

Jefferies Group LLC  
Form 10-K  
January 27, 2017  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended November 30, 2016

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

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

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

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

520 Madison Avenue, New York, New York 10022  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (212) 284-2550

Securities registered pursuant to Section 12(b) of the Act:  
Title of each class: Name of each exchange on which registered:

5.125% Senior Notes Due 2023 New York Stock Exchange  
Securities registered pursuant to Section 12(g) of the Act: Limited Liability Company Interests

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 232.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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 the 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 Act). Yes  No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant’s most recently completed second fiscal quarter. \$0 as of May 31, 2016.

The Registrant is a wholly-owned subsidiary of Leucadia National Corporation and meets the conditions set forth in General Instructions I(1)(a) and (b) of Form 10-K and is therefore filing this Form 10-K with a reduced disclosure format as permitted by Instruction I(2).

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JEFFERIES GROUP LLC AND SUBSIDIARIES

PART I

Item 1. Business

Introduction

Jefferies Group LLC and its subsidiaries operate as a global full service, integrated securities and investment banking firm. Our largest subsidiary, Jefferies LLC (“Jefferies”), was founded in the U.S. in 1962 and our first international operating subsidiary, Jefferies International Limited (“Jefferies Europe”), was established in the U.K. in 1986. On March 1, 2013, we became an indirect wholly owned subsidiary of Leucadia National Corporation (“Leucadia”) (referred to herein as the “Leucadia Transaction”). Richard Handler, our Chief Executive Officer and Chairman, is Leucadia’s Chief Executive Officer and Brian P. Friedman, our Chairman of the Executive Committee, is Leucadia’s President. Messrs. Handler and Friedman are also Leucadia Directors. We are an SEC reporting company and retain a credit rating separate from Leucadia.

At November 30, 2016, we had 3,329 employees in the Americas, Europe, the Middle East and Asia. Our global headquarters and executive offices are located at 520 Madison Avenue, New York, New York 10022. We also have regional headquarters in London and Hong Kong. Our primary telephone number is (212) 284-2550 and our Internet address is jefferies.com.

The following documents and reports are available on our public website:

• Earnings Releases and Other Public Announcements

• Annual and interim reports on Form 10-K;

• Quarterly reports on Form 10-Q;

• Current reports on Form 8-K;

• Code of Ethics;

• Reportable waivers, if any, from our Code of Ethics by our executive officers;

• Board of Directors Corporate Governance Guidelines;

• Charter of the Corporate Governance and Nominating Committee of the Board of Directors;

• Charter of the Compensation Committee of the Board of Directors;

• Charter of the Audit Committee of the Board of Directors; and

• Any amendments to the above-mentioned documents and reports.

We expect to use our website as a main form of communication of significant news. We encourage you to visit our website for additional information. In addition, you may also obtain a printed copy of any of the above documents or reports by sending a request to Investor Relations, Jefferies Group LLC, 520 Madison Avenue, New York, NY 10022, by calling 221-284-2550 or by sending an email to info@jefferies.com.

Business Segments

We report our activities in two business segments: Capital Markets and Asset Management.

Capital Markets includes our investment banking, sales and trading and other related services. Investment banking provides capital markets and financial advisory services to our clients across most industry sectors in the Americas, Europe and Asia. Our sales and trading businesses include market-making, sales and financing across the spectrum of equities, fixed income and foreign exchange products. Related services include, among other things, prime brokerage, research and corporate lending.

• Asset Management provides investment management services to investors in the U.S. and overseas.

Financial information regarding our reportable business segments for the years ended November 30, 2016, 2015 and 2014 is set forth in Note 20, Segment Reporting in our consolidated financial statements included within this Annual Report on Form 10-K in Part II, Item 8.

Our Businesses

Capital Markets

Our Capital Markets segment focuses on Equities, Fixed Income and Investment Banking. We primarily serve institutional investors, corporations and government entities.



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Equities

Equities Research, Sales and Trading

We provide our clients full-service equities research, sales and trading capabilities across global securities markets. We earn commissions or spread revenue by executing, settling and clearing transactions for clients across these markets in equity and equity-related products, including common stock, American depository receipts, global depository receipts, exchange-traded funds, exchange-traded and over-the-counter (“OTC”) equity derivatives, convertible and other equity-linked products and closed-end funds. Our equity research, sales and trading efforts are organized across three geographical regions: the Americas; Europe and the Middle East and Africa (“EMEA”); and Asia Pacific. Our main product lines within the regions are cash equities, electronic trading, equity derivatives and convertibles. Our clients are primarily institutional market participants such as mutual funds, hedge funds, investment advisors, pension and profit sharing plans and insurance companies. Through our global research team and sales force, we maintain relationships with our clients, distribute investment research and strategy, trading ideas, market information and analyses across a range of industries and receive and execute client orders. Our equity research covers over 2,000 companies around the world and a further nearly 700 companies are covered by nine leading local firms in Asia Pacific with whom we maintain alliances.

Equity Finance

Our Equity Finance business provides financing, securities lending and other prime brokerage services. We offer prime brokerage services in the U.S. that provide hedge funds, money managers and registered investment advisors with execution, financing, clearing, reporting and administrative services. We finance our clients’ securities positions through margin loans that are collateralized by securities, cash or other acceptable liquid collateral. We earn an interest spread equal to the difference between the amount we pay for funds and the amount we receive from our clients. We also operate a matched book in equity and corporate bond securities, whereby we borrow and lend securities versus cash or liquid collateral and earn a net interest spread. We offer selected prime brokerage clients the option of custodial services at an unaffiliated U.S. broker-dealer that is a subsidiary of a bank holding company. Under this arrangement, we directly provide our clients with all customary prime brokerage services.

Wealth Management

We provide tailored wealth management services designed to meet the needs of high net worth individuals, their families and their businesses, private equity and venture funds and small institutions. Our advisors provide access to all of our institutional execution capabilities and deliver other financial services. Our open architecture platform affords clients access to products and services from both our firm and from a variety of other major financial services institutions.

Fixed Income

Fixed Income Sales and Trading

We provide our clients with sales and trading of investment grade corporate bonds, U.S. and European government and agency securities, municipal bonds, mortgage- and asset-backed securities, leveraged loans, high yield and distressed securities, emerging markets debt, interest rate derivative products, as well as foreign exchange trade execution. Jefferies is designated as a Primary Dealer by the Federal Reserve Bank of New York and Jefferies International Limited is designated in similar capacities for several countries in Europe. Additionally, through the use of repurchase agreements, we act as an intermediary between borrowers and lenders of short-term funds and obtain funding for various of our inventory positions. We trade and make markets globally in cleared and uncleared swaps and forwards referencing, among other things, interest rates, investment grade and non-investment grade corporate credits, credit indexes and asset-backed security indexes.

