

Jefferies Group LLC  
Form 10-Q  
April 07, 2017  
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 28, 2017

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 incorporation or organization)	(I.R.S. Employer 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 28, 2017

PART I. FINANCIAL INFORMATION

	Page
<u>Item 1. Financial Statements</u>	<u>2</u>
<u>Consolidated Statements of Financial Condition (Unaudited)</u>	<u>2</u>
<u>Consolidated Statements of Earnings (Unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income (Unaudited)</u>	<u>4</u>
<u>Consolidated Statements of Changes in Equity (Unaudited)</u>	<u>5</u>
<u>Consolidated Statements of Cash Flows (Unaudited)</u>	<u>6</u>
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	<u>8</u>
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>59</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>85</u>
<u>Item 4. Controls and Procedures</u>	<u>85</u>

PART II. OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	<u>86</u>
<u>Item 1A. Risk Factors</u>	<u>86</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>86</u>
<u>Item 6. Exhibits</u>	<u>86</u>

Table of Contents

## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION (UNAUDITED)

(In thousands)

	February 28, 2017	November 30, 2016
<b>ASSETS</b>		
Cash and cash equivalents (\$4,635 and \$16,805 at February 28, 2017 and November 30, 2016, respectively, related to consolidated VIEs)	\$4,080,381	\$3,529,069
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	705,313	857,337
Financial instruments owned, at fair value, (including securities pledged of \$10,184,574 and \$9,706,881 at February 28, 2017 and November 30, 2016, respectively; and \$53,122 and \$87,153 at February 28, 2017 and November 30, 2016, respectively, related to consolidated VIEs)	13,252,736	13,809,512
Investments in managed funds	170,762	186,508
Loans to and investments in related parties	672,376	653,872
Securities borrowed	6,886,436	7,743,562
Securities purchased under agreements to resell	4,468,494	3,862,488
Receivables:		
Brokers, dealers and clearing organizations	2,678,413	2,009,163
Customers	1,181,915	843,114
Fees, interest and other (\$248 and \$1,547 at February 28, 2017 and November 30, 2016, respectively, related to consolidated VIEs)	312,029	310,894
Premises and equipment	276,674	265,553
Goodwill	1,640,202	1,640,653
Other assets (\$5 and \$0 at February 28, 2017 and November 30, 2016, respectively, related to consolidated VIEs)	1,377,636	1,229,551
Total assets	\$37,703,367	\$36,941,276
<b>LIABILITIES AND EQUITY</b>		
Short-term borrowings	\$422,924	\$525,842
Financial instruments sold, not yet purchased, at fair value	8,728,491	8,359,202
Collateralized financings:		
Securities loaned	2,522,846	2,819,132
Securities sold under agreements to repurchase	7,315,459	6,791,676
Other secured financings (includes \$34,187 and \$41,768 at fair value at February 28, 2017 and November 30, 2016, respectively; and \$594,087 and \$755,544 at February 28, 2017 and November 30, 2016, respectively, related to consolidated VIEs)	594,120	755,576
Payables:		
Brokers, dealers and clearing organizations	2,960,576	3,290,404
Customers	2,412,125	2,297,292
Accrued expenses and other liabilities (\$556 and \$735 at February 28, 2017 and November 30, 2016, respectively, related to consolidated VIEs)	1,006,943	1,248,200
Long-term debt (includes \$310,057 and \$248,856 at fair value at February 28, 2017 and November 30, 2016, respectively)	6,267,491	5,483,355
Total liabilities	32,230,975	31,570,679
<b>EQUITY</b>		
Member's paid-in capital	5,652,122	5,538,103

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Accumulated other comprehensive loss:		
Currency translation adjustments	(154,918 )	(152,305 )
Changes in instrument specific credit risk	(16,189 )	(6,494 )
Additional minimum pension liability	(9,275 )	(9,358 )
Total accumulated other comprehensive loss	(180,382 )	(168,157 )
Total member's equity	5,471,740	5,369,946
Noncontrolling interests	652	651
Total equity	5,472,392	5,370,597
Total liabilities and equity	\$37,703,367	\$36,941,276

See accompanying notes to consolidated financial statements.

2

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Table of ContentsJEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS (UNAUDITED)

(In thousands)

	Three Months Ended	
	February	February
	28, 2017	29, 2016
Revenues:		
Commissions and other fees	\$145,822	\$155,824
Principal transactions	220,957	(103,373 )
Investment banking	408,021	230,930
Asset management fees and investment income from managed funds	8,926	9,530
Interest	202,023	221,945
Other	24,048	(21,751 )
Total revenues	1,009,797	493,105
Interest expense	214,284	194,118
Net revenues	795,513	298,987
Non-interest expenses:		
Compensation and benefits	460,172	349,743
Non-compensation expenses:		
Floor brokerage and clearing fees	45,858	40,479
Technology and communications	65,507	64,989
Occupancy and equipment rental	25,815	24,585
Business development	22,632	24,854
Professional services	32,124	23,512
Other	19,206	20,701
Total non-compensation expenses	211,142	199,120
Total non-interest expenses	671,314	548,863
Earnings (loss) before income taxes	124,199	(249,876 )
Income tax expense (benefit)	10,179	(83,107 )
Net earnings (loss)	114,020	(166,769 )
Net earnings attributable to noncontrolling interests	1	44
Net earnings (loss) attributable to Jefferies Group LLC	\$114,019	\$(166,813)
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 28, 2017	February 29, 2016
Net earnings (loss)	\$114,020	\$(166,769)
Other comprehensive loss, net of tax:		
Currency translation and other adjustments	(2,530 )	(49,670 )
Changes in instrument specific credit risk (1)	(9,695 )	(302 )
Total other comprehensive loss, net of tax (2)	(12,225 )	(49,972 )
Comprehensive income (loss)	101,795	(216,741 )
Net earnings attributable to noncontrolling interests	1	44
Comprehensive income (loss) attributable to Jefferies Group LLC	\$101,794	\$(216,785)

(1)Includes income tax benefit of approximately \$6.3 million for the three months ended February 28, 2017.

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

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (UNAUDITED)  
(In thousands)

	Three Months Ended February 28, 2017	Year Ended November 30, 2016
Member's paid-in capital:		
Balance, beginning of period	\$5,538,103	\$5,526,855
Net earnings attributable to Jefferies Group LLC	114,019	15,434
Tax detriment for issuance of share-based awards	—	(4,186 )
Balance, end of period	\$5,652,122	\$5,538,103
Accumulated other comprehensive income (loss) (1) (2):		
Balance, beginning of period	\$(168,157 )	\$(44,946 )
Currency adjustments	(2,613 )	(115,494 )
Changes in instrument specific credit risk, net of tax	(9,695 )	(6,494 )
Pension adjustments, net of tax	83	(1,223 )
Balance, end of period	(180,382 )	(168,157 )
Total member's equity	\$5,471,740	\$5,369,946
Noncontrolling interests:		
Balance, beginning of period	\$651	\$27,468
Net earnings (loss) attributable to noncontrolling interests	1	(28 )
Contributions	—	9,390
Distributions	—	(563 )
Deconsolidation of asset management company	—	(35,616 )
Balance, end of period	\$652	\$651
Total equity	\$5,472,392	\$5,370,597

(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 (loss) during the three months ended February 28, 2017 and the year ended November 30, 2016.

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 28, 2017	February 29, 2016
Cash flows from operating activities:		
Net earnings (loss)	\$ 114,020	\$(166,769)
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	252	(2,735 )
(Income) loss on loans to and investments in related parties	(26,264 )	23,416
Distributions received on investments in related parties	2,240	—
Other adjustments	(9,435 )	8,670
Net change in assets and liabilities:		
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	152,001	70,939
Receivables:		
Brokers, dealers and clearing organizations	(670,299 )	(211,449 )
Customers	(338,876 )	13,863
Fees, interest and other	(1,211 )	(15,898 )
Securities borrowed	856,236	(385,463 )
Financial instruments owned	551,101	2,830,082
Investments in managed funds	15,746	1,551
Securities purchased under agreements to resell	(609,225 )	298,260
Other assets	(145,374 )	(392,788 )
Payables:		
Brokers, dealers and clearing organizations	(329,027 )	(1,477,131)
Customers	114,834	(180,980 )
Securities loaned	(295,666 )	(295,559 )
Financial instruments sold, not yet purchased	375,034	750,826
Securities sold under agreements to repurchase	525,137	(1,721,276)
Accrued expenses and other liabilities	(241,753 )	(205,396 )
Net cash provided by (used in) operating activities	39,471	(1,057,837)
Cash flows from investing activities:		
Contributions to loans to and investments in related parties	(1,134,714 )	(141,735 )
Distributions from loans to and investments in related parties	1,140,234	188,108
Net payments on premises and equipment	(22,396 )	(20,958 )
Payment on purchase of aircraft	—	(27,500 )
Deconsolidation of asset management entity	—	(39 )
Cash received from contingent consideration	1,250	466
Net cash used in investing activities	(15,626 )	(1,658 )
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 28, 2017	February 29, 2016
Cash flows from financing activities:		
Proceeds from short-term borrowings	9,682,590	1,397,552
Payments on short-term borrowings	(9,789,703 )	(1,396,326 )
Net (payments on) proceeds from other secured financings	(161,456 )	134,435
Net proceeds from issuance of long-term debt, net of issuance costs	792,376	65,734
Net change in bank overdrafts	4,195	(41,978 )
Net cash provided by financing activities	528,002	159,417
Effect of exchange rate changes on cash and cash equivalents	(535 )	(10,448 )
Net increase (decrease) in cash and cash equivalents	551,312	(910,526 )
Cash and cash equivalents at beginning of period	3,529,069	3,510,163
Cash and cash equivalents at end of period	\$4,080,381	\$2,599,637
Supplemental disclosures of cash flow information:		
Cash paid (received) during the period for:		
Interest	\$238,938	\$188,217
Income taxes, net	477	(7,450 )
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>17</u>
<u>Note 4. Fair Value Disclosures</u>	<u>19</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>39</u>
<u>Note 8. Variable Interest Entities</u>	<u>40</u>
<u>Note 9. Investments</u>	<u>44</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. Benefit Plans</u>	<u>50</u>
<u>Note 14. Compensation Plans</u>	<u>51</u>
<u>Note 15. Income Taxes</u>	<u>52</u>
<u>Note 16. Commitments, Contingencies and Guarantees</u>	<u>53</u>
<u>Note 17. Net Capital Requirements</u>	<u>55</u>
<u>Note 18. Segment Reporting</u>	<u>55</u>
<u>Note 19. Related Party Transactions</u>	<u>57</u>
<u>Note 20. 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 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. During the second quarter of 2016, we completed the exit of the Futures business. For further information on the exit of the Bache business, refer to Note 20, 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 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, 2016.

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 that we control by ownership a majority of the outstanding voting stock. In addition, we consolidate entities that 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 is presented as Net earnings to noncontrolling interests in the Consolidated Statements of Earnings.

In situations in which we have significant influence, but not control, of an entity that does not qualify as a VIE, 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 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.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Immaterial Adjustments

Prior to the adoption of Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) 2016-09, Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”), we made immaterial correcting adjustments (referred to as “adjustments”) to our Consolidated Statements of Cash Flows for the three months ended February 29, 2016. The adjustments relate to a classification error in the reporting of the net change in bank overdrafts within our Consolidated Statements of Cash Flows. The adjustments have no effect on our Consolidated Statements of Financial Condition, the Consolidated Statements of Earnings, the Consolidated Statements of Changes in Equity or the Consolidated Statements of Comprehensive Income three months ended February 29, 2016. We do not believe these adjustments are material to our financial statements for any previously reported period.

The following table presents equal and offsetting adjustments that were made to the Net change in accrued expenses and other liabilities and the Net change in bank overdrafts (in thousands):

	Three Months Ended February 29, 2016
Increase (decrease)	
Net change in accrued expenses and other liabilities	\$41,978
Net change in bank overdrafts	(41,978 )

The following table sets forth the adjustments and revisions to our Consolidated Statements of Cash Flows prior to the adoption of ASU 2016-09 (in thousands):

	Three Months Ended February 29, 2016	
	As	
	Originally Reported	As Revised
Operating activities		
Decrease in accrued expenses and other liabilities	\$(247,374)	\$(205,396)
Net cash used in operating activities	(1,099,977)	(1,057,999)
Financing activities		
Net change in bank overdrafts	\$—	\$(41,978 )
Net cash provided by financing activities	201,557	159,579

See Note 3, Accounting Developments, for further information on the adoption of ASU 2016-09.

## 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. 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, except for derivatives accounted for as hedges (see “Hedge Accounting” section herein and Note 5, Derivative Financial Instruments). Fees received on loans carried at fair value are also recorded within Principal transaction revenues.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

**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.

**Cash Equivalents**

Cash equivalents include highly liquid investments, including money market funds and certificates of deposit, 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. 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. In addition, certain exchange and/or clearing organizations require cash and/or securities to be deposited by us to conduct day to day activities.

**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. 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).





Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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.

Level 2: 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 which quoted prices are available but traded less frequently, derivative instruments that fair values for which have been derived using model inputs that 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.

Level 3: Instruments that have little to no pricing observability at the reported date. These financial instruments are 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 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 reflected at fair value. 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 comprises 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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 determines 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 determined 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 trading desk's 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.

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, 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. Our processes challenge the appropriateness of pricing information obtained from external data providers (including independent pricing services and brokers) 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 we use independent pricing services or broker quotes 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, collateralized debt obligations ("CDOs") and collateralized loan obligations ("CLOs"), 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.** If a pricing model is 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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 19, 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.

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 revenue 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.

Offsetting of Derivative Financial Instruments and Securities Financing Agreements

To manage our exposure to credit risk associated with our derivative activities and securities financing transactions, we may enter into International Swaps and Derivative Association, Inc. (“ISDA”) master netting agreements, master securities lending agreements, master repurchase agreements or similar agreements and collateral arrangements 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. 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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 contracts or transactions.

Refer to Note 5, Derivative Financial Instruments, and Note 6, Collateralized Transactions, for further information.

**Hedge Accounting**

Hedge accounting is applied using interest rate swaps designated as fair value hedges of changes in the benchmark interest rate of fixed rate senior long-term debt. The interest rate swaps are included within Financial instruments owned—Derivatives and Financial instruments sold, not yet purchased—Derivatives in the Consolidated Statements of Financial Position. We use regression analysis to perform ongoing prospective and retrospective assessments of the effectiveness of these hedging relationships. A hedging relationship is deemed effective if the change in fair value of the interest rate swap and the change in the fair value of the long-term debt due to changes in the benchmark interest rate offset within a range of 80% - 125%. The impact of valuation adjustments related to our own credit spreads and counterparty credit spreads are included in the assessment of effectiveness.

For qualifying fair value hedges of benchmark interest rates, the change in the fair value of the derivative and the change in fair value of the long-term debt provide offset of one another, and together with any resulting ineffectiveness, are recorded in Interest expense.

Refer to Note 5, Derivative Financial Instruments, for further information.

**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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

**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.

**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. 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.

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. Effective upon our adoption of ASU 2016-09 on December 1, 2016, we account for forfeitures as they occur. Prior to the adoption of ASU 2016-09, expected forfeitures were included in determining share-based compensation expense. See Note 3, Accounting Developments, for further information on the adoption of ASU 2016-09.

