to OTC derivative contracts, refer to Note 5, Derivative Financial Instruments, in our consolidated financial statements included within this Quarterly Report on Form 10-Q.

## Country Risk Exposure

Country risk is the risk that events or developments that occur in the general environment of a country or countries due to economic, political, social, regulatory, legal or other factors, will affect the ability of obligors of the country to honor their obligations. We define country risk as the country of jurisdiction or domicile of the obligor. The following tables reflect our top exposure at February 29, 2016 and November 30, 2015 to the sovereign governments, corporations and financial institutions in those non- U.S. countries in which we have a net long issuer and counterparty exposure (in millions):

	February 29, 2016			Counterparty Risk			Issuer and Counterparty Risk		
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Loans and Lending	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
United Kingdom	\$352.5	\$ (136.0 )	\$ (15.3 )	\$—	\$ 22.3	\$ 27.2	\$ 37.9	\$250.7	\$ 288.6
Italy	986.2	(1,067.8 )	309.3	—	—	0.2	—	227.9	227.9
Ireland	263.0	(49.8 )	—	—	2.8	—	—	216.0	216.0
Singapore	160.8	(35.5 )	35.4	—	—	—	12.3	160.7	173.0
Germany	197.1	(138.3 )	(161.8 )	—	83.5	7.6	111.4	(11.9 )	99.5
Spain	266.3	(195.2 )	(0.1 )	—	—	—	25.1	71.0	96.1
Switzerland	50.8	(32.2 )	13.2	—	41.3	4.5	4.7	77.6	82.3
Hong Kong	33.2	(35.9 )	0.2	—	0.3	—	64.0	(2.2 )	61.8
Japan	35.7	(31.0 )	6.6	—	13.6	—	18.8	24.9	43.7
India	9.8	(4.9 )	(0.3 )	—	—	—	35.1	4.6	39.7
Total	\$2,355.4	\$ (1,726.6 )	\$ 187.2	\$—	\$ 163.8	\$ 39.5	\$ 309.3	\$1,019.3	\$ 1,328.6
	November 30, 2015								
	Issuer Risk			Counterparty Risk			Issuer and Counterparty Risk		
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Loans and Lending	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
Belgium	\$413.8	\$ (48.8 )	\$ 6.2	\$—	\$ —	\$ —	\$ 157.8	\$371.2	\$ 529.0
United Kingdom	711.6	(359.3 )	52.4	0.4	31.6	25.4	26.3	462.1	488.4
Netherlands	543.5	(139.6 )	(23.4 )	—	36.2	2.0	—	418.7	418.7
Italy	1,112.2	(662.4 )	(105.6 )	—	—	0.2	—	344.4	344.4
Ireland	164.3	(27.4 )	3.3	—	3.5	—	—	143.7	143.7
Spain	394.0	(291.9 )	(1.6 )	—	—	0.2	26.6	100.7	127.3
Australia	86.6	(24.9 )	9.6	37.4	—	0.3	0.8	109.0	109.8
Hong Kong	38.1	(22.3 )	(2.9 )	—	0.4	—	74.8	13.3	88.1
Switzerland	79.5	(28.9 )	(6.6 )	—	34.5	5.2	3.7	83.7	87.4

Edgar Filing: Jefferies Group LLC - Form 10-Q

Portugal	111.9	(38.2	)	—	—	—	—	—	73.7	73.7
Total	\$3,655.5	\$ (1,643.7)	\$ (68.6	)	\$37.8	\$ 106.2	\$ 33.3	\$ 290.0	\$2,120.5	\$ 2,410.5

In addition, our issuer and counterparty risk exposure to Puerto Rico was \$32.2 million, which is in connection with our municipal securities market-making activities. The government of Puerto Rico is seeking to restructure much of its \$70.0 billion in debt on a voluntary basis. At February 29, 2016, we had no other material exposure to countries where either sovereign or non-sovereign sectors potentially pose potential default risk as the result of liquidity concerns.

Operational Risk

Operational risk refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our operating systems, business disruptions and inadequacies or breaches in our internal control processes. Our businesses are highly dependent on our ability to process, on a daily basis, a large number of transactions across numerous and diverse markets in many currencies. In addition, the transactions we process have become

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

increasingly complex. If our financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer an impairment to our liquidity, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage.

These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses. We also face the risk of operational failure or termination of any of the clearing agents, exchanges, clearing houses or other financial intermediaries we use to facilitate our securities transactions. Any such failure or termination could adversely affect our ability to effect transactions and manage our exposure to risk. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely impacted by a disruption in the infrastructure that supports our businesses and the communities in which they are located. This may include a disruption involving electrical, communications, transportation or other services used by us or third parties with which we conduct business.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code, and other events that could have a security impact. If one or more of such events occur, this potentially could jeopardize our or our clients' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures or to investigate and remediate vulnerabilities or other exposures, and we may be subject to litigation and financial losses that are either not insured against or not fully covered through any insurance maintained by us.