Our strategists and economists provide ongoing commentary and analysis of the global fixed income markets. In addition, our fixed income desk strategists provide ideas and analysis across a variety of fixed income products.

Futures

In April 2015 we entered into a definitive agreement to transfer certain of our futures activities to Société Générale S.A. That transaction closed in the second quarter of 2015 and we completed the exit of our Futures business during the second quarter of 2016.

#### Investment Banking

We provide our clients around the world with a full range of equity capital markets, debt capital markets and financial advisory services. Our services are enhanced by our deep industry expertise, our global distribution capabilities and our senior level commitment to our clients.

Approximately 760 investment banking professionals operate in the Americas, Europe and Asia, and are organized into industry, product and geographic coverage groups. Our industry coverage groups include: Consumer & Retail, Energy, Financial Institutions, Healthcare, Industrials, Real Estate, Gaming & Lodging, Technology, Media & Telecommunications, Financial Sponsors and



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**Public Finance.** Our product coverage groups include equity capital markets, debt capital markets, and advisory, which includes both mergers and acquisitions and restructuring and recapitalization expertise. Our geographic coverage groups include coverage teams based in major cities in the United States, Toronto, London, Frankfurt, Paris, Milan, Stockholm, Mumbai, Hong Kong, Singapore and Dubai.

**Equity Capital Markets**

We provide a broad range of equity financing capabilities to companies and financial sponsors. These capabilities include private equity placements, initial public offerings, follow-on offerings, block trades and equity-linked convertible securities transactions.

**Debt Capital Markets**

We provide a wide range of debt and acquisition financing capabilities for companies, financial sponsors and government entities. We focus on structuring, underwriting and distributing public and private debt, including investment grade debt, high yield bonds, leveraged loans, municipal debt, mortgage and other asset-backed securities, and liability management solutions.

**Advisory Services**

We provide mergers and acquisition and restructuring and recapitalization services to companies, financial sponsors and government entities. In the mergers and acquisition area, we advise sellers and buyers on corporate sales and divestitures, acquisitions, mergers, tender offers, spinoffs, joint ventures, strategic alliances and takeover and proxy fight defense. In the restructuring and recapitalization area, we provide to companies, bondholders and lenders a full range of restructuring advisory capabilities as well as expertise in the structuring, valuation and placement of securities issued in recapitalizations.

**Asset Management**

Through Jefferies Investment Advisers, LLC (“JIA”) and partnerships with Leucadia Asset Management, LLC (“LAM”), we manage and provide services to a diverse group of alternative asset management platforms across a spectrum of investment strategies and asset classes. We are supporting and developing focused strategies managed by distinct management teams. Strategies currently offered by JIA to pension funds, insurance companies, sovereign wealth funds, and other institutional investors through these platforms include systematic quant and global equity event-driven.

Leucadia has made investments in certain managed accounts and funds managed by these programs and, accordingly, a portion of the net results are allocated directly to Leucadia.

**Competition**

All aspects of our business are intensely competitive. We compete primarily with large global bank holding companies that engage in capital markets activities, but also with firms listed in the NYSE Arca Securities Broker/Dealer Index, other brokers and dealers, and investment banking firms. The large global bank holding companies have substantially greater capital and resources than we do. We believe that the principal factors affecting our competitive standing include the quality, experience and skills of our professionals, the depth of our relationships, the breadth of our service offerings, our ability to deliver consistently our integrated capabilities, and our culture, tenacity and commitment to serve our clients.

**Regulation**

**Regulation in the United States.** The financial services industry in which we operate is subject to extensive regulation. In the U.S., the Securities and Exchange Commission (“SEC”) is the federal agency responsible for the administration of federal securities laws, and the Commodity Futures Trading Commission (“CFTC”) is the federal agency responsible for the administration of laws relating to commodity interests (including futures and swaps). In addition, self-regulatory organizations, principally Financial Industry Regulatory Authority (“FINRA”) and the National Futures Association (“NFA”), are actively involved in the regulation of financial services businesses. The SEC, CFTC and self-regulatory organizations conduct periodic examinations of broker-dealers, investment advisers, futures commission merchants (“FCMs”) and swap dealers. The applicable self-regulatory authority for Jefferies’ activities as a broker-dealer is FINRA, and the applicable self-regulatory authority for Jefferies’ FCM activities is the National Futures Association (“NFA”). Financial services businesses are also subject to regulation by state securities commissions and attorneys general in

those states in which they do business.

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Broker-dealers are subject to SEC and FINRA regulations that cover all aspects of the securities business, including sales and trading methods, trade practices among broker-dealers, use and safekeeping of customers' funds and securities, capital structure of securities firms, anti-money laundering efforts, recordkeeping and the conduct of directors, officers and employees. Registered advisors are subject to, among other requirements, SEC regulations concerning marketing, transactions with affiliates, disclosure to clients, and recordkeeping; and advisors that are also registered as commodity trading advisors or commodity pool operators are also subject to regulation by the CFTC and the NFA. FCMs, introducing brokers and swap dealers that engage in commodities, futures or swap transactions are subject to regulation by the CFTC and the NFA. Additional legislation, changes in rules promulgated by the SEC, CFTC and self-regulatory organizations, or changes in the interpretation or enforcement of existing laws and rules may directly affect the operations and profitability of broker-dealers, investment advisers, FCMs and swap dealers. The SEC, the CFTC, self-regulatory organizations, state securities commissions and state attorneys general may conduct administrative proceedings or initiate civil litigation that can result in censure, fine, suspension, expulsion of a firm, its officers or employees, or revocation of a firm's licenses.

**Regulatory Capital Requirements.** Several of our entities are subject to financial capital requirements that are set by regulation. Jefferies and Jefferies Execution Services, Inc. ("Jefferies Execution"), are registered broker-dealers and are subject to the SEC's Uniform Net Capital Rule (the "Net Capital Rule"). Jefferies and Jefferies Execution have elected to compute their minimum net capital requirement in accordance with the "Alternative Net Capital Requirement" as permitted by the Net Capital Rule, which provides that a broker-dealer shall not permit its net capital, as defined, to be less than the greater of 2% of its aggregate debit balances (primarily customer-related receivables) or \$250,000 (\$1.5 million for prime brokers). Compliance with the Net Capital Rule could limit operations of our broker-dealers, such as underwriting and trading activities, that could require the use of significant amounts of capital, and may also restrict their ability to make loans, advances, dividends and other payments.