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

Retirement Benefits. In March 2017, the FASB issued ASU No. 2017-07, Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The guidance impacts the presentation of net periodic pension costs in the statement of income. The update also allows the service cost to be eligible for capitalization, when applicable. 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.

Goodwill. In January 2017, the FASB issued ASU No. 2017-04, Simplifying the Test for Goodwill Impairment, which simplifies goodwill impairment testing. The guidance is effective in the first quarter of fiscal 2021 and early adoption is permitted. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Statement of Cash Flows. In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments. The guidance adds or clarifies guidance on the classification of certain cash receipts and payments in the statement of cash flows. The guidance is effective in the first quarter of fiscal 2019 and early adoption is permitted. In November 2016, the FASB issued ASU No. 2016-18, Restricted Cash. The guidance requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. The guidance is effective in the first quarter of fiscal 2019 and early adoption is permitted. We are currently evaluating the impact of these new ASUs on our Consolidated Statements of Cash Flows.

Financial Instruments-Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, Measurement of Credit Losses on Financial Instruments. The guidance provides for estimating credit losses on certain types of financial

instruments by introducing an approach based on expected losses. The guidance is effective in the first quarter of fiscal 2021 and early adoption is permitted in the first quarter of fiscal 2020. We are currently evaluating the impact of the new guidance on our consolidated financial statements.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Leases. In February 2016, the FASB issued ASU No. 2016-02, Leases. 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 adopted this guidance in the first quarter of fiscal 2016. The adoption of this accounting 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”). The accounting guidance defines how companies report revenues from contracts with customers, and also requires enhanced disclosures. The guidance, as stated in ASU No. 2014-09, was effective beginning in the first quarter of fiscal 2018. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers - Deferral of Effective Date, which defers the effective date by one year, with early adoption on the original effective date permitted. We intend to adopt the new guidance on December 1, 2017 with a cumulative-effect adjustment to opening member’s equity. Because the guidance does not apply to revenue associated with financial instruments, including loans and securities that are accounted for under other U.S. GAAP, we do not expect the guidance to have a material impact on the elements of our Consolidated Statements of Earnings most closely associated with financial instruments, including Principal transaction revenues, Interest income and Interest expense. Our implementation efforts include the identification of revenue within the scope of the guidance, the evaluation of certain revenue contracts, education and discussions with our control functions, and periodic discussions with our audit committee. Our evaluation of the impact of the new guidance on our consolidated financial statements is ongoing, and we continue to evaluate the timing of recognition for various revenues, which may be accelerated or deferred depending on the features of the client arrangements and the presentation of certain contract costs (whether presented gross or offset against revenues).

Adopted Accounting Standards

Employee Share-Based Payments. In March 2016, the FASB issued 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 the recognition of all excess tax benefits and tax deficiencies as income tax expense or benefit in the Consolidated Statement of Earnings and changes to the timing of recognition of excess tax benefits, the accounting for forfeitures, classification of awards as either equity or liabilities and classification on the statement of cash flows. We early adopted this standard on December 1, 2016 and the adoption did not have a material effect on our consolidated financial statements. We elected to account for forfeitures as they occur, which results in dividends and dividend equivalents originally charged against retained earnings for forfeited shares to be reclassified to compensation cost in the period in which the forfeiture occurs. In addition, the current period’s excess tax benefit related to stock-based compensation is presented as an operating activity rather than a financing activity in the Consolidated Statements of Cash Flows on a retrospective basis.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 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 \$24.2 million and \$24.3 million at February 28, 2017 and November 30, 2016, respectively, by level within the fair value hierarchy (in thousands):

	February 28, 2017			Counterparty and Cash Collateral Netting (2)	Total
	Level 1 (1)	Level 2 (1)	Level 3		
<b>Assets:</b>					
<b>Financial instruments owned:</b>					
Corporate equity securities	\$ 1,637,621	\$ 86,344	\$ 20,580	\$ —	\$ 1,744,545
Corporate debt securities	—	2,422,480	33,467	—	2,455,947
CDOs and CLOs	—	39,899	45,354	—	85,253
U.S. government and federal agency securities	1,124,343	28,702	—	—	1,153,045
Municipal securities	—	714,104	26,554	—	740,658
Sovereign obligations	1,506,428	1,312,799	—	—	2,819,227
Residential mortgage-backed securities	—	1,400,215	39,259	—	1,439,474
Commercial mortgage-backed securities	—	565,494	20,653	—	586,147
Other asset-backed securities	—	113,881	37,702	—	151,583
Loans and other receivables	—	1,729,227	53,172	—	1,782,399
Derivatives	4,470	3,003,890	4,905	(2,826,763)	186,502
Investments at fair value	—	—	83,785	—	83,785
Total financial instruments owned, excluding Investments at fair value based on NAV	\$ 4,272,862	\$ 11,417,035	\$ 365,431	\$ (2,826,763)	\$ 13,228,565
<b>Liabilities:</b>					
<b>Financial instruments sold, not yet purchased:</b>					
Corporate equity securities	\$ 1,455,823	\$ 32,576	\$ 324	\$ —	\$ 1,488,723
Corporate debt securities	—	1,544,945	523	—	1,545,468
U.S. government and federal agency securities	841,725	—	—	—	841,725
Sovereign obligations	1,500,854	1,485,616	—	—	2,986,470
Loans	—	1,491,488	1,036	—	1,492,524
Derivatives	4,110	3,152,585	11,318	(2,794,432)	373,581
Total financial instruments sold, not yet purchased	\$ 3,802,512	\$ 7,707,210	\$ 13,201	\$ (2,794,432)	\$ 8,728,491
Other secured financings	\$ —	\$ 34,100	\$ 87	\$ —	\$ 34,187
Long-term debt	\$ —	\$ 310,057	\$ —	\$ —	\$ 310,057

(1) There were no material transfers between Level 1 and Level 2 for the three months ended February 28, 2017.

(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)

	November 30, 2016			Counterparty and	
	Level 1 (1)	Level 2 (1)	Level 3	Cash Collateral	Total
				Netting (2)	
Assets:					
Financial instruments owned:					
Corporate equity securities	\$ 1,742,463	\$ 90,662	\$ 21,739	\$ —	\$ 1,854,864
Corporate debt securities	—	2,675,020	25,005	—	2,700,025
CDOs and CLOs	—	54,306	54,354	—	108,660
U.S. government and federal agency securities	2,389,397	56,726	—	—	2,446,123
Municipal securities	—	708,469	27,257	—	735,726
Sovereign obligations	1,432,556	990,492	—	—	2,423,048
Residential mortgage-backed securities	—	960,494	38,772	—	999,266
Commercial mortgage-backed securities	—	296,405	20,580	—	316,985
Other asset-backed securities	—	63,587	40,911	—	104,498
Loans and other receivables	—	1,557,233	81,872	—	1,639,105
Derivatives	3,825	4,606,278	6,429	(4,255,998)	360,534
Investments at fair value	—	—	96,369	—	96,369
Total financial instruments owned, excluding	\$ 5,568,241	\$ 12,059,672	\$ 413,288	\$ (4,255,998)	\$ 13,785,203
Investments at fair value based on NAV					
Liabilities:					
Financial instruments sold, not yet purchased:					
Corporate equity securities	\$ 1,577,405	\$ 16,806	\$ 313	\$ —	\$ 1,594,524
Corporate debt securities	—	1,718,424	523	—	1,718,947
U.S. government and federal agency securities	976,497	—	—	—	976,497
Sovereign obligations	1,375,590	1,253,754	—	—	2,629,344
Loans	—	801,977	378	—	802,355
Derivatives	568	4,856,310	9,870	(4,229,213)	637,535
Total financial instruments sold, not yet purchased	\$ 3,930,060	\$ 8,647,271	\$ 11,084	\$ (4,229,213)	\$ 8,359,202
Other secured financings	\$ —	\$ 41,350	\$ 418	\$ —	\$ 41,768
Long-term debt	\$ —	\$ 248,856	\$ —	\$ —	\$ 248,856

(1) There were no material transfers between Level 1 and Level 2 for the year ended November 30, 2016.

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

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 of the fair value hierarchy.



Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

**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/Earnings before interest, taxes, depreciation and amortization (“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 measured primarily using pricing data from external pricing services, prices observed for recently executed market transactions and broker quotations are categorized within Level 2 of the fair value hierarchy. Where such information is not available, 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 are 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.

**CDOs and CLOs**

CDOs and CLOs 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 loss severity.

**U.S. Government and Federal Agency Securities**

**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.

**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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 (“RMBS”): Agency RMBS 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 of the fair value hierarchy. We also use vendor data in developing our assumptions, as appropriate.

Non-Agency RMBS: 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 (“CMBS”): 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 CMBS: Non-agency CMBS 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.

Other Asset-Backed Securities

Other asset-backed securities (“ABS”) 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.



Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 transaction data. Corporate loans categorized within Level 3 of the fair value hierarchy are measured based on 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 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.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 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 NAV 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 28, 2017		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2)	\$35,103	\$ —	Monthly, Quarterly
Fixed Income and High Yield Hedge Funds (3)	761	—	—
Fund of Funds (4)	169	—	—
Equity Funds (5)	40,688	20,040	—
Multi-asset Funds (6)	118,211	—	—
Total	\$194,932	\$ 20,040	
	November 30, 2016		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2)	\$34,446	\$ —	Monthly, Quarterly
Fixed Income and High Yield Hedge Funds (3)	772	—	—
Fund of Funds (4)	230	—	—
Equity Funds (5)	42,179	20,295	—
Multi-asset Funds (6)	133,190	—	—
Total	\$210,817	\$ 20,295	

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

(2) This category includes investments in hedge funds that invest, long and short, primarily in equity securities in domestic and international markets in both the public and private sectors. At February 28, 2017 and November 30, 2016, approximately 1% and 2%, respectively, of the fair value of investments in this category are classified as being in liquidation.

(3) This category 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.

(4) This category includes investments in fund of funds that invest in various private equity funds. The investments in this category are managed by us and have no redemption provisions. These investments are gradually being liquidated or we have requested redemption, however, we are unable to estimate when these funds will be received.

(5) At February 28, 2017 and November 30, 2016, the 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 six years.

(6) This category includes investments in hedge funds that invest, long and short, primarily in multi-asset securities in domestic and international markets in both the public and private sectors. At February 28, 2017 and November 30, 2016, investments representing approximately 13% and 12%, respectively, of the fair value of investments in this category are redeemable with 30-90 days prior written notice.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 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 various interest rate payment terms 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.

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, 2017 (in thousands):

## Three Months Ended February 28, 2017

	Balance at November 30, 2016	Total gains/losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuances/ net	Net transfers (out of) Level 3	Balance at February 28, 2017	Change in unrealized gains/(losses) relating to instruments still held at February 28, 2017 (1)
<b>Assets:</b>									
<b>Financial instruments owned:</b>									
Corporate equity securities	\$21,739	\$ 532	\$ 847	\$(145)	\$(186)	\$ —	\$(2,207)	\$20,580	\$ 362
Corporate debt securities	25,005	(1,793)	3,002	(3,157)	(1,207)	—	11,617	33,467	(1,662)
CDOs and CLOs	54,354	(7,594)	8,663	(22,633)	(45)	—	12,609	45,354	(8,525)
Municipal securities	27,257	(636)	—	(67)	—	—	—	26,554	(641)
RMBS	38,772	(253)	263	(12,411)	(210)	—	13,098	39,259	(440)
CMBS	20,580	(1,420)	—	(412)	—	—	1,905	20,653	(1,421)
Other ABS	40,911	(1,788)	3,553	(299)	(3,335)	—	(1,340)	37,702	(1,717)
Loans and other receivables	81,872	4,950	9,489	(9,778)	(7,764)	—	(25,597)	53,172	836
Investments at fair value	96,369	(2,199)	—	(10,119)	(266)	—	—	83,785	(176)
<b>Liabilities:</b>									
<b>Financial instruments sold, not yet purchased:</b>									
Corporate equity securities	\$313	\$ 11	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 324	\$ (11)
Corporate debt securities	523	—	—	—	—	—	—	523	—
Net derivatives (2)	3,441	(4,384)	—	—	3,373	186	3,797	6,413	1,347
Loans	378	189	(323)	—	—	—	792	1,036	(189)
Other secured financings	418	(8)	—	—	—	—	(323)	87	11

(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, 2017

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During the three months ended February 28, 2017, transfers of assets of \$49.9 million from Level 2 to Level 3 of the fair value hierarchy are primarily attributed to:

- CDOs and CLOs of \$18.1 million and RMBS of \$13.7 million due to a lack of observable market transactions;
- Corporate debt securities of \$11.6 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 28, 2017, transfers of assets of \$39.8 million from Level 3 to Level 2 are primarily attributed to:

- Loans and other receivables of \$28.2 million due to greater pricing transparency supporting classification into Level 2.

Net losses on Level 3 assets were \$10.2 million and net gains on Level 3 liabilities were \$4.2 million for the three months ended February 28, 2017. Net losses on Level 3 assets were primarily due to decreased valuations of CDOs and CLOs, certain investments at fair value, corporate debt securities, other ABS and CMBS, partially offset by increased valuations in loans and other receivables. Net gains on Level 3 liabilities were primarily due to increased valuations of certain net derivatives.