Our Operational Risk framework includes governance, collection of operational risk incidents, proactive operational risk management, and periodic review and analysis of business metrics to identify and recommend controls and process-related enhancements.

Each revenue producing and support department is responsible for the management and reporting of operational risks and the implementation of the Operational Risk policy and processes within the department. Operational Risk policy, framework, infrastructure, methodology, processes, guidance and oversight of the operational risk processes are centralized and consistent firm wide and also subject to regional operational risk governance.

**Legal and Compliance Risk**

Legal and compliance risk includes the risk of noncompliance with applicable legal and regulatory requirements. We are subject to extensive regulation in the different jurisdictions in which we conduct our business. We have various procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, credit granting, collection activities, anti-money laundering and record keeping. These risks also reflect the potential impact that changes in local and international laws and tax statutes have on the economics and viability of current or future transactions. In an effort to mitigate these risks, we continuously review new and pending regulations and legislation and participate in various industry interest groups. We also maintain an anonymous hotline for employees or others to report suspected inappropriate actions by us or by our employees or agents.

**New Business Risk**

New business risk refers to the risks of entering into a new line of business or offering a new product. By entering a new line of business or offering a new product, we may face risks that we are unaccustomed to dealing with and may increase the magnitude of the risks we currently face. The New Business Committee reviews proposals for new businesses and new products to determine if we are prepared to handle the additional or increased risks associated with entering into such activities.

**Reputational Risk**

We recognize that maintaining our reputation among clients, investors, regulators and the general public is an important aspect of minimizing legal and operational risks. Maintaining our reputation depends on a large number of factors, including the selection of our clients and the conduct of our business activities. We seek to maintain our reputation by screening potential clients and by conducting our business activities in accordance with high ethical standards. Our reputation and business activity can be affected by statements and actions of third parties, even false or misleading statements by them. We actively monitor public comment concerning us and are vigilant in seeking to assure accurate information and perception prevails.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Quantitative and qualitative disclosures about market risk are set forth under “Management’s Discussion and Analysis of Financial Condition and Results of Operations —Risk Management” in Part I, Item 2 of this Form 10-Q.

Item 4. Controls and Procedures.

Our Management, under the direction of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of February 29, 2016. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of February 29, 2016 are functioning effectively to provide reasonable assurance that the information required to be disclosed by us in reports filed under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. A controls system cannot provide absolute assurance that the objectives of the controls system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

No change in our internal control over financial reporting occurred during the quarter ended February 29, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

Many aspects of our business involve substantial risks of legal and regulatory liability. In the normal course of business, we have been named as defendants or co-defendants in lawsuits involving primarily claims for damages. We are also involved in a number of judicial and regulatory matters, including exams, investigations and similar reviews, arising out of the conduct of our business. Based on currently available information, we do not believe that any matter will have a material adverse effect on our financial condition.

Item 1A. Risk Factors

Information regarding our risk factors appears in Item 1A. of our Annual Report on Form 10-K for the fiscal year ended November 30, 2015 filed with the SEC on January 29, 2016. These risk factors describe some of the assumptions, risks, uncertainties and other factors that could adversely affect our business or that could otherwise result in changes that differ materially from our expectations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None

Item 6. Exhibits

Exhibit No. Description

4	Instruments defining the rights of holders of long-term debt securities of the Registrant and its subsidiaries are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. Registrant hereby agrees to furnish copies of these instruments to the Commission upon request.
12*	Computation of Ratio of Earnings to Fixed Charges and to Combined Fixed Charges and Preferred Stock Dividends.
31.1*	Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer.
31.2*	Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer.
32*	Rule 13a-14(b)/15d-14(b) and Section 1350 of Title 18 U.S.C. Certification by the Chief Executive Officer and Chief Financial Officer.
101*	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of February 29, 2016 and November 30, 2015; (ii) the Consolidated Statements of Earnings for the three months ended February 29, 2016 and February 28, 2015; (iii) the Consolidated Statements of Comprehensive Income for the three months ended February 29, 2016 and February 28, 2015; (iv) the Consolidated Statements of Changes in Equity for the three months ended February 29, 2016 and the year ended November 30, 2015; (v) the Consolidated Statements of Cash Flows for the three months ended February 29, 2016 and February 28, 2015; and (vi) the Notes to Consolidated Financial Statements.

\*Filed herewith.



Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JEFFERIES GROUP LLC  
(Registrant)

Date: April 8, 2016

By: /s/ Peregrine C. Broadbent  
Peregrine C. Broadbent  
Chief Financial Officer  
(duly authorized officer)