Jefferies is also registered as an FCM and is therefore subject to the minimum financial requirements for FCMs set by the CFTC. Jefferies as an FCM is required to maintain minimum net capital being the greater of \$1.0 million or its risk-based capital requirements computed as 8% of the total risk margin requirements for positions carried by the FCM in customer accounts and non-customer accounts. Jefferies, as a dually registered broker-dealer and FCM, is required to maintain net capital in excess of the greater of the SEC or CFTC minimum financial requirements.

Our subsidiaries that are registered swap dealers will become subject to capital requirements under the Dodd-Frank Act once the relevant rules become final. For additional information see Item 1A. Risk Factors - "Recent legislation and new and pending regulation may significantly affect our business."

Jefferies Group LLC is not subject to any regulatory capital rules.

See Net Capital within Item 7. Management's Discussion and Analysis and Note 19, Net Capital Requirements in this Annual Report on Form 10-K for additional discussion of net capital calculations.

**Regulation outside the United States.** We are an active participant in the international capital markets and provide investment banking services internationally, primarily in Europe and Asia. As is true in the U.S., our subsidiaries are subject to extensive regulations proposed, promulgated and enforced by, among other regulatory bodies, the European Commission and European Supervisory Authorities (including the European Banking Authority and European Securities and Market Authority), U.K. Financial Conduct Authority, Hong Kong Securities and Futures Commission, the Japan Financial Services Agency and the Monetary Authority of Singapore. Every country in which we do business imposes upon us laws, rules and regulations similar to those in the U.S., including with respect to some form of capital adequacy rules, customer protection rules, data protection regulations, anti-money laundering and anti-bribery rules, compliance with other applicable trading and investment banking regulations and similar regulatory reform. For additional information see Item 1A. Risk Factors - "Extensive international regulation of our business limits our activities, and, if we violate these regulations, we may be subject to significant penalties."

Item 1A. Risk Factors  
Factors Affecting Our Business

The following 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. In addition to the specific factors mentioned in this report, we may also be affected by other factors that affect businesses generally such as global or regional changes in economic, business or political conditions, acts of war, terrorism and natural disasters.

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Recent legislation and new and pending regulation may significantly affect our business.

In recent years, there has been significant legislation and increased regulation affecting the financial services industry. These legislative and regulatory initiatives affect not only us, but also our competitors and certain of our clients. These changes could have an effect on our revenue and profitability, limit our ability to pursue certain business opportunities, impact the value of assets that we hold, require us to change certain business practices, impose additional costs on us and otherwise adversely affect our business. Accordingly, we cannot provide assurance that legislation and regulation will not eventually have an adverse effect on our business, results of operations, cash flows and financial condition.

Many of these new laws and rules are the result of commitments made since 2008 by leaders of the G-20 nations to reduce the systemic risk arising from financial derivatives. Title VII of the Dodd-Frank Act and the rules and regulations adopted and to be adopted by the SEC and CFTC introduce a comprehensive regulatory regime for swaps and security-based swaps and parties that deal in such swaps and security-based swaps. Two of our subsidiaries are registered as swap dealers with the CFTC and are members of the NFA. We may also register one or more additional subsidiaries as security-based swap dealers with the SEC in the future. Title VII and related impending regulations subject certain swaps and security-based swaps to clearing and exchange trading requirements and subject swap dealers and security-based swap dealers to significant new burdens. We have already incurred significant compliance and operational costs as a result of the Dodd-Frank Act, and when all the final rules contemplated by Title VII have been implemented, our swap dealer entities will also be subject to mandatory capital and margin requirements that will likely have an effect on our business. While there continues to be uncertainty about the full impact of these changes, we will continue to be subject to a more complex regulatory framework, and will incur costs to comply with new requirements as well as to monitor for compliance in the future.

Section 619 of the Dodd-Frank Act (Volcker Rule) limits certain proprietary trading by banking entities such as banks, bank holding companies and similar institutions. Although we are not a banking entity and are not otherwise subject to these rules, some of our clients and many of our counterparties are banks or entities affiliated with banks and are subject to these restrictions. The effects of the Volcker Rule and related regulations on the depth, liquidity and pricing in swaps and securities markets has yet to be completely assessed. Negative effects could result from an expansive extraterritorial application of the Dodd-Frank Act in general or the Volcker Rule in particular and/or insufficient international coordination with respect to adoption of rules for derivatives and other financial reforms in other jurisdictions.

In addition, the scope, timing and final implementation of regulatory reform, including as a result of the recent U.S. presidential and congressional elections, is uncertain and could negatively impact our business.

Extensive international regulation of our business limits our activities, and, if we violate these regulations, we may be subject to significant penalties.

The financial services industry is subject to extensive laws, rules and regulations in every country in which we operate. Firms that engage in securities and derivatives trading, wealth and asset management and investment banking must comply with the laws, rules and regulations imposed by national and state governments and regulatory and self-regulatory bodies with jurisdiction over such activities. Such laws, rules and regulations cover all aspects of the financial services business, including, but not limited to, sales and trading methods, trade practices, use and safekeeping of customers' funds and securities, capital structure, anti-money laundering and anti-bribery and corruption efforts, recordkeeping and the conduct of directors, officers and employees.

Each of our regulators supervises our business activities to monitor compliance with such laws, rules and regulations in the relevant jurisdiction. In addition, if there are instances in which our regulators question our compliance with laws, rules, and regulations, they may investigate the facts and circumstances to determine whether we have complied. At any moment in time, we may be subject to one or more such investigation or similar reviews. At this time, all such investigations and similar reviews are insignificant in scope and immaterial to us. However, there can be no assurance that, in the future, the operations of our businesses will not violate such laws, rules, or regulations and such investigations and similar reviews will not result in adverse regulatory requirements, regulatory enforcement actions and/or fines.