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):

## Three Months Ended February 29, 2016

	Balance at November 30, 2015	Total gains/losses (realized and unrealized) (1)	Purchases	Sales	Settlements	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	(15,120)	(111)	— 2,263	25,634	(2,540 )
CDOs and CLOs	85,092	(16,573 )	1,021	(20,178)	(463)	— 18,449	67,348	(17,003 )
Sovereign obligations	120	(1 )	—	—	—	—	119	(1 )
RMBS	70,263	(4,548 )	62,844	(64,926)	(114)	— 4,500	68,019	(3,358 )
CMBS	14,326	(971 )	2,962	—	(878)	— 6,555	21,994	(1,387 )
Other ABS	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	(114,669)	(5,354)	— 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:

-

CDOs and CLOs of \$39.5 million and non-agency RMBS 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 ABS of \$28.8 million and non-agency RMBS of \$15.9 million, for which market trades were observed in the period for either identical or similar securities;
- CDOs and CLOs 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 CDOs and CLOs, investments at fair value, loans and other receivables, RMBS and corporate debt securities, partially offset by an increase in valuation of corporate equity securities and other ABS. 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 28, 2017 and November 30, 2016

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 28, 2017

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average
Corporate equity securities	\$ 18,834				
Non-exchange-traded securities		Market approach	Price	\$3-\$75	\$ 44
			Underlying stock price	\$6	—
		Comparable pricing	Comparable asset price	\$9	—
		Option model	Volatility	40%	—
Corporate debt securities	\$ 33,467				
		Convertible bond model	Discount rate/yield	8%	—
			Volatility	40%	—
		Market approach	Price	\$18-\$98	\$ 53
		Scenario analysis	Estimated recovery percentage	1%-3%	2 %
CDOs and CLOs	\$ 45,354	Discounted cash flows	Constant prepayment rate	20%	—
			Constant default rate	2%-8%	3 %
			Loss severity	25%-70%	29 %
			Discount rate/yield	9%-18%	13 %
		Scenario analysis	Estimated recovery percentage	4%-45%	30 %
RMBS	\$ 39,259	Discounted cash flows	Cumulative loss rate	0%-22%	7 %
			Duration (years)	4-18	10
			Discount rate/yield	5%-11%	7 %
CMBS	\$ 20,653	Discounted cash flows	Cumulative loss rate	15%-68%	30 %
			Duration (years)	1-5	3
			Discount rate/yield	7%-19%	11 %
Other ABS	\$ 37,702	Discounted cash flows	Cumulative loss rate	0%-30%	18 %
			Duration (years)	1-11	2
			Discount rate/yield	4%-15%	14 %
		Market approach	Price	\$100	—
		Scenario analysis	Estimated recovery percentage	51%	—
Loans and other receivables	\$ 51,929	Discounted cash flows	Discount rate/yield	32%	—
			Cumulative loss rate	0%	—
			Duration (years)	0.1	—
		Market approach	EBITDA (a) multiple	3.3	—
			Transaction level	\$1-\$42	\$ 32
			Price	\$98-\$100	\$ 99
			Estimated recovery percentage	103%	—
		Present value	Average silver production (tons per day)	642	—
		Scenario analysis		3%-45%	31 %

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				Estimated recovery percentage	
Derivatives	\$ 4,905				
Unfunded commitments		Market approach	Price	\$82-\$97	\$ 94
Credit default swaps			Credit spread	265 bps	—
Interest rate swaps			Credit spread	800 bps	—
Investments at fair value					
Private equity securities	\$ 68,809	Market approach	Transaction level	\$3-\$250	\$ 116
Liabilities					
Financial Instruments Sold, Not Yet Purchased:					
Derivatives	\$ 11,318				
Equity options		Option model/default rate	Default probability	0%	—
Unfunded commitments		Market approach	Price	\$82-\$98	\$ 87
Variable funding note swaps		Discounted cash flows	Constant prepayment rate	20%	—
			Constant default rate	2%	—
			Loss severity	25%	—
			Discount rate/yield	18%	—

(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, 2016

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average
Corporate equity securities	\$ 19,799				
Non-exchange-traded securities		Market approach	Underlying stock price	\$3-\$75	\$ 15
		Comparable pricing	Underlying stock price	\$218	—
			Comparable asset price	\$11	—
		Present value	Average silver production (tons per day)	666	—
Corporate debt securities	\$ 25,005	Convertible bond model	Discount rate/yield	9%	—
			Volatility	40%	—
CDOs and CLOs	\$ 33,016	Market approach	Transaction level	\$30	—
		Discounted cash flows	Constant prepayment rate	10%-20%	19 %
			Constant default rate	2%-4%	2 %
			Loss severity	25%-70%	40 %
			Yield	7%-17%	12 %
		Scenario analysis	Estimated recovery percentage	28%-38%	31 %
RMBS	\$ 38,772	Discounted cash flows	Constant prepayment rate	0%-11%	5 %
			Constant default rate	1%-7%	3 %
			Loss severity	35%-100%	62 %
			Yield	2%-10%	6 %
CMBS	\$ 20,580	Discounted cash flows	Yield	6%-11%	8 %
			Cumulative loss rate	5%-95%	39 %
Other ABS	\$ 40,911	Discounted cash flows	Constant prepayment rate	4%-20%	14 %
			Constant default rate	0%-31%	13 %
			Loss severity	0%-100%	90 %
			Yield	4%-17%	15 %
		Market approach	Price	\$72	—
Loans and other receivables	\$ 54,347	Market approach	EBITDA (a) multiple	3.3	\$ —
			Discount rate/yield	2%-4%	3 %
			Transaction level	\$0.42	—
		Present value	Average silver production (tons per day)	666	—
		Scenario analysis	Estimated recovery percentage	6%-50%	37 %
Derivatives	\$ 6,429				
Equity swaps		Comparable pricing	Comparable asset price	\$102	—
Credit default swaps		Market approach	Credit spread	265 bps	—
Investments at fair value	\$ 42,907				
Private equity securities		Market approach	Transaction level	\$250	—
			Price	\$25,815,720	—
Liabilities					



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Financial Instruments Sold, Not Yet Purchased:

Derivatives	\$ 9,870				
Equity options		Option model	Volatility	45%	—
		Default rate	Default probability	0%	—
Equity swaps		Comparable pricing	Comparable asset price	\$102	—
Unfunded commitments		Market approach	Discount rate/yield	4%	—
Variable funding note swaps		Discounted cash flows	Constant prepayment rate	20%	—
			Constant default rate	2%	—
			Loss severity	25%	—
			Yield	16%	—

The fair values of certain Level 3 assets and liabilities that were determined based on third-party pricing information, unadjusted past transaction prices, reported NAV or a percentage of the reported enterprise fair value are excluded from the above tables. At February 28, 2017 and November 30, 2016, asset exclusions consisted of \$44.5 million and \$131.5 million, respectively, primarily comprised of private equity securities, CDOs and CLOs, municipal securities, non-exchange traded securities and loans and other receivables. At February 28, 2017 and November 30, 2016, liability exclusions consisted of \$2.0 million and \$1.6 million, respectively, of other secured financings, loans and other receivables and corporate debt and equity securities.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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:

Non-exchange traded securities and equity swaps using comparable pricing valuation techniques. A significant increase (decrease) in the comparable asset and underlying stock 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 would result in a significantly lower (higher) fair value measurement. A significant increase (decrease) in volatility would result in a significantly higher (lower) fair value measurement.

Non-exchange traded securities, corporate debt securities, loans and other receivables, unfunded commitments, credit default swaps, interest rate swaps, other ABS 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 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, corporate debt security, loan and other receivable or certain derivatives 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. A significant increase (decrease) in the price of the private equity securities, non-exchange traded securities, corporate debt securities, other ABS, loans and other receivables or certain derivatives would result in a significantly higher (lower) fair value measurement. A significant increase (decrease) in the estimated recovery rates of the cash flow outcomes underlying the loans and other receivables would result in a significantly higher (lower) fair value measurement.

Corporate debt securities, Loans and other receivables, CDOs and CLOs and other ABS 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.

Loans and other receivables, CDOs and CLOs, RMBS and CMBS and other ABS and variable funding notes using a discounted cash flow valuation technique. A significant increase (decrease) in isolation in the constant default rate, loss severity or cumulative loss rate would result in a significantly lower (higher) fair value measurement. The impact of changes in the constant prepayment rate and duration would have differing impacts depending on the capital structure and type of security. A significant increase (decrease) in the discount rate/security yield would result in a significantly lower (higher) fair value measurement.

Non-exchange traded securities and 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.

Non-exchange-traded securities and loans and other receivables using a present value model. A significant increase (decrease) in average silver production would result in a significantly higher (lower) fair value measurement.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 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 and consumer loan commitments, purchases 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 Condition and are accounted for on an amortized cost basis. We have also elected the fair value option for certain of our structured notes, which are managed by our capital markets business 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 28, 2017	February 29, 2016
Financial Instruments Owned:		
Loans and other receivables	\$(5,127 )	\$(15,462)
Financial Instruments Sold:		
Loans	\$(27 )	\$48
Loan commitments	871	(3,746 )
Long-term Debt:		
Changes in instrument specific credit risk (1)	\$(16,040)	\$(302 )
Other changes in fair value (2)	3,417	6,858

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

(2) Other changes in fair value are included within Principal transactions revenues 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 28, 2017	November 30, 2016
Financial Instruments Owned:		
Loans and other receivables (1)	\$1,078,397	\$1,325,938
Loans and other receivables on nonaccrual status and/or greater than 90 days past due (1) (2)	242,022	205,746
Long-term debt	7,582	20,202

- (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 loans and other receivables greater than 90 days past due of \$68.5 million and \$64.6 million at February 28, 2017 and November 30, 2016, respectively.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

The aggregate fair value of loans and other receivables on nonaccrual status and/or greater than 90 days past due was \$253.8 million and \$29.8 million at February 28, 2017 and November 30, 2016, respectively, which includes loans and other receivables greater than 90 days past due of \$25.8 million and \$18.9 million at February 28, 2017 and November 30, 2016, respectively.

Financial Instruments Not Measured at Fair Value

Certain of our financial instruments are not carried at fair value but are recorded at amounts that approximate fair value due to their liquid or short-term nature and generally negligible credit risk. These financial assets include Cash and cash equivalents and Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations and would generally be presented in Level 1 of the fair value hierarchy. 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 at February 28, 2017 and November 30, 2016.

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. Predominantly, we 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. In addition, we apply hedge accounting to an interest rate swap that has been designated as a fair value hedge of the changes in fair value due to the benchmark interest rate for certain fixed rate senior long-term debt.

See Note 4, Fair Value Disclosures, and Note 16, 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 ISDA master netting agreements or similar agreements with counterparties. See Note 2, Summary of Significant Accounting Policies, for additional information regarding the offsetting of derivative contracts.

The following tables present the fair value and related number of derivative contracts at February 28, 2017 and November 30, 2016 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).



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	February 28, 2017 (1)			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Derivatives designated as accounting hedges:				
Interest rate contracts:				
Cleared OTC	\$—	—	\$3,456	1
Total derivatives designated as accounting hedges	—		3,456	
Derivatives not designated as accounting hedges:				
Interest rate contracts:				
Exchange-traded	2,797	23,014	635	41,259
Cleared OTC	1,715,306	3,258	1,604,811	3,301
Bilateral OTC	360,402	1,524	366,006	682
Foreign exchange contracts:				
Exchange-traded	140	734	3	431
Bilateral OTC	308,556	5,797	300,816	5,971
Equity contracts:				
Exchange-traded	537,971	1,822,926	773,258	1,595,727
Bilateral OTC	65,189	1,139	91,216	1,367
Commodity contracts:				
Exchange-traded	7	4,851	—	4,711
Credit contracts:				
Cleared OTC	3,071	23	12,555	34
Bilateral OTC	19,826	191	15,257	122
Total derivatives not designated as hedges	3,013,265		3,164,557	
Total gross derivative assets/ liabilities:				
Exchange-traded	540,915		773,896	
Cleared OTC	1,718,377		1,620,822	
Bilateral OTC	753,973		773,295	
Amounts offset in the Consolidated Statements of Financial Condition (2):				
Exchange-traded	(526,103 )		(526,103 )	
Cleared OTC	(1,701,815 )		(1,608,805 )	
Bilateral OTC	(598,845 )		(659,524 )	
Net amounts per Consolidated Statements of Financial Condition (3)	\$ 186,502		\$ 373,581	

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.

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.





Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	November 30, 2016 (1)			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
Derivatives not designated as accounting hedges:				
Interest rate contracts:				
Exchange-traded	\$2,275	24,300	\$24	29,773
Cleared OTC	2,835,812	3,596	2,636,469	3,445
Bilateral OTC	444,159	1,136	522,965	1,627
Foreign exchange contracts:				
Exchange-traded	—	376	—	686
Bilateral OTC	529,609	7,448	516,869	7,633
Equity contracts:				
Exchange-traded	712,767	2,820,702	1,095,582	2,410,956
Bilateral OTC	72,041	1,077	67,033	1,191
Commodity contracts:				
Exchange-traded	—	1,356	—	920
Credit contracts:				
Cleared OTC	645	6	2,304	8
Bilateral OTC	19,225	213	25,503	184
Total gross derivative assets/liabilities:				
Exchange-traded	715,042		1,095,606	
Cleared OTC	2,836,457		2,638,773	
Bilateral OTC	1,065,034		1,132,370	
Amounts offset in the Consolidated Statements of Financial Condition (2):				
Exchange-traded	(691,009 )		(691,009 )	
Cleared OTC	(2,751,650)		(2,638,774)	
Bilateral OTC	(813,340 )		(899,431 )	
Net amounts per Consolidated Statements of Financial Condition (3)	\$360,534		\$637,535	

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)

The following table provides information related to gains (losses) recognized in Interest expense in the Consolidated Statements of Earnings on a fair value hedge (in thousands):

Gains (Losses)	Three Months Ended	
	February 28, 2017	February 29, 2016
Interest rate swaps	\$ (4,609 )	\$ —
Long-term debt	5,405	—
Total	\$ 796	\$ —

The following table presents unrealized and realized gains (losses) on derivative contracts recognized in Principal transactions revenue in the Consolidated Statements of Earnings, which are utilized in connection with our client activities and our economic risk management activities (in thousands):

Gains (Losses)	Three Months Ended	
	February 28, 2017	February 29, 2016
Interest rate contracts	\$ 9,997	\$ (72,525 )
Foreign exchange contracts	2,008	1,589
Equity contracts	(169,116 )	(225,666 )
Commodity contracts	(511 )	(1,875 )
Credit contracts	12,041	(12,889 )
Total	\$ (145,581)	\$ (311,366)

The net gains (losses) on derivative contracts in the table above are one of a number of activities comprising our business activities and are before consideration of economic hedging transactions, which generally offset the net gains (losses) included above. We substantially mitigate our exposure to market risk on our cash instruments through derivative contracts, which generally provide offsetting revenues, and we manage the risk associated with these contracts in the context of our overall risk management framework.

OTC Derivatives. The following tables set forth by remaining contract maturity the fair value of OTC derivative assets and liabilities at February 28, 2017 (in thousands):

	OTC Derivative Assets (1) (2) (3)				Total
	0 – 12 Months	1 – 5 Years	Greater Than 5 Years	Cross-Maturity Netting (4)	
Equity swaps and options	\$ 18,536	\$ 3,271	\$ —	\$ —	\$ 21,807
Credit default swaps	—	14,487	—	—	14,487
Total return swaps	6,384	771	—	(38 )	7,117
Foreign currency forwards, swaps and options	37,502	37,500	—	(13,111 )	61,891
Interest rate swaps, options and forwards	32,212	153,246	124,873	(66,627 )	243,704
Total	\$ 94,634	\$ 209,275	\$ 124,873	\$ (79,776 )	\$ 349,006
Cross product counterparty netting					(1,512 )
Total OTC derivative assets included in Financial instruments owned					\$ 347,494

(1) At February 28, 2017, we held exchange-traded derivative assets and other credit agreements with a fair value of \$15.5 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 28, 2017, cash collateral received was \$176.5 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.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	OTC Derivative Liabilities (1) (2) (3)				Total
	0 – 12 Months	1 – 5 Years	Greater Than 5 Years	Cross-Maturity Netting (4)	
Equity swaps and options	\$13,148	\$17,187	\$ 1,908	\$ —	\$32,243
Credit default swaps	178	13,155	—	—	13,333
Total return swaps	20,221	2,391	—	(38	) 22,574
Foreign currency forwards, swaps and options	39,883	27,382	—	(13,111	) 54,154
Fixed income forwards	275	—	—	—	275
Interest rate swaps, options and forwards	19,346	92,177	96,958	(66,627	) 141,854
Total	\$93,051	\$152,292	\$ 98,866	\$ (79,776	) 264,433
Cross product counterparty netting					(1,512 )
Total OTC derivative liabilities included in Financial instruments sold, not yet purchased					\$262,921

(1) At February 28, 2017, we held exchange-traded derivative liabilities and other credit agreements with a fair value of \$254.9 million, which are not included in this table.