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The European Market Infrastructure Regulation (“EMIR”) relating to derivatives was enacted in August 2012 and, in common with the Dodd-Frank Act in the U.S., is intended, among other things, to reduce counterparty risk by requiring standardized over-the-counter derivatives be cleared through a central counterparty and reported to registered trade repositories and making uncleared OTC derivatives subject to mandatory margining. EMIR is being introduced in phases in the European Union (including the U.K.), with implementation of additional requirements expected through 2019. The European Union finalized the Markets in Financial Instruments Regulation and a revision of the Market in Financial Instruments Directive, both of which are expected to become effective in January 2018. These give effect to the commitments of the Group of Twenty Finance Ministers and Central Bank Governors, including new market structure-related, reporting, investor protection-related and organizational requirements, requirements on pre- and post-trade transparency, requirements to use certain venues when trading financial instruments (which includes certain derivative instruments), requirements affecting the way investment managers can obtain research, powers of regulators to impose position limits and provisions on regulatory sanctions. The European Union is also currently considering or executing upon significant revisions to laws covering: resolution of banks, investment firms and market infrastructure; administration of financial benchmarks; credit rating activities; anti-money-laundering controls; data security and privacy; remuneration principles and proportionality; disclosures under the Basel regime aiming to increase market transparency and consistency and corporate governance in financial firms.

Additional legislation, changes in rules, changes in the interpretation or enforcement of existing laws and rules, or the entering into businesses that subject us to new rules and regulations may directly affect our business, results of operations and financial condition. We continue to monitor the impact of new U.S. and international regulation on our businesses.

Changing financial, economic and political conditions could result in decreased revenues, losses or other adverse consequences.

As a global securities and investment banking firm, global or regional changes in the financial markets or economic and political conditions could adversely affect our business in many ways, including the following:

• A market downturn could lead to a decline in the volume of transactions executed for customers and, therefore, to a decline in the revenues we receive from commissions and spreads.

• Unfavorable conditions or changes in general political, economic or market conditions, including general uncertainty regarding the U.S. economic environment as a result of the recent U.S. presidential election, could reduce the number and size of transactions in which we provide underwriting, financial advisory and other services. Our investment banking revenues, in the form of financial advisory and sales and trading or placement fees, are directly related to the number and size of the transactions in which we participate and could therefore be adversely affected by unfavorable financial, economic or political conditions.

• Adverse changes in the market could lead to losses from principal transactions and inventory positions.

• Adverse changes in the market could also lead to a reduction in revenues from asset management fees and investment income from managed funds and losses on our own capital invested in managed funds. Even in the absence of a market downturn, below-market investment performance by our funds and portfolio managers could reduce asset management revenues and assets under management and result in reputational damage that might make it more difficult to attract new investors.

• Limitations on the availability of credit can affect our ability to borrow on a secured or unsecured basis, which may adversely affect our liquidity and results of operations. Global market and economic conditions have been particularly disrupted and volatile in the last several years and may be in the future. Our cost and availability of funding could be affected by illiquid credit markets and wider credit spreads.

• New or increased taxes on compensation payments such as bonuses or on balance sheet items may adversely affect our profits.

• Should one of our customers or competitors fail, our business prospects and revenue could be negatively impacted due to negative market sentiment causing customers to cease doing business with us and our lenders to cease loaning us money, which could adversely affect our business, funding and liquidity.

The U.K.'s exit from the European Union could adversely affect our business.

The referendum held in the U.K. on June 23, 2016 resulted in a determination that the U.K. should exit the European Union. Such an exit from the European Union is unprecedented and it is unclear how the U.K.'s access to the EU Single Market, and the wider trading, legal and regulatory environment in which we, our customers and our counterparties operate, will be impacted and how this will affect our and their businesses and the global macroeconomic environment. The uncertainty surrounding the timing, terms and consequences of the U.K.'s exit could adversely impact customer and investor confidence, result in additional market volatility and adversely affect our businesses, including our revenues from trading and investment banking activities, particularly in Europe, and our results of operations and financial condition.



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We may be adversely affected by changes in U.S. and non-U.S. tax laws in the countries in which we operate. The U.S. Congress and the Administration have indicated a desire to reform the U.S. corporate income tax. As part of any tax reform, it is possible that the 35 percent corporate income tax rate may be reduced. Additionally, there may be other potential changes including modifying the taxation of income earned outside the U.S., and/or limiting or eliminating various other deductions, credits or tax preferences. At this time, it is not possible to measure the potential impact on the value of Jefferies' deferred tax assets, business, prospects or results of operations that might result upon enactment.

Unfounded allegations about us could result in extreme price volatility and price declines in our securities and loss of revenue, clients, and employees.

Our reputation and business activity can be affected by statements and actions of third parties, even false or misleading statements by them. In addition, our operations in the past have been impacted as some clients either ceased doing business or temporarily slowed down the level of business they do, thereby decreasing our revenue stream. Although we were able to reverse the negative impact of past unfounded allegations and false rumors, there is no assurance that we will be able to do so successfully in the future and our potential failure to do so could have a material adverse effect on our business, financial condition and liquidity.

A credit-rating agency downgrade could significantly impact our business.

Maintaining an investment grade credit rating is important to our business and financial condition. We intend to access the capital markets and issue debt securities from time to time; and a decrease in our credit rating would not only increase our borrowing costs, but could also decrease demand for our debt securities and make a successful financing more difficult. In addition, 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. Such a downgrade could also negatively impact our debt-securities prices. There can be no assurance that our credit ratings will not be downgraded.

Our principal trading and investments expose us to risk of loss.

A considerable portion of our revenues is derived from trading in which we act as principal. We may incur trading losses relating to the purchase, sale or short sale of fixed income, high yield, international, convertible, and equity securities and futures and commodities for our own account. In any period, we may experience losses on our inventory positions as a result of the level and volatility of equity, fixed income and commodity prices (including oil prices), lack of trading volume and illiquidity. From time to time, we may engage in a large block trade in a single security or maintain large position concentrations in a single security, securities of a single issuer, securities of issuers engaged in a specific industry, or securities from issuers located in a particular country or region. In general, because our inventory is marked to market on a daily basis, any adverse price movement in these securities could result in a reduction of our revenues and profits. In addition, we may engage in hedging transactions that if not successful, could result in losses.

We may incur losses if our risk management is not effective.

We seek to monitor and control our risk exposure. Our risk management processes and procedures are designed to limit our exposure to acceptable levels as we conduct our business. 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. Our framework includes inventory position and exposure limits on a gross and net basis, scenario analysis and stress tests, Value-at-Risk, sensitivities, exposure concentrations, aged inventory, amount of Level 3 assets, counterparty exposure, leverage, cash capital, and performance analysis. See Risk Management within Item 7. Management's Discussion and Analysis in this Annual Report on Form 10-K for additional discussion. While we employ various risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application, including risk tolerance determinations, cannot anticipate every economic and financial outcome or the specifics and timing of such outcomes. As a result, we may incur losses notwithstanding our risk management processes and procedures.

As a holding company, we are dependent for liquidity from payments from our subsidiaries, many of which are subject to restrictions.

As a holding company, we depend on dividends, distributions and other payments from our subsidiaries to fund payments on our obligations, including debt obligations. Many of our subsidiaries, including our broker-dealer subsidiaries, are subject to regulation that restrict dividend payments or reduce the availability of the flow of funds from those subsidiaries to us. In addition, our broker-dealer subsidiaries are subject to restrictions on their ability to lend or transact with affiliates and to minimum regulatory capital requirements.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

Increased competition may adversely affect our revenues, profitability and staffing.

All aspects of our business are intensely competitive. We compete directly with a number of bank holding companies and commercial banks, other brokers and dealers, investment banking firms and other financial institutions. In addition to competition from firms currently in the securities business, there has been increasing competition from others offering financial services, including automated trading and other services based on technological innovations.

We believe that the principal factors affecting competition involve market focus, reputation, the abilities of professional personnel, the ability to execute the transaction, relative price of the service and products being offered, bundling of products and services and the quality of service. Increased competition or an adverse change in our competitive position could lead to a reduction of business and therefore a reduction of revenues and profits.

Competition also extends to the hiring and retention of highly skilled employees. A competitor may be successful in hiring away employees, which may result in our losing business formerly serviced by such employees. Competition can also raise our costs of hiring and retaining the employees we need to effectively operate our business.

Operational risks may disrupt our business, result in regulatory action against us or limit our growth.

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, and the transactions we process have become increasingly complex. If any of our financial, accounting or other data processing systems do not operate properly or are disabled or if there are other shortcomings or failures in our internal processes, people or systems, we could suffer an impairment to our liquidity, financial loss, a disruption of our businesses, liability to clients, regulatory intervention or reputational damage. These systems may fail to operate properly or become disabled as a result of events that are wholly or partially beyond our control, including a disruption of electrical or communications services or our inability to occupy one or more of our buildings. The inability of our systems to accommodate an increasing volume of transactions could also constrain our ability to expand our businesses.

Certain of our financial and other data processing systems rely on access to and the functionality of operating systems maintained by third parties. If the accounting, trading or other data processing systems on which we are dependent are unable to meet increasingly demanding standards for processing and security or, if they fail or have other significant shortcomings, we could be adversely affected. Such consequences may include our inability 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 devote significant resources to maintaining and upgrading our systems and networks with measures such as intrusion and detection prevention systems, monitoring firewalls to safeguard critical business applications and supervising third party providers that have access to our systems, 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. Additionally, if a client's computer system, network or other technology is compromised by unauthorized access, we may face losses or other adverse consequences by unknowingly entering into unauthorized transactions. 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. Furthermore, such events may cause interruptions or malfunctions in our, our clients', our counterparties' or third parties' operations, including the transmission and execution of unauthorized transactions. 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. The increased use of smartphones, tablets and other mobile devices as well as cloud computing may also heighten these and other operational risks. Similar to other firms, we and our third party providers continue to be the subject of attempted unauthorized access, computer viruses and malware, and cyber

attacks designed to disrupt or degrade service or cause other damage and denial of service. Additional challenges are posed by external parties, including foreign state actors. There can be no assurance that such unauthorized access or cyber incidents will not occur in the future, and they could occur more frequently and on a larger scale.

We are also subject to laws and regulations relating to the privacy of the information of clients, employees or others, and any failure to comply with these regulations could expose us to liability and/or reputational damage. In addition, our businesses are increasingly subject to laws and regulations relating to surveillance, encryption and data on-shoring in the jurisdictions in which we operate. Compliance with these laws and regulations may require us to change our policies, procedures and technology for information security, which could, among other things, make us more vulnerable to cyber attacks and misappropriation, corruption or loss of information or technology.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

We face numerous risks and uncertainties as we expand our business.

We expect the growth of our business to come primarily from internal expansion and through acquisitions and strategic partnering. As we expand our business, there can be no assurance that our financial controls, the level and knowledge of our personnel, our operational abilities, our legal and compliance controls and our other corporate support systems will be adequate to manage our business and our growth. The ineffectiveness of any of these controls or systems could adversely affect our business and prospects. In addition, as we acquire new businesses and introduce new products, we face numerous risks and uncertainties integrating their controls and systems into ours, including financial controls, accounting and data processing systems, management controls and other operations. A failure to integrate these systems and controls, and even an inefficient integration of these systems and controls, could adversely affect our business and prospects.

Certain business initiatives, including expansions of existing businesses, may bring us into contact directly or indirectly, with individuals and entities that are not within our traditional client and counterparty base and may expose us to new asset classes and new markets. These business activities expose us to new and enhanced risks, greater regulatory scrutiny of these activities, increased credit-related, sovereign and operational risks, and reputational concerns regarding the manner in which these assets are being operated or held.

Legal liability may harm our business.

Many aspects of our business involve substantial risks of liability, and in the normal course of business, we have been named as a defendant or codefendant in lawsuits involving primarily claims for damages. The risks associated with potential legal liabilities often may be difficult to assess or quantify and their existence and magnitude often remain unknown for substantial periods of time. The expansion of our business, including increases in the number and size of investment banking transactions and our expansion into new areas impose greater risks of liability. In addition, unauthorized or illegal acts of our employees could result in substantial liability to us. Substantial legal liability could have a material adverse financial effect or cause us significant reputational harm, which in turn could seriously harm our business and our prospects.

Our business is subject to significant credit risk.

In the normal course of our businesses, we are involved in the execution, settlement and financing of various customer and principal securities and derivative transactions. These activities are transacted on a cash, margin or delivery-versus-payment basis and are subject to the risk of counterparty or customer nonperformance. Even when transactions are collateralized by the underlying security or other securities, we still face the risks associated with changes in the market value of the collateral through settlement date or during the time when margin is extended and collateral has not been secured or the counterparty defaults before collateral or margin can be adjusted. We may also incur credit risk in our derivative transactions to the extent such transactions result in uncollateralized credit exposure to our counterparties.

We seek to control the risk associated with these transactions by establishing and monitoring credit limits and by monitoring collateral and transaction levels daily. We may require counterparties to deposit additional collateral or return collateral pledged. In the case of aged securities failed to receive, we may, under industry regulations, purchase the underlying securities in the market and seek reimbursement for any losses from the counterparty. However, there can be no assurances that our risk controls will be successful.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We maintain offices in over 30 cities throughout the world. Our principal offices include our global headquarters in New York City, our European headquarters in London and our Asia headquarters in Hong Kong. In addition, we maintain backup data center facilities with redundant technologies for each of our three main data center hubs in Jersey City, London and Hong Kong. We lease all of our office space, or contract via service arrangement, which management believes is adequate for our business.