(2) OTC derivative liabilities in the table above are gross of collateral pledged. OTC derivative liabilities are recorded net of collateral pledged on the Consolidated Statements of Financial Condition. At February 28, 2017, cash collateral pledged was \$144.2 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 28, 2017, 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	\$218,007
BBB- to BBB+	62,994
BB+ or lower	28,130
Unrated	38,363
Total	\$347,494

We utilize internal credit ratings determined by our Risk Management department. Credit ratings determined by (1) Risk 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 28, 2017 and November 30, 2016 is \$19.4 million and \$70.6 million, respectively, for which we have received collateral of \$3.7 million and posted collateral of \$44.4 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on February 28, 2017 and November 30, 2016, we would have been required to post an additional \$23.1 million and \$26.1 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 28, 2017		
	Securities Lending Arrangements	Repurchase Agreements	Total
Collateral Pledged:			
Corporate equity securities	\$1,839,036	\$167,950	\$2,006,986
Corporate debt securities	683,539	1,766,716	2,450,255
Mortgage- and asset-backed securities	—	2,836,035	2,836,035
U.S. government and federal agency securities	271	8,465,938	8,466,209
Municipal securities	—	511,340	511,340
Sovereign obligations	—	2,422,148	2,422,148
Loans and other receivables	—	230,762	230,762
Total	\$2,522,846	\$16,400,889	\$18,923,735
	November 30, 2016		
	Securities Lending Arrangements	Repurchase Agreements	Total
Collateral Pledged:			
Corporate equity securities	\$2,046,243	\$66,291	\$2,112,534
Corporate debt securities	731,276	1,907,888	2,639,164
Mortgage- and asset-backed securities	—	2,171,480	2,171,480
U.S. government and federal agency securities	41,613	9,232,624	9,274,237
Municipal securities	—	553,010	553,010
Sovereign obligations	—	2,625,079	2,625,079
Loans and other receivables	—	455,960	455,960
Total	\$2,819,132	\$17,012,332	\$19,831,464

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 28, 2017				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Securities lending arrangements	\$1,250,755	\$—	\$712,777	\$559,314	\$2,522,846
Repurchase agreements	8,906,185	2,321,184	3,651,291	1,522,229	16,400,889
Total	\$10,156,940	\$2,321,184	\$4,364,068	\$2,081,543	\$18,923,735
	November 30, 2016				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Securities lending arrangements	\$2,131,891	\$39,673	\$104,516	\$543,052	\$2,819,132
Repurchase agreements	9,147,176	2,008,119	3,809,533	2,047,504	17,012,332
Total	\$11,279,067	\$2,047,792	\$3,914,049	\$2,590,556	\$19,831,464

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 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 28, 2017 and November 30, 2016, the approximate fair value of securities received as collateral by us that may be sold or repledged was \$24.7 billion and \$25.5 billion, respectively. At February 28, 2017 and November 30, 2016, 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). See Note 2, Summary of Significant Accounting Policies, for additional information regarding the offsetting of securities financing agreements.

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 28, 2017						
	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)	
Assets:							
Securities borrowing arrangements	\$6,886,436	\$ —	\$ 6,886,436	\$(671,142)	\$(486,027)	\$5,729,267	
Reverse repurchase agreements	13,553,924	(9,085,480)	4,468,494	(701,342)	(3,711,705)	55,447	
Liabilities:							

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Securities lending arrangements	\$2,522,846	\$ —	\$ 2,522,846	\$ (671,142 )	\$ (1,813,403 )	\$ 38,301
Repurchase agreements	16,400,889	(9,085,430)	7,315,459	(701,342 )	(5,651,398 )	962,719

38

---



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	November 30, 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 (4)
<b>Assets:</b>						
Securities borrowing arrangements	\$7,743,562	\$ —	\$ 7,743,562	\$ (710,611 )	\$(647,290 )	\$ 6,385,661
Reverse repurchase agreements	14,083,144	(10,220,656)	3,862,488	(176,275 )	(3,591,654 )	94,559
<b>Liabilities:</b>						
Securities lending arrangements	\$2,819,132	\$ —	\$ 2,819,132	\$ (710,611 )	\$(2,064,299)	\$ 44,222
Repurchase agreements	17,012,332	(10,220,656)	6,791,676	(176,275 )	(5,780,909 )	834,492

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.

Amounts include \$5,695.3 million of securities borrowing arrangements, for which we have received securities collateral of \$5,505.2 million, and \$948.0 million of repurchase agreements, for which we have pledged securities (3) collateral of \$975.5 million, which are subject to master netting agreements but we have not determined the agreements to be legally enforceable.

Amounts include \$6,337.5 million of securities borrowing arrangements, for which we have received securities collateral of \$6,146.0 million, and \$810.4 million of repurchase agreements, for which we have pledged securities (4) collateral of \$834.2 million, which are subject to master netting agreements but we have not determined the agreements to be legally enforceable.

#### 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 \$705.3 million and \$857.3 million at February 28, 2017 and November 30, 2016, 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 the securitization of assets issued or guaranteed by U.S. government agencies. These SPEs generally meet the criteria of VIEs; 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 VIEs 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 CLOs), 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.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 28, 2017		February 29, 2016
Transferred assets	\$953.5	\$1,948.9	
Proceeds on new securitizations	962.6	1,962.7	
Cash flows received on retained interests	8.7	9.6	

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 28, 2017 and November 30, 2016.

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 28, 2017		November 30, 2016	
	Total Assets	Retained Interests	Total Assets	Retained Interests
U.S. government agency RMBS	\$6,029.9	\$ 9.2	\$7,584.9	\$ 31.0
U.S. government agency CMBS	2,240.3	49.0	1,806.3	29.6
CLOs	2,759.9	18.5	4,102.2	37.0
Consumer and other loans	479.9	101.0	395.7	25.3

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. To the extent we purchased securities through these market-making activities and we are not deemed to be the primary beneficiary of the VIE, these securities are included in agency and non-agency mortgage- and asset-backed securitizations in the nonconsolidated VIEs section presented in Note 8, Variable Interest Entities.

## Note 8. 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 VIE 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,

40

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Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Warehousing funding arrangements for client-sponsored consumer loan vehicles and 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.

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 28, 2017 and November 30, 2016 (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 28, 2017		November 30, 2016	
	Securitization Vehicles	Other	Securitization Vehicles	Other
Cash	\$ 3.6	\$ 1.0	\$ 16.1	\$ 0.7
Financial instruments owned	52.8	0.3	86.6	0.6
Securities purchased under agreement to resell (1)	570.2	—	733.5	—
Fees, interest and other receivables	0.2	—	1.5	—
Total assets	\$ 626.8	\$ 1.3	\$ 837.7	\$ 1.3
Other secured financings (2)	\$ 613.5	\$ —	\$ 813.1	\$ —
Other liabilities	12.9	0.2	24.1	0.2
Total liabilities	\$ 626.4	\$ 0.2	\$ 837.2	\$ 0.2

(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 \$19.5 million and \$57.6 million of the secured financing represents an amount held by us in inventory and is eliminated in consolidation at February 28, 2017 and November 30, 2016, respectively.

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.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 and retained interests in securities issued. 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.

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 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 28, 2017			
	Carrying Amount		Maximum Exposure to Loss	VIE Assets
	Assets	Liabilities		
CLOs	\$33.0	\$ 1.5	\$ 275.7	\$3,259.4
Consumer loan vehicles	154.1	—	515.4	1,149.1
Related party private equity vehicles	36.3	—	62.0	149.3
Other private investment vehicles	51.6	—	53.1	3,688.2
Total	\$275.0	\$ 1.5	\$ 906.2	\$8,246.0
	November 30, 2016			
	Carrying Amount		Maximum Exposure to Loss	VIE Assets
	Assets	Liabilities		
CLOs	\$263.3	\$ 4.8	\$ 920.0	\$4,451.7
Consumer loan vehicles	90.3	—	219.6	985.5
Related party private equity vehicles	37.6	—	63.6	155.6
Other private investment vehicles	52.3	—	53.8	3,874.7
Total	\$443.5	\$ 4.8	\$ 1,257.0	\$9,467.5

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 CLOs 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,

42

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Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Investments in variable funding notes issued by CLOs, and

• 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.

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 composed 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 committed to invest equity in private equity funds (the “JCP Funds”) managed by Jefferies Capital Partners, LLC (the “JCP Manager”). Additionally, we 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 that, 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 was \$148.1 million, of which \$125.4 million and \$125.1 million had been funded at February 28, 2017 and November 30, 2016, respectively. The carrying value of our equity investments in the JCP Entities was \$36.3 million and \$37.6 million at February 28, 2017 and November 30, 2016, respectively. Our exposure to loss is limited to the total of our carrying value and unfunded 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 certain of our employees. The maximum exposure to loss of the guarantee was \$3.0 million at February 28, 2017 and November 30, 2016. Energy Partners I, LP, has assets consisting primarily of debt and equity investments.

Other Private Investment Vehicles. As of February 28, 2017 and November 30, 2016, we had equity commitments to invest \$65.0 million and \$75.8 million, respectively, in various other private investment vehicles, of which \$63.5 million and \$74.3 million was funded, respectively. The carrying value of our equity investments was \$51.6 million and \$52.3 million at February 28, 2017 and November 30, 2016, respectively. Our exposure to loss is limited to the total of our carrying value and unfunded 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 non-agency 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, CDOs 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 (FNMA (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”) or GNMA (“Ginnie Mae”)) or non-agency-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 non-agency-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 non-agency-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.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

At February 28, 2017 and November 30, 2016, we held \$1,761.9 million and \$1,002.2 million of agency mortgage-backed securities, respectively, and \$351.9 million and \$439.4 million of non-agency mortgage and other asset-backed securities, respectively, as a 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, Jefferies LoanCore LLC (“Jefferies LoanCore”) and KCG Holdings, Inc. (“KCG”). 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. Our investment in KCG is accounted for at fair value by electing the fair value option available under U.S. GAAP and is included in Financial instruments owned, at fair value - Corporate equity securities on the Consolidated Statements of Financial Condition with changes in fair value recognized in Principal transaction revenues on the Consolidated Statements of Earnings. We have limited partnership interests of 11% and 51% 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 (which is now Barings, 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 and acts as an investment advisor for various loan funds.

At February 28, 2017, we and MassMutual each had equity commitments to Jefferies Finance of \$600.0 million, for a combined total commitment of \$1.2 billion. At February 28, 2017, we had funded \$493.9 million of our \$600.0 million commitment, leaving \$106.1 million unfunded. The investment commitment is scheduled to expire on March 1, 2018 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. The total Secured Revolving Credit Facility is a committed amount of \$500.0 million at February 28, 2017. Advances are shared equally between us and MassMutual. The facility is scheduled to mature on March 1, 2018 with automatic one year extensions absent a 60 day termination notice by either party. At both February 28, 2017 and November 30, 2016, we had funded \$0.0 million of our \$250.0 million commitment. During the three months ended February 28, 2017 and February 29, 2016, \$1.1 million and \$2,000 of interest income, respectively, and unfunded commitment fees of \$0.3 million and \$0.3 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 28, 2017	November 30, 2016
Total assets	\$7,455.0	\$7,277.3
Total liabilities	6,471.9	6,336.3

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Total equity	983.1	941.1
Our total equity balance	491.5	470.5

The results of Jefferies Finance were net earnings of \$42.0 million for the three months ended February 28, 2017 and a net loss of \$44.7 million for the three months ended February 29, 2016.

44

---

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

We engage in debt capital markets transactions with Jefferies Finance related to the originations and syndications of loans by Jefferies Finance. In connection with such services, we earned fees of \$66.2 million and \$19.4 million for the three months ended February 28, 2017 and February 29, 2016, respectively, recognized in Investment banking revenues in the Consolidated Statements of Earnings. In addition, we paid fees to Jefferies Finance in respect of certain loans originated by Jefferies Finance of \$2.1 million during the three months ended February 28, 2017, which are recognized as Business development expenses in the Consolidated Statements of Earnings.

We act as a placement agent for CLOs managed by Jefferies Finance, for which we recognized fees of \$2.7 million for the three months ended February 28, 2017, which are included in Investment banking revenues on the Consolidated Statement of Earnings. At February 28, 2017 and November 30, 2016, 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 based upon certain securities issued by the CLO. We have recognized revenue of \$0.1 million and \$1.4 million during the three months ended February 28, 2017 and February 29, 2016, respectively, relating to the derivative contracts. Under a service agreement, we charged Jefferies Finance \$20.2 million and \$21.1 million for services provided during the three months ended February 28, 2017 and February 29, 2016, respectively. At February 28, 2017, we had a receivable from Jefferies Finance of \$18.0 million included within Other Assets, and at November 30, 2016, we had a payable to Jefferies Finance of \$5.8 million included within Accrued expenses and other liabilities, on the Consolidated Statements of Financial Condition.

We enter into OTC foreign exchange contracts with Jefferies Finance. In connection with these contracts, at February 28, 2017 and November 30, 2016, we had \$0.3 million and \$4,000, respectively, recorded in Financial instruments sold, not yet purchased on the Consolidated Statements of Financial Condition.

**Jefferies LoanCore**

On February 23, 2011, we entered into a joint venture agreement with the Government of Singapore Investment Corporation (“GIC”) and LoanCore, LLC and formed Jefferies LoanCore, a commercial real estate finance company. In March 2016, the Canada Pension Plan Investment Board acquired a 24% equity interest in Jefferies LoanCore through a direct acquisition from the GIC. 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 GIC and LoanCore, LLC. Jefferies LoanCore has aggregate equity commitments of \$400.0 million. At February 28, 2017 and November 30, 2016, we had funded \$122.9 million and \$70.1 million, respectively, of our \$194.0 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 28, 2017	November 30, 2016
Total assets	\$1,707.7	\$1,827.2
Total liabilities	1,397.3	1,505.0
Total equity	310.4	322.2
Our total equity balance	150.5	156.3

The net earnings of Jefferies LoanCore were \$6.2 million and \$5.4 million for the three months ended February 28, 2017 and February 29, 2016, respectively.

We enter into master repurchase agreements with Jefferies LoanCore. For the three months ended February 28, 2017 and February 29, 2016, we earned \$0.6 million and \$2.8 million, respectively, of interest income and fees related to these agreements. At November 30, 2016, we had reverse repurchase agreements of \$68.1 million in connection with these agreements.

Under a service agreement, we charged Jefferies LoanCore \$47,000 and \$47,000 for three months ended February 28, 2017 and February 29, 2016, respectively. Receivables from Jefferies LoanCore, included within Other assets on the Consolidated Statements of Financial Condition, were \$16,000 and \$16,000 at February 28, 2017 and November 30, 2016, respectively.

We also enter into OTC foreign exchange contracts with Jefferies LoanCore. In connection with these contracts, we had \$5.4 million and \$8.3 million at February 28, 2017 and November 30, 2016, respectively, recorded in Payables - brokers, dealers and clearing organizations and \$1.0 million at February 28, 2017 recorded in Financial instruments sold, not yet purchased on the Consolidated Statements of Financial Condition.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## KCG

At February 28, 2017 and November 30, 2016, we owned approximately 24% of the outstanding common stock of KCG. We elected to record our investment in KCG at fair value under the fair value option, as the investment was acquired as part of our capital markets activities. The valuation of our investment is based on the closing exchange price of KCG and included within Level 1 of the fair value hierarchy. Changes in the fair value of our investment in KCG were \$(4.6) million and \$(37.3) million for the three months ended February 28, 2017 and February 29, 2016, respectively, and are recognized in Principal transactions revenues on the Consolidated Statements of Earnings.