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JEFFERIES GROUP LLC AND SUBSIDIARIES

Item 3. 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 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 pending matter will have a material adverse effect on our financial condition.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

None.

Item 6. Selected Financial Data

Omitted pursuant to general instruction I(2)(a) to Form 10-K.

Item 7. 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 contained in this report under the caption "Business";
- the risk factors contained in this report under the caption "Risk Factors";
- 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.

The Company's results of operations for the 12 months ended November 30, 2016 ("2016"), November 30, 2015 ("2015") and November 30, 2014 ("2014") are discussed below.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Consolidated Results of Operations

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

	2016	2015	2014	% Change from Prior Year	
				2016	2015
Net revenues	\$2,414,614	\$2,475,241	\$2,990,138	(2.4 )%	(17.2)%
Non-interest expenses	2,384,642	2,361,014	2,687,117	1.0 %	(12.1)%
Earnings before income taxes	29,972	114,227	303,021	(73.8 )%	(62.3)%
Income tax expense	14,566	18,898	142,061	(22.9 )%	(86.7)%
Net earnings	15,406	95,329	160,960	(83.8 )%	(40.8)%
Net earnings to noncontrolling interests	(28 )	1,795	3,400	(101.6)%	(47.2)%
Net earnings attributable to Jefferies Group LLC	15,434	93,534	157,560	(83.5 )%	(40.6)%
Effective tax rate	48.6	% 16.5	% 46.9	% 194.5	% (64.8)%

## Executive Summary

## 2016 Compared with 2015

## Consolidated Results

Net revenues for 2016 were \$2,414.6 million, compared with \$2,475.2 million for 2015, a decrease of \$60.6 million, or 2.4%.

The results for 2016 were impacted by an extremely volatile bear market environment during the first three months of the year, with meaningful improvement over the rest of the year. Net revenues for the first quarter of 2016 declined \$292.7 million, or 49.5%, compared to the first quarter of 2015.

Throughout 2016, we continued to maintain strong leverage ratios, capital base and liquidity.

## Business Results

The decrease in total net revenues for 2016, as compared to 2015, primarily reflects a 17% decline in investment banking net revenues, and lower results in non-core equities net revenues, partially offset by meaningfully increased net revenues in fixed income.

Lower investment banking results are attributable to lower new issue equity and leveraged finance capital markets revenues, partially offset by higher advisory revenues. Our investment banking results benefited from a record quarter of advisory fees in the fourth quarter of 2016, as well as improvement in our capital markets activity, which began in the late summer of 2016, leading to an increase in new issue transaction volume.

The increase in fixed income revenues was across most products, as a result of new hires, a reduction in our downside risk profile since mid-2015 and improved market conditions in 2016. 2015 was adversely impacted by lower levels of liquidity and deterioration in the global energy and distressed markets.

The decline in equities net revenues was primarily attributable to a net loss of \$17.9 million recognized during 2016 from our investment in two equity positions, including KCG Holdings, Inc. ("KCG"), compared with a net gain of \$49.2 million in 2015 from these two positions. The decline in results was also due to net mark-to-market gains from certain equity inventory positions during 2015, which were not repeated during 2016. Equities revenues also include a net loss of \$9.3 million from our share of our Jefferies Finance joint venture in 2016, compared with net revenues of \$41.4 million in 2015.

Net revenues for 2016 included investment income from managed funds of \$4.7 million, compared with investment losses from managed funds of \$23.8 million in 2015, primarily due to lower valuations in the energy and shipping sectors in 2015.

## Expenses

Non-interest expenses for 2016 increased \$23.6 million, or 1.0%, to \$2,384.6 million, compared with \$2,361.0 million for 2015, reflecting an increase in Compensation and benefits expense, partially offset by a decrease in Non-compensation expenses.



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JEFFERIES GROUP LLC AND SUBSIDIARIES

Compensation and benefits expense for 2016 was \$1,568.9 million, an increase of \$101.8 million, or 6.9%, from 2015. Compensation and benefits expense as a percentage of Net revenues was 65.0% for 2016 compared with 59.3% in 2015. The increase in the compensation ratio for 2016 as compared to 2015 is primarily due to the composition of revenue by business line in the first quarter of 2016.

Non-compensation expenses for 2016 were \$815.7 million, a decrease of \$78.2 million, or 8.7%, from 2015. The decrease in 2016 was due to our exiting the Bache business, which in 2015 generated \$127.2 million of non-compensation expenses. There were no meaningful non-compensation expenses related to the Bache business in 2016. This reduction was partially offset by higher technology and professional fees related to investments in our trading platforms.

Jefferies Bache

On April 9, 2015, we entered into an agreement to transfer certain of the client activities of our Jefferies Bache business to Société Générale S.A. During the second quarter of 2016, we completed the exit of the Futures business. Net revenues globally from this business activity, which are included within our fixed income results, and expenses directly related to the Bache business, which are included within non-interest expenses, were \$80.2 million and \$214.8 million, respectively, for 2015. There were no meaningful revenues or expenses from the Bache business for 2016.

For further information, refer to Note 22, Exit Costs, in our consolidated financial statements included within this Annual Report on Form 10-K.

Headcount

At November 30, 2016, we had 3,329 employees globally, a decrease of 228 employees from our headcount of 3,557 at November 30, 2015. Our headcount decreased, primarily as a result of exiting the Bache business, as well as continued discipline in headcount and productivity management and corporate services outsourcing.

2015 Compared with 2014

Consolidated Results

Net revenues for 2015 were \$2,475.2 million, compared with \$2,990.1 million for 2014, a decrease of \$514.9 million, or 17.2%.

The results primarily reflect challenging market conditions in fixed income throughout 2015 and lower revenues in investment banking, partially offset by increased revenues in equities. We saw record revenues in investment banking for 2014. In addition, net revenues from our Bache business for 2015, which are included within our fixed income results, were \$80.2 million compared with \$202.8 million in 2014.

Business Results

Almost all our fixed income credit businesses were impacted by lower levels of liquidity due to the expectations of interest rate increases by the Federal Reserve and deterioration in the global energy and distressed markets. There were a number of periods of extreme volatility, which were followed by periods of low trading volumes.

Results in 2015 also include a net gain of \$49.1 million from our investment in KCG, compared with a loss of \$14.7 million from our investment in KCG and a gain of \$19.9 million from our investment in Harbinger Group Inc. ("HRG") in 2014. We sold HRG to Leucadia in March 2014.

Net revenues for 2015 included investment losses from managed funds of \$23.8 million, compared with investment losses from managed funds of \$9.6 million in 2014, primarily due to lower valuations in the energy and shipping sectors during 2015.

Expenses

Non-interest expenses decreased \$326.1 million, or 12.1%, to \$2,361.0 million for 2015 compared with \$2,687.1 million for 2014, reflecting a decrease in both Compensation and benefits expense and Non-compensation expenses. Compensation and benefits expense for 2015 was \$1,467.1 million, a decrease of \$231.4 million, or 13.6%, from 2014. Compensation and benefits expenses as a percentage of Net revenues was 59.3% for 2015 compared with 56.8% in 2014.

Non-compensation expenses for 2015 were \$893.9 million, a decrease of \$94.7 million, or 9.6%, from 2014, primarily due to a goodwill impairment loss of \$51.9 million related to our Jefferies Bache business during 2014. In addition,

during the fourth quarter of 2014, we recognized a bad debt provision, which primarily relates to a receivable of \$52.3 million from a client to which we provided futures clearing and execution services, which declared bankruptcy.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## Jefferies Bache

Total non-interest expenses, since the agreement on April 9, 2015, include costs of \$73.1 million, on a pre-tax basis, related to our exit of the Bache business. The after-tax impact of these costs is \$52.6 million. These costs consist primarily of severance, retention and benefit payments for employees, incremental amortization of outstanding restricted stock and cash awards, contract termination costs and incremental amortization expense of capitalized software expected to no longer be used subsequent to the wind-down of the business.

Net revenues from this business activity for 2015, which are included within our fixed income results, were \$80.2 million compared with \$202.8 million in 2014. This is comprised of commissions, principal transaction revenues and net interest revenues. Expenses directly related to the Bache business, which are included within non-interest expenses, for 2015 were \$214.8 million compared with \$348.2 million in 2014.

For further information, refer to Note 22, Exit Costs in our consolidated financial statements included within this Annual Report on Form 10-K.

## Headcount

At November 30, 2015, we had 3,557 employees globally, a decrease of 358 employees from our headcount at November 30, 2014 of 3,915. Since November 30, 2014, our headcount has decreased due to headcount reductions related to the exiting of the Bache business and corporate services outsourcing, partially offset by increases across our investment banking, equities and asset management businesses.

## 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.

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):

	2016		2015		2014		% Change from Prior Year	
	Amount	% of Net Revenues	Amount	% of Net Revenues	Amount	% of Net Revenues	2016	2015
Equities	\$549,553	22.8 %	\$757,447	30.7 %	\$696,221	23.3 %	(27.4) %	8.8 %
Fixed income	640,026	26.5	270,772	10.9	747,596	25.0	136.4 %	(63.8) %
Total sales and trading	1,189,579	49.3	1,028,219	41.6	1,443,817	48.3	15.7 %	(28.8) %
Equity	235,207	9.7	408,474	16.5	339,683	11.4	(42.4) %	20.3 %
Debt	304,576	12.6	398,179	16.1	627,536	21.0	(23.5) %	(36.5) %
Capital markets	539,783	22.3	806,653	32.6	967,219	32.4	(33.1) %	(16.6) %
Advisory	654,190	27.1	632,354	25.5	562,055	18.8	3.5 %	12.5 %
Total investment banking	1,193,973	49.4	1,439,007	58.1	1,529,274	51.2	(17.0) %	(5.9) %
Asset management fees and investment income (loss) from managed funds:								
Asset management fees	26,412	1.1	31,819	1.3	26,682	0.9	(17.0) %	19.3 %
Investment income (loss) from managed funds	4,650	0.2	(23,804)	(1.0)	(9,635)	(0.4)	119.5 %	(147.1) %
Total	31,062	1.3	8,015	0.3	17,047	0.5	287.5 %	(53.0) %

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Net revenues	\$2,414,614	100.0 %	\$2,475,241	100.0 %	\$2,990,138	100.0 %	(2.4 )%	(17.2 )%
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## JEFFERIES GROUP LLC AND SUBSIDIARIES

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

	2016	2015	2014	% Change from Prior Year	
				2016	2015
Commissions and other fees	\$611,574	\$659,002	\$668,801	(7.2 )%	(1.5 )%
Principal transactions	519,652	172,608	532,292	201.1 %	(67.6)%
Other	19,724	74,074	78,881	(73.4 )%	(6.1 )%
Net interest	38,629	122,535	163,843	(68.5 )%	(25.2)%
Total sales and trading net revenues	\$1,189,579	\$1,028,219	\$1,443,817	15.7 %	(28.8)%

**Equities Net Revenue**

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, LLC (“Jefferies Finance”) and Jefferies LoanCore, LLC (“Jefferies LoanCore”), which are accounted for under the equity method. Equities revenues also included our investment in HRG, which we sold to Leucadia in March 2014, at fair market value.

**2016 Compared with 2015**

Total equities net revenues were \$549.6 million for 2016, a decrease of \$207.9 million, compared with \$757.4 million for 2015.

Results during 2016 include a net loss of \$17.9 million from our investment in two equity positions, including KCG, compared with a net gain of \$49.2 million in 2015 from these two positions. In addition, equities net revenues for 2015 included significant gains on additional securities positions, which were not repeated during 2016.

Equities commission revenues gained slightly with improved market share across various product and client segments. Commissions in our U.S. cash equities and equity derivatives businesses held firm, while global electronic trading commissions gained from increased volumes and client market share. In our global electronic trading business, we have market leading customized algorithms in over 40 countries. European equities commissions increased due to improved market share, while commissions in our Asia Pacific cash equities business declined because of a challenging market environment. Our global cash businesses were among the highest market share gainers compared with our peers and, in the U.S. and U.K., our platform remains in the top 10.

Equities trading revenues were solid across most of our equities sales and trading businesses in 2016. Trading revenues from client market making improved in our U.S. and European cash equities businesses. Equity derivatives trading revenues declined due to a difficult volatility trading climate and convertibles trading revenues declined driven by weakness in the energy sector during 2016. In addition, certain strategic investments gained from exposures to energy, volatility, financial and currency markets.