The following is a summary of selected financial information for KCG at December 31, 2016 and September 30, 2016, the most recently available public financial information for the company (in millions):

	December 31, 2016	September 30, 2016
Total assets	\$ 6,261.3	\$ 6,750.6
Total liabilities	4,904.0	5,311.0
Total equity	1,357.3	1,439.6

For the three months ended December 31, 2016 and December 31, 2015, KCG reported net income (loss) of \$196.2 million and \$(3.0) million, respectively.

We have separately entered into securities lending transactions with KCG in the normal course of our capital markets activities. The balances of securities borrowed and securities loaned were \$2.1 million and \$2.2 million, respectively, at February 28, 2017, and \$9.2 million and \$9.2 million, respectively, at November 30, 2016.

## 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 \$28.6 million and \$29.1 million at February 28, 2017 and November 30, 2016, 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). The results from these investments were losses of \$0.7 million and \$3.0 million for the three months ended February 28, 2017 and February 29, 2016, respectively, and are included in Asset management fees and investment income (loss) from managed funds in the Consolidated Statements of Earnings.

At February 28, 2017 and November 30, 2016, we were committed to invest equity of up to \$85.0 million in JCP Fund V. At February 28, 2017 and November 30, 2016, our unfunded commitments relating to JCP Fund V was \$11.1 million and \$11.5 million, respectively.

The following is a summary of selected financial information for 100.0% of JCP Fund V, in which we own effectively 35.6% of the combined equity interests (in thousands):

	December 31, 2016	September 30, 2016
	(1)	(1)
Total assets	\$ 80,403	\$ 82,689
Total liabilities	81	73
Total partners' capital	80,322	82,616

	Three Months Ended December 31, 2016	December 31, 2015
	(1)	(1)

Net decrease in net assets resulting from operations \$(2,294) \$(7,886 )

(1) Financial information for JCP Fund V within our financial position and results of operations at February 28, 2017 and November 30, 2016 and for the three months ended February 28, 2017 and February 29, 2016 is included

based on the presented periods.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Note 10. Goodwill and Other Intangible Assets

## Goodwill

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

	February 28, 2017	November 30, 2016
Capital Markets	\$1,637,202	\$1,637,653
Asset Management	3,000	3,000
Total goodwill	\$1,640,202	\$1,640,653

The following table is a summary of the changes to goodwill for the three months ended February 28, 2017 (in thousands):

Balance at November 30, 2016	\$1,640,653
Translation adjustments	(451 )
Balance at February 28, 2017	\$1,640,202

## Intangible Assets

Intangible assets are included in Other assets in the Consolidated Statements of Financial Condition. The following tables present the gross carrying amount, changes in carrying amount, net carrying amount and weighted average amortization period of identifiable intangible assets at February 28, 2017 and November 30, 2016 (dollars in thousands):

	February 28, 2017				
	Gross cost	Impairment losses	Accumulated amortization	Net carrying amount	Weighted average remaining lives (years)
Customer relationships	\$125,357	\$ —	\$ (44,325 )	\$81,032	11.9
Trade name	127,928	—	(14,620 )	113,308	31.0
Exchange and clearing organization membership interests and registrations	9,059	(357 )	—	8,702	N/A
Total	\$262,344	\$ (357 )	\$ (58,945 )	\$203,042	
	November 30, 2016				
	Gross cost	Accumulated amortization	Net carrying amount	Weighted average remaining lives (years)	
Customer relationships	\$125,381	\$ (42,283 )	\$83,098	12.1	
Trade name	128,052	(13,720 )	114,332	31.3	
Exchange and clearing organization membership interests and registrations	9,041	—	9,041	N/A	
Total	\$262,474	\$ (56,003 )	\$206,471		

## Amortization Expense

For finite life intangible assets, aggregate amortization expense amounted to \$3.0 million for both the three months ended February 28, 2017 and February 29, 2016. 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 2017	\$9,148
Year ended November 30, 2018	12,198
Year ended November 30, 2019	12,198
Year ended November 30, 2020	12,198
Year ended November 30, 2021	12,198



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Note 11. Short-Term Borrowings

Short-term borrowings at February 28, 2017 and November 30, 2016 include the following (in thousands):

	February 28, November 30,	
	2017	2016
Bank loans (1)	\$ 326,496	\$ 372,301
Secured revolving loan facilities	—	57,086
Floating rate puttable notes	96,428	96,455
Total short-term borrowings	\$ 422,924	\$ 525,842

(1) Bank loans are payable on demand and must be repaid in one year or less. Amounts include \$14.5 million and \$10.3 million related to bank overdrafts at February 28, 2017 and November 30, 2016, respectively.

At February 28, 2017, the weighted average interest rate on short-term borrowings outstanding is 1.37% per annum. Average daily short-term borrowings outstanding were \$448.1 million and \$306.2 million for the three months ended February 28, 2017 and February 29, 2016, respectively.

The Bank of New York Mellon agrees to make revolving intraday credit advances (“Intraday Credit Facility”) for an aggregate committed amount of \$250.0 million. 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 28, 2017, we were in compliance with debt covenants under the Intraday Credit Facility.

On October 29, 2015, we entered into a secured revolving loan facility (“First Secured Revolving Loan Facility”), whereby the lender agreed to make available a revolving loan facility in a maximum principal amount of \$50.0 million to purchase eligible receivables that met certain requirements as defined in the First Secured Revolving Loan Facility agreement. Interest was 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 First Secured Revolving Loan Facility agreement. On December 14, 2015, we entered into a second secured revolving loan facility (“Second Secured Revolving Loan Facility”), whereby the lender agreed to make available a revolving loan facility in a maximum principal amount of \$50.0 million to purchase eligible receivables that met certain requirements as defined in the Second Secured Revolving Loan Facility agreement. Interest was based on an annual rate equal to the lesser of the LIBOR rate plus four and one-quarter percent or the maximum rate as defined in the Second Secured Revolving Loan Facility agreement. The First Secured Revolving Loan Facility was terminated with an effective date of December 6, 2016. The Second Secured Revolving Loan Facility was terminated with an effective date of January 24, 2017.

On February 19, 2016, we entered into a demand loan margin financing facility (“Demand Loan Facility”) in a maximum principal amount of \$25.0 million to satisfy certain of our margin obligations. Interest is based on an annual rate equal to weighted average LIBOR as defined in the Demand Loan Facility agreement plus 150 basis points. The Demand Loan Facility was terminated with an effective date of November 30, 2016.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Note 12. Long-Term Debt

The following summarizes our long-term debt carrying values (including unamortized discounts and premiums and valuation adjustment, where applicable) (in thousands):

	February 28, 2017	November 30, 2016
Unsecured long-term debt		
5.125% Senior Notes, due April 13, 2018 (effective interest rate of 3.46%)	\$814,623	\$817,813
8.5% Senior Notes, due July 15, 2019 (effective interest rate of 4.00%)	771,253	778,367
2.375% Euro Medium Term Notes, due May 20, 2020 (effective rate of 2.42%)	528,220	528,250
6.875% Senior Notes, due April 15, 2021 (effective interest rate of 4.40%)	819,951	823,797
2.25% Euro Medium Term Notes, due July 13, 2022 (effective rate of 4.08%)	3,863	3,848
5.125% Senior Notes, due January 20, 2023 (effective interest rate of 4.55%)	617,704	618,355
4.85% Senior Notes, due January 15, 2027 (effective interest rate of 4.93%) (1)	738,748	—
6.45% Senior Debentures, due June 8, 2027 (effective interest rate of 5.46%)	377,313	377,806
3.875% Convertible Senior Debentures, due November 1, 2029 (effective interest rate of 3.50%) (2)	345,850	346,187
6.25% Senior Debentures, due January 15, 2036 (effective interest rate of 6.03%)	512,309	512,396
6.50% Senior Notes, due January 20, 2043 (effective interest rate of 6.09%)	421,249	421,333
Structured Notes (3)	316,408	255,203
Total long-term debt	\$6,267,491	\$5,483,355

These senior notes with a principal amount of \$750.0 million were issued on January 17, 2017. Amount includes a decrease of \$5.4 million to the carrying value of our long-term debt associated with an interest rate swap based on its designation as a fair value hedge. See Note 2, Summary of Significant Accounting Policies, and Note 5, Derivative Financial Instruments, for further information.

The change in fair value of the conversion feature, which is included within Principal transaction revenues in the Consolidated Statements of Earnings, was not material for the three months ended February 28, 2017 and February 29, 2016.

Includes \$310.1 million and \$248.9 million carried at fair value at February 28, 2017 and November 30, 2016, respectively.

During the three months ended February 28, 2017 and February 29, 2016, we issued structured notes with a total principal amount of approximately \$48.6 million and \$42.4 million, respectively. Structured notes of \$310.1 million and \$248.9 million at February 28, 2017 and November 30, 2016, respectively, contain various interest rate payment terms and are accounted for 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.

In addition, on January 21, 2016, we issued \$15.0 million of Class A Notes, due 2022, and \$7.5 million of Class B Notes, due 2022, secured by aircraft and related operating leases and which are non-recourse to us. In June 2016, the Class A Notes and the Class B Notes were repurchased and retired.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 16, 2017, each \$1,000 debenture is currently convertible into 22.8163 shares of Leucadia’s common stock (equivalent to a conversion price of approximately \$43.83 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 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 exceeds \$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. At February 28, 2017 and November 30, 2016, the fair value of the conversion option was not material.

## Note 13. 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.

**Employer Contributions -** Our funding policy is to contribute to the U.S. Pension Plan 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 during the three months ended February 28, 2017 and we do not anticipate making additional contributions to the U.S. Pension Plan during the remainder of the year ended November 30, 2017.

**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 is included in Financial Instruments owned in the Consolidated Statements of Financial Condition and has a fair value of \$15.0 million and \$15.2 million at February 28, 2017 and November 30, 2016, 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.

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

Three Months  
Ended

U.S. Pension Plan	February 28, 2017	February 29, 2016
Components of net periodic pension cost (income):		
Service cost	\$ 112	\$ 100
Interest cost on projected benefit obligation	564	587
Expected return on plan assets	(767 )	(776 )
Net amortization	1	—
Net periodic pension income	\$(90 )	\$ (89 )

50

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Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

	Three Months Ended	
German Pension Plan	February 28, 2017	February 29, 2016
Components of net periodic pension cost:		
Interest cost on projected benefit obligation	\$ 100	\$ 130
Net amortization	84	80
Net periodic pension cost	\$ 184	\$ 210

## Note 14. 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 28, 2017	February 29, 2016
Components of compensation cost:		
Restricted cash awards	\$61.7	\$ 75.0
Restricted stock and RSUs (1)	5.8	5.1
Profit sharing plan	2.9	3.1
Total compensation cost	\$70.4	\$ 83.2

Total compensation cost associated with restricted stock and RSUs includes the amortization of sign-on, retention (1) and senior executive awards, less forfeitures and clawbacks. Additionally, we recognize compensation cost related to the discount provided to employees in electing to defer compensation under the Deferred Compensation Plan. Remaining unamortized amounts related to certain compensation plans at February 28, 2017 are as follows (dollars in millions):

	Remaining Unamortized Amounts	Weighted Average Vesting Period (in Years)
Non-vested share-based awards	\$ 52.3	3
Restricted cash awards	586.6	3
Total	\$ 638.9	

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.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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 executive 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.

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.

## Note 15. Income Taxes

At February 28, 2017 and November 30, 2016, we had approximately \$108.5 million and \$109.5 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 \$72.4 million and \$73.1 million (net of benefits of taxes) at February 28, 2017 and November 30, 2016, 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 28, 2017 and November 30, 2016, we had interest accrued of approximately \$41.2 million and \$39.3 million, respectively, included in Accrued expenses and other liabilities. No material penalties were accrued for the three months ended February 28, 2017 and the year ended November 30, 2016.

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

52

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Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Note 16. Commitments, Contingencies and Guarantees

## Commitments

The following table summarizes our commitments at February 28, 2017 (in millions):

	Expected Maturity Date (fiscal years)					Maximum Payout
	2017	2018	2019 and 2020	2021 and 2022	2023 and Later	
Equity commitments (1)	\$—	\$9.4	\$11.1	\$—	\$233.0	\$253.5
Loan commitments (1)	294.4	11.9	65.0	56.2	—	427.5
Mortgage-related and other purchase commitments	—	—	217.0	—	—	217.0
Underwriting commitments	0.1	—	—	—	—	0.1
Forward starting reverse repos (2)	3,346.5	—	—	—	—	3,346.5
Forward starting repos (2)	2,609.3	—	—	—	—	2,609.3
Other unfunded commitments (1)	135.0	124.7	4.6	36.2	12.7	313.2
Total commitments	\$6,385.3	\$146.0	\$297.7	\$92.4	\$245.7	\$7,167.1

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

(2) At February 28, 2017, \$3,303.6 million within forward starting reverse repos and \$2,609.3 million within repos settled within three business days.

**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 28, 2017, our outstanding commitments relating to Jefferies Capital Partners, LLC and its private equity funds was \$22.8 million.

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

Additionally, at February 28, 2017, we had other outstanding equity commitments to invest up to \$1.6 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 28, 2017, we had \$177.5 million of outstanding loan commitments to clients.

Loan commitments outstanding at February 28, 2017 also include our portion of the outstanding secured revolving credit facility provided to Jefferies Finance to support loan underwritings by Jefferies Finance. See Note 9, Investments, for additional information.

**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 Fannie Mae, Freddie Mac or 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 \$14.4 million at February 28, 2017.

**Underwriting Commitments.** In connection with investment banking activities, we may from time to time provide underwriting commitments to our clients in connection with capital raising transactions.

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.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## 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 28, 2017 (in millions):

	Expected Maturity Date (fiscal years)					Notional/ Maximum Payout
	2017	2018	2019 and 2020	2021 and 2022	2023 and Later	
Guarantee Type:						
Derivative contracts—non-credit related	\$17,839.8	\$1,562.1	\$—	\$—	\$421.7	\$19,823.6
Written derivative contracts—credit related	<del>—</del>	53.4	11.5	294.3	—	359.2
Total derivative contracts	\$17,839.8	\$1,615.5	\$11.5	\$294.3	\$421.7	\$20,182.8

At February 28, 2017 the external credit ratings of the underlyings or referenced assets for our credit related derivatives contracts (in millions):

	External Credit Rating		Below Investment Grade	Notional/ Maximum Payout
	AAA/ <del>AA</del> Aa A	BBB/Baa		
Credit related derivative contracts:				
Index credit default swaps	\$4.0	\$—	\$—	\$4.0
Single name credit default swaps	—	115.1	59.9	180.2

Credit related derivative contracts:

Index credit default swaps	\$4.0	\$—	\$—	\$—	\$4.0
Single name credit default swaps	—	115.1	59.9	180.2	355.2

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 28, 2017, the fair value of derivative contracts meeting the definition of a guarantee is approximately \$134.1 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. The maximum amount payable under the guarantee is \$17.8 million at February 28, 2017. We have also provided a guarantee of a portion of Energy Partners I, LP’s obligations under a credit agreement. The maximum exposure to loss of the guarantee is \$3.0 million at February 28, 2017. See Note 8, Variable Interest Entities, for further information.

Standby Letters of Credit. At February 28, 2017, we provided guarantees to certain counterparties in the form of standby letters of credit in the amount of \$63.2 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.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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

At February 28, 2017, Jefferies and Jefferies Execution’s net capital and excess net capital were as follows (in thousands):

	Net Capital	Excess Net Capital
Jefferies	\$ 1,359,023	\$ 1,277,401
Jefferies Execution	9,158	8,908

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, which is 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 18. 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 composed 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.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

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

	Three Months Ended February 28, 2017		February 29, 2016	
Capital Markets:				
Net revenues	\$782.6	\$263.3		
Expenses	\$656.7	\$533.1		
Asset Management:				
Net revenues	\$12.9	\$35.7		
Expenses	\$14.6	\$15.8		
Total:				
Net revenues	\$795.5	\$299.0		
Expenses	\$671.3	\$548.9		

The following table summarizes our total assets by segment (in millions):

	February 28, 2017	November 30, 2016
Segment assets:		
Capital Markets	\$36,856.2	\$35,931.8
Asset Management	847.2	1,009.5
Total assets	\$37,703.4	\$36,941.3

## 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 28, 2017		February 29, 2016	
Americas (1)	\$609,849	\$187,709		
Europe (2)	156,274	96,433		
Asia	29,390	14,845		
Net revenues	\$795,513	\$298,987		

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

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

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

## Note 19. Related Party Transactions

Jefferies Capital Partners Related Funds. We have equity investments in the JCP Manager and in private equity 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 28, 2017 and November 30, 2016, our equity investments in Private Equity Related Funds were in aggregate \$36.7 million and \$37.7 million, respectively. We also charge the JCP Manager for certain services under a service agreement. The following table presents other revenues and investment income (loss) related to net gains and losses on our investment in Private Equity Related Funds and service charges (in thousands):

	Three Months Ended	
	February 28, 2017	February 29, 2016
Other revenues and investment income (loss)	\$(1,298)	\$ (2,648 )
Service charges	125	129

For further information regarding our commitments and funded amounts to the Private Equity Related Funds, see Note 16, Commitments, Contingencies and Guarantees.

Berkadia Commercial Mortgage, LLC. At February 28, 2017 and November 30, 2016, we have commitments to purchase \$654.2 million and \$817.0 million, respectively, in agency CMBS from Berkadia Commercial Mortgage, LLC, which is partially owned by Leucadia.

Officers, Directors and Employees. At February 28, 2017 and November 30, 2016, we had \$37.5 million and \$38.4 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 28, 2017 and November 30, 2016, we have provided a guarantee of a credit agreement for a private equity fund owned by our employees. See Note 8, Variable Interest Entities, and Note 16, Commitments, Contingencies and Guarantees, for further information.

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 \$6.1 million and \$7.6 million for the three months ended February 28, 2017 and February 29, 2016, respectively. At February 28, 2017 and November 30, 2016, we had a receivable from Leucadia of \$1.6 million and \$2.8 million, respectively, which is included within Other assets on the Consolidated Statements of Financial Condition. At February 28, 2017 and November 30, 2016, we had a payable to Leucadia of \$2.6 million and \$1.9 million, respectively, related to certain services provided by Leucadia, which is included within Accrued Expenses and 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 28, 2017 and November 30, 2016, a net current tax receivable from Leucadia of \$155.4 million and \$80.1 million, respectively, is included in Other assets on the Consolidated Statements of Financial Condition.

In December 2016, we made a capital redemption of \$17.0 million from a hedge fund managed by a subsidiary of Leucadia.

We received \$0.1 million of asset management fees for the three months ended February 29, 2016 for services provided to Leucadia and its affiliates.

On February 24, 2017, we sold securities to Leucadia at a fair value of \$25.6 million for cash. There was no gain or loss on the transaction.

In connection with our sales and trading activities, from time to time, we make a market in long-term debt securities of Leucadia (i.e., we buy and sell debt securities issued by Leucadia). At February 28, 2017 and November 30, 2016,

approximately \$1.8 million and \$1.0 million, respectively, of debt securities issued by Leucadia are included in Financial instruments owned on the Consolidated Statements of Financial Condition. For information on transactions with our equity method investees, see Note 9, Investments.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(Unaudited)

Note 20. 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 OTC transactions associated with our Jefferies Bache business for the net book value of the OTC 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 the business, which was completed during the second quarter of 2016. The pre-tax loss of the Jefferies Bache business was \$1.2 million for the three months ended February 29, 2016.

The following summarizes our recorded restructuring and impairment costs (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 were of a non-cash nature for the three months ended February 29, 2016.

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 (in thousands):

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

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, 2016 and filed with the Securities and Exchange Commission (“SEC”) on January 27, 2017, and in our amended Annual Report on Form 10-K/A for the year ended November 30, 2016 and filed with the SEC on February 28, 2017;
- 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, 2016.

## Consolidated Results of Operations

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

	Three Months Ended		
	February 28, 2017	February 29, 2016	% Change
Net revenues	\$795,513	\$298,987	166.1 %
Non-interest expenses	671,314	548,863	22.3 %
Earnings (loss) before income taxes	124,199	(249,876 )	N/M
Income tax expense (benefit)	10,179	(83,107 )	N/M
Net earnings (loss)	114,020	(166,769 )	N/M
Net earnings to noncontrolling interests	1	44	(97.7 )%
Net earnings (loss) attributable to Jefferies Group LLC	114,019	(166,813 )	N/M
Effective tax rate	8.2	% 33.3	% (75.4 )%

N/M — Not Meaningful

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Executive Summary

Three Months Ended February 28, 2017

Consolidated Results

Net revenues for the three months ended February 28, 2017 were \$795.5 million, compared with \$299.0 million for the three months ended February 29, 2016, an increase of \$496.5 million, or 166.1%.

The results in the three months ended February 28, 2017 were due to more normal market and trading conditions across most core businesses compared with an extremely volatile bear market environment during the prior year quarter.

We continued to maintain strong leverage ratios, capital base and liquidity during the three months ended February 28, 2017. See the “Liquidity, Financial Condition and Capital Resources” section herein for further information.

Business Results

The increase in total net revenues for the three months ended February 28, 2017, as compared to the three months ended February 29, 2016, reflects higher net revenues in equities, fixed income and investment banking.

The increase in fixed income net revenues is primarily due to higher levels of trading activity due to improved market conditions compared with the prior year quarter.

The increase in equities revenues was primarily attributable to a net gain of \$2.6 million recognized during the three months ended February 28, 2017 from our investment in two equity securities, including KCG Holdings, Inc. (“KCG”), compared with a net loss of \$82.2 million in the comparable prior year quarter from these two equity securities, as well as net revenues of \$21.0 million from our share of our Jefferies Finance LLC (“Jefferies Finance”) joint venture, compared with a net loss of \$22.3 million in the prior year quarter.

Higher investment banking results during the three months ended February 28, 2017 reflect increased debt and equity capital markets revenues and advisory revenues, as a result of higher transaction volumes. In the prior year quarter, new issue equity and leveraged finance capital markets were virtually closed throughout January and February.

Net revenues in the three months ended February 28, 2017 included investment income from managed funds of \$0.9 million, compared with investment losses from managed funds of \$1.7 million in the prior year quarter.

Expenses

Non-interest expenses for the three months ended February 28, 2017 increased \$122.5 million, or 22.3%, to \$671.3 million, compared with \$548.9 million for the three months ended February 29, 2016, reflecting an increase in both Compensation and benefits expense and Non-compensation expenses.

Compensation and benefits expense for the three months ended February 28, 2017 was \$460.2 million, an increase of \$110.4 million, or 31.6%, from the comparable prior year quarter, as a result of significantly higher net revenues.

Compensation and benefits expense as a percentage of Net revenues was 57.8% for the three months ended February 28, 2017, compared with 117.0% in the prior year quarter. The unusually high compensation ratio in the prior year quarter is due to the significantly lower net revenue results in the prior year quarter and the relationship of non-discretionary compensation to the net revenue decline.

Non-compensation expenses for the three months ended February 28, 2017 were \$211.1 million, an increase of \$12.0 million, or 6.0% from the comparable prior year quarter. This increase was primarily due to higher Floor brokerage and clearing fees and Professional services fees.

Headcount

At February 28, 2017, we had 3,319 employees globally, a decrease of 120 employees from our headcount of 3,439 at February 29, 2016. Our headcount decreased, primarily as a result of continued discipline in headcount and productivity management.

Revenues by Source

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 equities 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.

60

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Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

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” (dollars in thousands):

	Three Months Ended				
	February 28, 2017		February 29, 2016		% Change
	Amount	% of Net Revenues	Amount	% of Net Revenues	
Equities	\$156,714	19.7 %	\$1,745	0.6 %	N/M
Fixed income	221,852	27.9	56,782	19.0	290.7 %
Total sales and trading	378,566	47.6	58,527	19.6	546.8 %
Equity	61,566	7.7	43,999	14.8	39.9 %
Debt	162,628	20.5	57,273	19.1	184.0 %
Capital markets	224,194	28.2	101,272	33.9	121.4 %
Advisory	183,827	23.1	129,658	43.4	41.8 %
Total investment banking	408,021	51.3	230,930	77.3	76.7 %
Asset management fees and investment income (loss) from managed funds:					
Asset management fees	7,981	1.0	11,205	3.7	(28.8 )%
Investment income (loss) from managed funds	945	0.1	(1,675 )	(0.6 )	N/M
Total	8,926	1.1	9,530	3.1	(6.3 )%
Net revenues	\$795,513	100.0 %	\$298,987	100.0 %	166.1 %

N/M — Not Meaningful

The following table sets forth our total sales and trading net revenues (dollars in thousands):

	Three Months Ended		
	February 28, 2017	February 29, 2016	% Change
Commissions and other fees	\$145,822	\$155,824	(6.4 )%
Principal transactions	220,957	(103,373 )	N/M
Other	24,048	(21,751 )	N/M
Net interest	(12,261 )	27,827	N/M
Total sales and trading net revenues	\$378,566	\$58,527	546.8 %

N/M — Not Meaningful

## Equities Net Revenues

Equities net revenues include equity commissions, equity security principal trading and investments (including our investments in KCG and other equity securities) and net interest revenue generated by our equities sales and trading, prime services and wealth management businesses relating to the following products:

- cash equities,
- electronic trading,
- equity derivatives,
- convertible securities,
- prime brokerage,
- securities finance and
- alternative investment strategies.

Equities net 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.





Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Three Months Ended February 28, 2017

Total equities net revenues were \$156.7 million for the three months ended February 28, 2017, an increase of \$155.0 million compared with \$1.7 million for the three months ended February 29, 2016.

Results during the three months ended February 28, 2017 include a net gain of \$2.6 million from our investment in two equity securities, including KCG, compared with a net loss of \$82.2 million in the prior year quarter from these two equity securities.

Equities commission revenues declined slightly in our U.S. cash equities and equity derivative businesses due to reduced trading volumes and lower levels of volatility.

Equities trading revenues during the three months ended February 28, 2017 from client market making improved in our U.S. cash equities businesses compared with losses incurred in our block trading activities in the prior year quarter. Convertibles trading revenues increased as the prior year quarter was impacted by downward trending equity markets resulting in mark-to-market losses on convertible security positions. Equity derivatives trading revenues declined due to a difficult volatility trading climate.

Equities revenues during the three months ended February 28, 2017 also include net revenues of \$21.0 million from our share of Jefferies Finance, primarily due to an increase in activity, compared with a net loss of \$22.3 million in the prior year quarter, primarily due to the mark down of certain loans held for sale. Net revenue from our share of Jefferies LoanCore also increased slightly during the three months ended February 28, 2017 as compared to the prior year quarter due to an increase in loan closings and syndications.

Fixed Income Net Revenues

Fixed income net revenues includes commissions, principal transactions and net interest revenue generated by our fixed income sales and trading businesses from the following products:

- investment grade corporate bonds,
- mortgage- and asset-backed securities,
- government and agency securities,
- interest rate derivatives,
- municipal bonds,
- emerging markets debt,
- high yield and distressed securities,
- bank loans,
- foreign exchange and
- commodities trading activities.

Three Months Ended February 28, 2017

Fixed income net revenues totaled \$221.9 million for the three months ended February 28, 2017, an increase of \$165.1 million compared with net revenues of \$56.8 million in the three months ended February 29, 2016.

We recorded higher revenues in the three months ended February 28, 2017 in virtually all of our businesses compared with the prior year quarter due to improved trading conditions and an increase in transaction volumes. The trading environment during the prior year quarter was characterized by significant market dislocation and lower trading volumes. In addition, our improved results in 2017 reflect continued strengthening of our sales and trading team. The following highlights the main components of the increase in the results:

Revenues in our leveraged credit business in the three months ended February 28, 2017 were strong on increased trading volumes within high yield and distressed products, as a result of an improved credit environment, as well as strategic growth in the business, compared with mark-to-market losses in the prior year quarter.

Higher revenues in our international rates business resulted from higher transaction volumes given increased interest rate volatility, which presented additional trading opportunities.

Our municipal securities business performed well during the quarter, driven by improved trading activity.

Revenues from our corporates businesses increased as compared to the prior year quarter due to increased trading activity, as a result of new issuance activity and increased demand.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

The higher revenues in our international credit businesses were due to improved trading conditions and increased demand for higher yielding products, while volatile oil prices and uncertainty as to bank liquidity negatively impacted revenues in our international credit businesses in the prior year quarter.

Results in our emerging markets business were higher due to improved economic conditions as well as due to a full contribution from an enhanced sales and trading team that was onboarded during the prior year quarter.

**Investment Banking Revenues**

Investment banking revenues include the following businesses:

• Capital markets revenues include underwriting and placement revenues related to corporate debt, municipal bonds, mortgage- and asset-backed securities and equity and equity-linked securities.

• Advisory revenues consist primarily of advisory and transaction fees generated in connection with merger, acquisition and restructuring transactions.

The following table sets forth our investment banking revenues (dollars in thousands):

	Three Months Ended		
	February 28, 2017	February 29, 2016	% Change
Equity	\$61,566	\$43,999	39.9 %
Debt	162,628	57,273	184.0 %
Capital markets	224,194	101,272	121.4 %
Advisory	183,827	129,658	41.8 %
Total	\$408,021	\$230,930	76.7 %

The following table sets forth our investment banking activities (dollars in billions):

	Deals Completed		Aggregate Value	
	Three Months Ended February 28, 2017	Three Months Ended February 29, 2016	Three Months Ended February 28, 2017	Three Months Ended February 29, 2016
Public and private debt financings	198	164	\$52.0	\$ 35.0
Public and private equity and convertible offerings (1)	40	19	20.5	4.1
Advisory transactions (2)	42	29	40.2	40.5

(1) We acted as sole or joint bookrunner on 37 and 19 offerings during the three months ended February 28, 2017 and February 29, 2016, respectively.

(2) The number of advisory deals completed includes four and two restructuring and recapitalization transactions during the three months ended February 28, 2017 and February 29, 2016, respectively.

**Three Months Ended February 28, 2017**

Total investment banking revenues were \$408.0 million for the three months ended February 28, 2017, 76.7% higher than the three months ended February 29, 2016 and near to our record for a first quarter. This increase was due to significantly increased debt capital markets revenues, equity capital markets revenues and advisory revenues as a result of higher transaction volumes. In the prior year quarter, new issue equity and leveraged finance capital markets were virtually closed throughout January and February.

• Advisory revenues for the three months ended February 28, 2017 increased 41.8% compared to the prior year quarter.

• Capital markets revenues in the three months ended February 28, 2017 increased 121.4% from the prior year quarter.

From equity and debt capital raising activities, we generated \$61.6 million and \$162.6 million in revenues, respectively, for the three months ended February 28, 2017, compared with \$44.0 million and \$57.3 million in revenues, respectively, in the prior year quarter.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

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

Asset management revenue includes the following:

- 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 revenues 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.

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

	Three Months Ended		
	February 28, 2017	February 29, 2016	% Change
Asset management fees:			
Fixed income (1)	\$1,175	\$348	237.6 %
Equities	1,179	535	120.4 %
Multi-asset	5,627	10,322	(45.5)%
Total asset management fees	7,981	11,205	(28.8)%
Investment income (loss) from managed funds (2)	945	(1,675)	N/M
Total	\$8,926	\$9,530	(6.3)%

N/M — Not Meaningful

Fixed income asset management fees represent ongoing consideration we receive from the sale of contracts to (1) manage certain collateralized loan obligations (“CLOs”) 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.

(2) 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 class were as follows (in millions):

	February 28, 2017	November 30, 2016
Assets under management (1):		
Equities	\$ 170	\$ 170
Multi-asset	1,225	884
Total	\$ 1,395	\$ 1,054

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.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Non-interest Expenses

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

	Three Months Ended		
	February 28, 2017	February 29, 2016	% Change
Compensation and benefits	\$460,172	\$349,743	31.6 %
Non-compensation expenses:			
Floor brokerage and clearing fees	45,858	40,479	13.3 %
Technology and communications	65,507	64,989	0.8 %
Occupancy and equipment rental	25,815	24,585	5.0 %
Business development	22,632	24,854	(8.9 )%
Professional services	32,124	23,512	36.6 %
Other	19,206	20,701	(7.2 )%
Total non-compensation expenses	211,142	199,120	6.0 %
Total non-interest expenses	\$671,314	\$548,863	22.3 %

## 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 and a portion of cash 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 portion of awards granted at year end as part of annual compensation is 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, February 2016 and January 2017, non-annual share-based and cash-based awards to other employees and certain year end awards that contain future service requirements for vesting, all of which are being amortized over their respective future service periods. In addition, the senior executive awards contain market and performance conditions.

Compensation and benefits expense was \$460.2 million for the three months ended February 28, 2017, compared with \$349.7 million for the three months ended February 29, 2016.

Compensation and benefits expense as a percentage of Net revenues was 57.8% and 117.0% for the three months ended February 28, 2017 and February 29, 2016, respectively. The unusually high compensation ratio in the prior year quarter is due to the significantly lower revenue results in the prior year quarter and the relationship of non-discretionary compensation to the net revenue decline.

Compensation expense related to the amortization of share- and cash-based awards amounted to \$67.5 million and \$80.1 million for the three months ended February 28, 2017 and February 29, 2016, respectively.

Employee headcount was 3,319 at February 28, 2017 and 3,439 at February 29, 2016. Since February 29, 2016, our headcount has decreased as the result of continued discipline in headcount and productivity management.

## Non-Compensation Expenses

Three Months Ended February 28, 2017

Non-compensation expenses were \$211.1 million for the three months ended February 28, 2017, an increase of \$12.0 million, or 6.0%, compared with \$199.1 million in the three months ended February 29, 2016.

Non-compensation expenses as a percentage of Net revenues was 26.5% and 66.6% for the three months ended February 28, 2017 and February 29, 2016, respectively.

The increase in non-compensation expenses was primarily due to an increase in Floor brokerage and clearing expenses due to improved market and trading conditions across most core businesses and higher professional services

expenses due to higher legal and consulting fees as part of implementing various regulatory requirements.

65

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Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Income Taxes

For the three months ended February 28, 2017, the income tax expense was \$10.2 million equating to an effective tax rate of 8.2%. 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%.

The change in the effective tax rate during the three months ended February 28, 2017, as compared with the prior year quarter is primarily due to net tax benefits, which resulted from the repatriation of certain earnings in the current quarter, along with their associated foreign tax credits, from certain foreign 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 included within this Quarterly Report on Form 10-Q.

Critical Accounting Policies

The consolidated financial statements are prepared in conformity with U.S. GAAP, which requires 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.

For further discussion of the following significant accounting policies and other significant accounting policies, see Note 2, Summary of Significant Accounting Policies, in our consolidated financial statements included within this Quarterly Report on Form 10-Q.

For a further discussion about our critical accounting policies, which have not materially changed since filing our Annual Report on Form 10-K for the year ended November 30, 2016, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies” in Part II, Item 7 of our Annual Report on Form 10-K for the year ended November 30, 2016.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## 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.

## Our Balance Sheet

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. We continually monitor our overall securities inventory, including the inventory turnover rate, which confirms the liquidity of our overall assets. 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 (dollars in millions):

	February 28, 2017	November 30, 2016	% Change
Total assets	\$37,703.4	\$36,941.3	2.1 %
Cash and cash equivalents	4,080.4	3,529.1	15.6 %
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	705.3	857.3	(17.7)%
Financial instruments owned	13,252.7	13,809.5	(4.0 )%
Financial instruments sold, not yet purchased	8,728.5	8,359.2	4.4 %
Total Level 3 assets	365.4	413.3	(11.6)%
Securities borrowed	\$6,886.4	\$7,743.6	(11.1)%
Securities purchased under agreements to resell	4,468.5	3,862.5	15.7 %
Total securities borrowed and securities purchased under agreements to resell	\$11,354.9	\$11,606.1	(2.2 )%
Securities loaned	\$2,522.8	\$2,819.1	(10.5)%
Securities sold under agreements to repurchase	7,315.5	6,791.7	7.7 %
Total securities loaned and securities sold under agreements to repurchase	\$9,838.3	\$9,610.8	2.4 %

Total assets at February 28, 2017 and November 30, 2016 were \$37.7 billion and \$36.9 billion, respectively, an increase of 2.1%. During the three months ended February 28, 2017, average total assets were approximately 18.0% higher than total assets at February 28, 2017.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

Our total Financial instruments owned inventory at February 28, 2017 was \$13.3 billion, a decrease of 4.0% from inventory of \$13.8 billion at November 30, 2016, primarily due to decreases in government, federal agency, corporate debt and equity securities and derivative contracts inventory, partially offset by increases in mortgage- and asset-backed securities and loans during the three months ended February 28, 2017. Financial instruments sold, not yet purchased inventory was \$8.7 billion and \$8.4 billion at February 28, 2017 and November 30, 2016, respectively, with the increase primarily driven by loans and sovereign obligations, partially offset by decreases in derivative contracts and government, federal agency, corporate debt and equity securities inventory during the three months ended February 28, 2017. Our overall net inventory position was \$4.5 billion and \$5.5 billion at February 28, 2017 and November 30, 2016, respectively. Our total Financial instruments owned declined from November 30, 2016 to February 28, 2017 and our Level 3 financial instruments owned as a percentage of total financial instruments owned also declined to 2.8% at February 28, 2017 from 3.0% at November 30, 2016.

Securities financing assets and liabilities include financing for our financial instruments trading activity, matched book transactions and mortgage finance 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 decreased by 2.2% from November 30, 2016 to February 28, 2017, due to a decrease in our matched book activity, partially offset by an increase in firm financing of our short inventory and a decrease in the netting benefit for our collateralized financing transactions. The outstanding balance of our securities loaned and securities sold under agreement to repurchase increased by 2.4% from November 30, 2016 to February 28, 2017 due to an increase in firm financing of our inventory and a decrease in the netting benefit for our collateralized financing transactions, partially offset by a decrease in our matched book activity. Our average month end balances of total reverse repos and stock borrows during the three months ended February 28, 2017 were 36.0% higher than the February 28, 2017 balances. Our average month end balances of total repos and stock loans during the three months ended February 28, 2017 were 35.6% higher than the February 28, 2017 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 (dollars in millions):

	Three Months Ended February 28, 2017	Year Ended November 30, 2016
Securities Purchased Under Agreements to Resell:		
Period end	\$ 4,468	\$ 3,862
Month end average	6,533	5,265
Maximum month end	7,723	7,001
Securities Sold Under Agreements to Repurchase:		
Period end	\$ 7,315	\$ 6,792
Month end average	10,621	11,410
Maximum month end	12,822	16,620

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



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## 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 (dollars in thousands):

	February 28, 2017	November 30, 2016
Total assets	\$37,703,367	\$36,941,276
Deduct: Securities borrowed	(6,886,436 )	(7,743,562 )
Securities purchased under agreements to resell	(4,468,494 )	(3,862,488 )
Add: Financial instruments sold, not yet purchased	8,728,491	8,359,202
Less derivative liabilities	(373,581 )	(637,535 )
Subtotal	8,354,910	7,721,667
Deduct: Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(705,313 )	(857,337 )
Goodwill and intangible assets	(1,843,244 )	(1,847,124 )
Adjusted assets (1)	\$32,154,790	\$30,352,432
Total equity	\$5,472,392	\$5,370,597
Deduct: Goodwill and intangible assets	(1,843,244 )	(1,847,124 )
Tangible total equity	\$3,629,148	\$3,523,473
Total member's equity	\$5,471,740	\$5,369,946
Deduct: Goodwill and intangible assets	(1,843,244 )	(1,847,124 )
Tangible member's equity	\$3,628,496	\$3,522,822
Leverage ratio (2)	6.9	6.9
Tangible gross leverage ratio (3)	9.9	10.0
Adjusted leverage ratio (1) (4)	8.9	8.6

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.

(1) 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.

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

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

## 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.

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:

- repayment of all unsecured debt maturing within one year and no incremental unsecured debt issuance;
- maturity rolloff of outstanding letters of credit with no further issuance and replacement with cash collateral;
- higher margin requirements than currently exist on assets on securities financing activity, including repurchase agreements;

liquidity outflows related to possible credit downgrade;  
lower availability of secured funding;

69

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Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

• Client cash withdrawals;

• The anticipated funding of outstanding investment and loan commitments; and

• 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:

• Illiquid assets such as equipment, goodwill, net intangible assets, exchange memberships, deferred tax assets and certain investments;

• 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

• 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 \$11.4 billion at February 28, 2017 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.

A portion of upcoming contractual maturities of secured funding trades due to either the inability to refinance or the ability 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.

70

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Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

• 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 28, 2017, 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 (dollars in thousands):

	February 28, 2017	Average Balance Quarter ended February 28, 2017 (1)	November 30, 2016	
Cash and cash equivalents:				
Cash in banks	\$984,033	\$951,163	\$905,003	
Certificates of deposit	25,000	25,000	25,000	
Money market investments	3,071,348	2,104,956	2,599,066	
Total cash and cash equivalents	4,080,381	3,081,119	3,529,069	
Other sources of liquidity:				
Debt securities owned and securities purchased under agreements to resell (2)	1,307,625	1,275,859	1,455,398	
Other (3)	498,485	490,305	318,646	
Total other sources	1,806,110	1,766,164	1,774,044	
Total cash and cash equivalents and other liquidity sources	\$5,886,491	\$4,847,283	\$5,303,113	
Total cash and cash equivalents and other liquidity sources as % of Total assets	15.6	%	14.4	%
Total cash and cash equivalents and other liquidity sources as % of Total assets less goodwill and intangible assets	16.4	%	15.1	%

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

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 (2) 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 28, 2017, we had the ability to readily obtain repurchase financing for 70.5% of our inventory at haircuts of 10% or less, which reflects the liquidity of our inventory. 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. 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 28, 2017 and November 30, 2016 (in thousands):

	February 28, 2017		November 30, 2016	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments
Corporate equity securities	\$1,667,744	\$ 276,436	\$1,815,819	\$ 280,733
Corporate debt securities	1,308,081	91,621	1,818,150	—
U.S. government, agency and municipal securities	1,827,457	600,725	3,157,737	600,456
Other sovereign obligations	2,452,496	773,657	2,258,035	854,942
Agency mortgage-backed securities (1)	1,921,495	—	1,090,391	—
Loans and other receivables	171,354	—	274,842	—
Total	\$9,348,627	\$ 1,742,439	\$10,414,974	\$ 1,736,131

(1) Consists solely of agency mortgage-backed securities issued by Freddie Mac, Fannie Mae and Ginnie Mae. These 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 \$15.4 billion for the three months ended February 28, 2017 and \$10.7 billion and \$11.8 billion for the three and twelve months ended November 30, 2016, respectively. Average unencumbered liquid financial instruments were \$1.8 billion for the three months ended February 28, 2017 and \$1.8 billion and \$1.6 billion for the three and twelve months ended November 30, 2016, respectively.

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.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## 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 74.6% of our cash and non-cash 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. For those asset classes not eligible for central clearinghouse financing, we seek to execute our bi-lateral financings on an extended term basis and the tenor of our repurchase and reverse repurchase agreements generally exceeds the expected holding period of the assets we are financing. Weighted average maturity of cash and non-cash repurchase agreements for non-clearing corporation eligible funded inventory is approximately three months at February 28, 2017.

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 28, 2017, short-term borrowings, which must be repaid within one year or less and include bank loans and overdrafts, borrowings under revolving credit facilities, structured notes and a demand loan margin financing facility, totaled \$422.9 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 \$448.1 million for the three months ended February 28, 2017.

Our short-term borrowings include the following facilities:

**Intraday Credit Facility.** The Bank of New York Mellon agrees to make revolving intraday credit advances (“Intraday Credit Facility”) for an aggregate committed amount of \$250.0 million. 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 28, 2017, we were in compliance with all debt covenants under the Intraday Credit Facility.

- Secured Revolving Loan Facilities. On October 29, 2015, we entered into a secured revolving loan facility (“First Secured Revolving Loan Facility”), whereby the lender agreed to make available a revolving loan facility in a maximum principal amount of \$50.0 million. On December 14, 2015, we entered into a second secured revolving loan facility (“Second Secured Revolving Loan Facility”), whereby the lender agreed to make available a revolving loan facility in a maximum principal amount of \$50.0 million. The First Secured Revolving Loan Facility was terminated with an effective date of December 6, 2016. The Second Secured Revolving Loan Facility was terminated with an effective date of January 24, 2017.

For additional details on our short-term borrowings, refer to Note 11, Short-Term Borrowings, in our consolidated financial statements included within this Quarterly Report on Form 10-Q.

In addition to the above financing arrangements, we 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”). The notes issued under the program are presented within Other secured financings in the Consolidated Statement of Financial Condition. At February 28, 2017, the outstanding notes were \$560.0 million and are as follows:

Series	Issued	Principal	Maturity
2015-2 (1) (2)	May 12, 2015	\$267.9 million	May 15, 2018
2017-1 (1)	February 7, 2017	\$292.1 million	February 6, 2018

(1) These notes bear interest at a spread over one month LIBOR.

(2) At February 28, 2017, this note is redeemable at the option of the noteholders.

For additional details on our repurchase agreement financing program, refer to Note 8, Variable Interest Entities, in our consolidated financial statements included within this Quarterly Report on Form 10-Q.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Total Long-Term Capital

At February 28, 2017 and November 30, 2016, we had total long-term capital of \$11.4 billion and \$10.5 billion, respectively, resulting in a long-term debt to equity capital ratio of 1.08:1 and 0.96:1, respectively. Our total long-term capital base at February 28, 2017 and November 30, 2016 was as follows (in thousands):

	February 28, 2017	November 30, 2016
Long-Term Debt (1)	\$5,915,289	\$5,130,822
Total Equity	5,472,392	5,370,597
Total Long-Term Capital	\$11,387,681	\$10,501,419

Long-term capital at February 28, 2017 and November 30, 2016 excludes \$6.4 million and \$6.3 million, respectively, of our Structured Notes, as these notes are redeemable on May 4, 2017, and \$345.9 million and (1)\$346.2 million, respectively, of our 3.875% Convertible Senior Debentures, as these debentures are redeemable on November 1, 2017. Refer to Note 12, Long-Term Debt, in our consolidated financial statements included within this Quarterly Report on Form 10-Q for further details on these notes.

## Long-Term Debt

On January 17, 2017, we issued senior notes with a principal amount of \$750.0 million, due 2027, which bear interest at 4.85% per annum. During the three months ended February 28, 2017, we issued structured notes with a total principal amount of approximately \$48.6 million. Certain of our structured notes contain various interest rate payment terms and are accounted for 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. The fair value of all of our structured notes accounted for at fair value at February 28, 2017 was \$310.1 million. For further information, see Note 12, Long-Term Debt, in our consolidated financial statements included within this Quarterly Report on Form 10-Q.

At February 28, 2017, our long-term debt has a weighted average maturity of approximately eight years.

Our long-term debt ratings at February 28, 2017 are as follows:

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

(1)On February 27, 2017, Fitch reaffirmed our long-term debt rating of BBB- and our rating outlook of stable.

At February 28, 2017, 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	Baa2	Stable	Baa2	Stable
Standard and Poor's	BBB	Stable	BBB	Stable

Access to external financing to finance our day to day operations, 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.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

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 28, 2017, 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 \$55.7 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 is considered in our Contingency Funding Plan and calculation of Maximum Liquidity Outflow, as described above.

**Equity Capital**

As compared to November 30, 2016, the increase to total member's equity at February 28, 2017 is primarily attributed to net earnings during the three months ended February 28, 2017.

**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 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 28, 2017, Jefferies and Jefferies Execution's net capital and excess net capital were as follows (in thousands):

	Net Capital	Excess Net Capital
Jefferies	\$ 1,359,023	\$ 1,277,401
Jefferies Execution	9,158	8,908

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 which is 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 Financial Services, Inc., which registered as a swap dealer 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.

**Contractual Obligations and Commitments**

For information on our commitments and guarantees, see Note 16, Commitments, Contingencies and Guarantees, in our consolidated financial statements included within this Quarterly Report on Form 10-Q.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

The table below provides information about our contractual obligations at February 28, 2017. The table presents principal cash flows with expected maturity dates (in millions):

	Expected Maturity Date					Total
	2017	2018	2019 and 2020	2021 and 2022	2023 and Later	
Debt obligations:						
Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums) (1)	\$345.9	\$821.0	\$1,332.0	\$848.5	\$2,920.1	\$6,267.5
Interest payment obligations on senior notes (2)	252.2	298.4	484.3	344.6	1,269.3	2,648.8
	\$598.1	\$1,119.4	\$1,816.3	\$1,193.1	\$4,189.4	\$8,916.3

(1) For additional information on long-term debt, see Note 12, Long-Term Debt, in our consolidated financial statements included within this Quarterly Report on Form 10-Q.

(2) Amounts based on applicable interest rates at February 28, 2017.

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 included within this Quarterly Report on Form 10-Q. We are routinely involved with variable interest entities ("VIEs") in the normal course of business. At February 28, 2017, 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 included within this Quarterly Report on Form 10-Q.

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 15, Income Taxes, in our consolidated financial statements for further information included within this Quarterly Report on Form 10-Q for further information.

Table of Contents

JEFFERIES GROUP LLC AND 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 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.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## 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 our trading portfolios 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.

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 increased to \$10.30 million for the three months ended February 28, 2017 from \$8.46 million for the three months ended November 30, 2016. The increase was primarily driven by higher fixed income volatility, partially offset by an increase in the diversification benefit. Excluding our investment in KCG, our average VaR increased to \$8.26 million for the three months ended February 28, 2017 from \$5.93 million in the three months ended November 30, 2016.

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	Daily VaR (1) Value-at-Risk In Trading Portfolios							
	VaR at	Daily VaR for the Three Months			VaR at	Daily VaR for the		
	February	February 28, 2017			November	November 30, 2016		
	28, 2017	Average	High	Low	30, 2016	Average	High	Low
Interest Rates	\$ 5.63	\$ 7.69	\$ 9.59	\$ 5.44	\$ 5.82	\$5.22	\$6.99	\$3.48
Equity Prices	6.22	7.27	9.42	5.32	6.71	5.75	8.90	3.89
Currency Rates	0.09	0.20	0.60	0.07	0.19	0.20	0.38	0.08

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Commodity Prices	0.85	0.89	2.20	0.39	0.51	0.84	1.83	0.32
Diversification Effect (2)	(4.10 )	(5.75 )	N/A	N/A	(4.79 )	(3.55 )	N/A	N/A
Firmwide	\$ 8.69	\$ 10.30	\$ 13.03	\$ 8.27	\$ 8.44	\$8.46	\$10.75	\$6.56

(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.

Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

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, 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 28, 2017, results of the evaluation at the aggregate level demonstrated no 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 28, 2017 (in thousands):

	10% Sensitivity
Private investments	\$ 14,301
Corporate debt securities in default	8,890
Trade claims	791

VaR also excludes the impact of changes in our own credit spreads on financial liabilities for which the fair value option was elected. The estimated credit spread risk sensitivity for each one basis point widening in our own credit spreads on financial liabilities for which the fair value option was elected was an increase in value of approximately \$285,000 at February 28, 2017.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

Daily Net Trading Revenue

There were three days with trading losses out of a total of 60 trading days in the three months ended February 28, 2017. There were no additional days with trading losses associated with the daily marking to market of our investment in KCG. 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 28, 2017 (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.

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;

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

- 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 28, 2017 and November 30, 2016 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 secondary bank loans). Issuer risk is included in our country risk exposure tables below. Of our counterparty credit exposure at February 28, 2017, excluding cash and cash equivalents, the percentage of exposure from investment grade counterparties decreased 3% to 79% from 82% at November 30, 2016, with a majority concentrated in North America.

When comparing our credit exposure at February 28, 2017 with credit exposure at November 30, 2016, excluding cash and cash equivalents, current exposure decreased 3% to approximately \$1,211 million from \$1,247 million. Counterparty credit exposure decreased over the period by 66% from OTC derivatives, primarily driven by investment grade North American banks and broker-dealers. Counterparty credit exposure from securities and margin finance increased by 14% and loans and lending increased by 11%.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## 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 February 28, 2017	At November 30, 2016	At February 28, 2017	At November 30, 2016	At February 28, 2017	At November 30, 2016		At February 28, 2017	At November 30, 2016	At February 28, 2017	At November 30, 2016	
AAA Range	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$—	\$3,073.3	\$2,601.4	\$3,073.3	\$2,601.4
AA Range	44.0	44.0	101.4	87.3	2.4	2.1	147.8	133.4	64.1	37.0	211.9	170.4
A Range	5.8	4.2	529.2	539.2	45.8	214.7	580.8	758.1	837.4	814.1	1,418.2	1,572.2
BBB Range	2.3	4.9	215.5	117.3	10.0	9.4	227.8	131.6	51.0	51.2	278.8	182.8
BB or Lower	102.8	100.1	6.4	6.2	25.9	23.8	135.1	130.1	50.1	25.1	185.2	155.2
Unrated	119.7	93.5	—	—	—	—	119.7	93.5	4.5	0.3	124.2	93.8
Total	\$274.6	\$246.7	\$852.5	\$750.0	\$84.1	\$250.0	\$1,211.2	\$1,246.7	\$4,080.4	\$3,529.1	\$5,291.6	\$4,775.8

## 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 February 28, 2017	At November 30, 2016	At February 28, 2017	At November 30, 2016	At February 28, 2017	At November 30, 2016		At February 28, 2017	At November 30, 2016	At February 28, 2017	At November 30, 2016	
Asia/Latin America/Other	\$5.0	\$4.9	\$19.2	\$16.3	\$22.8	\$32.7	\$47.0	\$53.9	\$183.0	\$165.8	\$230.0	\$219.7
Europe	0.7	—	305.6	234.4	16.5	20.9	322.8	255.3	321.8	248.0	644.6	503.3
North America	268.9	241.8	527.7	499.3	44.8	196.4	841.4	937.5	3,575.6	3,115.3	4,417.0	4,052.8
Total	\$274.6	\$246.7	\$852.5	\$750.0	\$84.1	\$250.0	\$1,211.2	\$1,246.7	\$4,080.4	\$3,529.1	\$5,291.6	\$4,775.8

## 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 February 28, 2017	At November 30, 2016	At February 28, 2017	At November 30, 2016	At February 28, 2017	At November 30, 2016		At February 28, 2017	At November 30, 2016	At February 28, 2017	At November 30, 2016	
Asset Managers	\$—	\$—	\$27.0	\$39.7	\$—	\$10.9	\$27.0	\$50.6	\$3,071.7	\$2,599.1	\$3,098.7	\$2,649.7
Banks, Broker-dealers	1.1	0.2	530.1	435.9	40.8	170.4	572.0	606.5	1,008.7	930.0	1,580.7	1,536.5
Commodities	—	—	—	—	4.0	3.3	4.0	3.3	—	—	4.0	3.3
Corporates	196.4	204.4	—	—	16.5	18.4	212.9	222.8	—	—	212.9	222.8
Other	77.1	42.1	295.4	274.4	22.8	47.0	395.3	363.5	—	—	395.3	363.5
Total	\$274.6	\$246.7	\$852.5	\$750.0	\$84.1	\$250.0	\$1,211.2	\$1,246.7	\$4,080.4	\$3,529.1	\$5,291.6	\$4,775.8

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.



Table of Contents

## JEFFERIES GROUP LLC AND SUBSIDIARIES

## 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 the country of risk as the country of jurisdiction or domicile of the obligor. The following tables reflect our top exposure at February 28, 2017 and November 30, 2016 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 28, 2017

	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 Lending	Securities Margin	and OTC Financial Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
Germany	\$310.3	\$(187.9)	\$ 111.1	\$—	\$ 97.8	\$ 0.6	\$ 152.7	\$331.9	\$ 484.6
Italy	1,247.0	(1,245.5)	422.5	—	—	0.1	—	424.1	424.1
United Kingdom	344.3	(161.2)	(42.8)	0.7	101.7	9.6	139.8	252.3	392.1
Spain	389.6	(318.5)	—	—	0.1	0.2	54.0	71.4	125.4
Finland	116.8	(7.3)	—	—	—	—	3.1	109.5	112.6
Netherlands	361.3	(333.1)	13.8	—	54.5	1.9	—	98.4	98.4
Hong Kong	29.8	(13.4)	—	—	0.4	—	79.6	16.8	96.4
Puerto Rico	64.0	—	—	—	—	—	—	64.0	64.0
India	19.7	(4.6)	(1.3)	—	—	—	42.7	13.8	56.5
Australia	30.4	(10.2)	(0.2)	5.0	17.5	0.3	4.5	42.8	47.3
Total	\$2,913.2	\$(2,281.7)	\$ 503.1	\$5.7	\$ 272.0	\$ 12.7	\$ 476.4	\$1,425.0	\$ 1,901.4

November 30, 2016

	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 Lending	Securities Margin	and OTC Financial Derivatives	Cash and Cash Equivalents	Excluding Cash and Cash Equivalents	Including Cash and Cash Equivalents
Germany	\$318.9	\$(166.4)	\$ 815.3	\$—	\$ 86.9	\$ 0.3	\$ 111.9	\$1,055.0	\$ 1,166.9
Italy	1,069.8	(844.2)	69.8	—	—	0.2	—	295.6	295.6
France	356.2	(538.4)	419.5	—	24.8	3.4	—	265.5	265.5
United Kingdom	290.1	(136.4)	(12.7)	—	61.0	13.4	37.7	215.4	253.1
Spain	210.4	(151.7)	—	—	—	0.3	50.2	59.0	109.2
Hong Kong	34.0	(30.2)	1.3	—	0.5	—	79.1	5.6	84.7
Switzerland	80.7	(33.6)	12.1	—	11.4	2.2	4.1	72.8	76.9
Ireland	124.4	(61.2)	4.4	—	0.6	—	—	68.2	68.2
Singapore	36.2	(9.6)	3.9	—	—	—	16.1	30.5	46.6
Qatar	15.2	(0.7)	—	—	—	27.1	—	41.6	41.6
Total	\$2,535.9	\$(1,972.4)	\$ 1,313.6	\$—	\$ 185.2	\$ 46.9	\$ 299.1	\$2,109.2	\$ 2,408.3

Our issuer and counterparty risk exposure to Puerto Rico of \$64.0 million at February 28, 2017 is in connection with our municipal securities market-making activities. The government of Puerto Rico is seeking to restructure much of its

\$74.8 billion in debt on a voluntary basis. At February 28, 2017, 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 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.

Table of Contents

JEFFERIES GROUP LLC AND SUBSIDIARIES

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 28, 2017. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of February 28, 2017 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 28, 2017 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, 2016 filed with the SEC on January 27, 2017. 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*	<u>Computation of Ratio of Earnings to Fixed Charges and to Combined Fixed Charges and Preferred Stock Dividends.</u>
31.1*	<u>Rule 13a-14(a)/15d-14(a) Certification by Chief Financial Officer.</u>
31.2*	<u>Rule 13a-14(a)/15d-14(a) Certification by Chief Executive Officer.</u>
32*	<u>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.</u>
101*	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) the Consolidated Statements of Financial Condition as of February 28, 2017 and November 30, 2016; (ii) the Consolidated Statements of Earnings for the three months ended February 28, 2017 and February 29, 2016; (iii) the Consolidated Statements of Comprehensive Income for the three months ended February 28, 2017 and February 29, 2016; (iv) the Consolidated Statements of Changes in Equity for the three months ended February 28, 2017 and the year ended November 30, 2016; (v) the Consolidated Statements of Cash Flows for the three months ended February 28, 2017 and February 29, 2016; 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 7, 2017 By: /s/ Peregrine C. Broadbent  
Peregrine C. Broadbent  
Chief Financial Officer  
(duly authorized officer)