Equities net revenues during 2016 included a net loss of \$9.3 million from our share of Jefferies Finance, primarily due to the mark down of certain loans held for sale during the first part of 2016, compared with net revenues of \$41.4 million in 2015. Net revenues from our share of Jefferies LoanCore also decreased during 2016 as compared to 2015 due to a decrease in loan closings and syndications.





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JEFFERIES GROUP LLC AND SUBSIDIARIES

2015 Compared with 2014

Total equities net revenues were \$757.4 million for 2015, an increase of \$61.2 million compared with \$696.2 million for 2014.

Results in 2015 include a net gain of \$49.1 million from our investment in KCG compared with a loss of \$14.7 million from our investment in KCG and a gain of \$19.9 million from our investment in HRG in 2014. We sold HRG to Leucadia in March 2014.

Strong revenues in 2015, as a result of increased trading volumes, from our electronic trading platform contributed to higher commissions revenues. Total equities net revenue also includes higher revenues from the Asia Pacific cash equities business and net mark-to-market gains from equity investments, as well as growth from our wealth management platform. This was partially offset by lower revenues from equity block trading results from our U.S. cash equities business and lower commissions in our European cash equities business.

Equities net revenue from our Jefferies LoanCore joint venture during 2015 includes higher revenues from an increase in loan closings and securitizations by the venture over 2014. Equities net revenue from our Jefferies Finance joint venture during 2015 includes lower revenues as a result of syndicate costs associated with the sell down of commitments, as well as reserves taken on certain loans held for investment as compared with 2014.

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.

2016 Compared with 2015

Fixed income net revenues totaled \$640.0 million for 2016, an increase of \$369.3 million, compared with net revenues of \$270.8 million in 2015.

2015 included \$80.2 million of net revenues globally from the Bache business activity. There were no meaningful revenues from the Bache business during 2016, as we completed the exit of the Bache business during the second quarter of 2016. Excluding revenues from the Bache business activity, revenues increased \$449.5 million, or 235.8%. We recorded higher revenues in 2016 as compared with 2015 due to improved trading conditions across most core businesses, partially offset by lower revenues in our international rates business due to lower trading volumes.

Revenues in our leveraged credit business were strong on increased trading volumes within high yield and distressed, as a result of an improved credit environment, as well as strategic growth in the business, compared with mark-to-market write-downs in 2015. Results in our emerging markets business during 2016 were higher due to an upgraded sales and trading team and increased levels of volatility and improved market conditions. Revenues from our corporates businesses increased as compared to 2015 due to increased client activity and higher demand for new issuances and higher yielding investments. Our mortgages businesses were positively impacted by increased demand for spread products, compared with the negative impact of market volatility as credit spreads tightened for these asset classes and expectations of future rate increases in 2015. The municipal securities business performed well during 2016, as improved trading activity was driven by market technicals, compared with net outflows in 2015. Volatility during 2016 due to fluctuating expectations as to future Federal Reserve interest rate increases contributed to increased revenues in our U.S. rates business.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## 2015 Compared with 2014

Fixed income net revenues were \$270.8 million for 2015, a decrease of \$476.8 million, compared with net revenues of \$747.6 million in 2014.

2015 included \$80.2 million of net revenues globally from the Bache business activity compared with \$202.8 million in 2014. Excluding revenues from the Bache business activity, revenues decreased \$354.2 million.

The lower revenues in 2015 were primarily due to tighter trading conditions across most core businesses and losses in our high yield distressed sales and trading business and international mortgages business, partially offset by higher revenues in our U.S. and international rates businesses, as well as our U.S. investment grade corporate credit business. The higher revenues in our U.S. and international rates businesses, as well as our U.S. investment grade corporate credit business, resulted from higher transaction volumes as volatility caused attractive yields and interest in new issuances. However, that same volatility negatively impacted the municipal securities business as prices declined and the sector experienced overall net cash outflows. Most of our credit fixed income businesses were negatively impacted during 2015 by periods of extreme volatility and market conditions, as investors focused on liquidity, resulting in periods of low trading volume. In addition, results in our distressed trading businesses were negatively impacted by our position in the energy sector and led to mark-to-market write-downs in our inventory and results in our emerging markets business were lower due to slower growth in the emerging markets during 2015. Our mortgages business was also negatively impacted by market volatility as credit spreads tightened for these asset classes and expectations of future rate increases resulted in lower trading volumes and revenues.

## Investment Banking Revenue

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 revenue (dollars in thousands):

	2016	2015	2014	% Change from Prior Year	
				2016	2015
Equity	\$235,207	\$408,474	\$339,683	(42.4)%	20.3 %
Debt	304,576	398,179	627,536	(23.5)%	(36.5)%
Capital markets	539,783	806,653	967,219	(33.1)%	(16.6)%
Advisory	654,190	632,354	562,055	3.5 %	12.5 %
Total	\$1,193,973	\$1,439,007	\$1,529,274	(17.0)%	(5.9 )%

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

	Deals Completed			Aggregate Value		
	2016	2015	2014	2016	2015	2014
Public and private debt financings	892	1,003	1,109	\$188.6	\$199.8	\$250.0
Public and private equity and convertible offerings (1)	117	191	193	20.8	53.9	66.0
Advisory transactions (2)	179	171	144	135.2	141.0	176.0

(1) We acted as sole or joint bookrunner on 113, 176 and 159 offerings during 2016, 2015 and 2014, respectively.

(2) The number of advisory deals completed includes 18, 13 and 12 restructuring and recapitalization transactions during 2016, 2015 and 2014, respectively.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## 2016 Compared with 2015

Total investment banking revenues were \$1,194.0 million for 2016, 17.0% lower than 2015. Lower investment banking results were attributable to lower new issue equity and leveraged finance capital markets revenues. This was primarily as a result of the capital markets slowdown, which began in the second half of 2015 and continued for much of 2016. We generated \$235.2 million and \$304.6 million in equity and debt capital market revenues, respectively, for 2016, a decrease of 42.4% and 23.5%, respectively, from 2015.

Our reduced capital markets activity for 2016 was partially offset by record advisory revenues. Specifically, our advisory revenues for 2016 increased 3.5% compared to 2015, primarily through an increase in the number of M&A and restructuring transactions, including closing a record number of M&A transactions in excess of \$1 billion.

Our investment banking results benefited both from a record fourth quarter of advisory fees in 2016, with our M&A and restructuring and recapitalization businesses showing continued momentum, and from improvement in capital markets activity, which began in the late summer of 2016, leading to an increase in new issue transaction volume.

## 2015 Compared with 2014

Total investment banking revenue was \$1,439.0 million for 2015, \$90.3 million lower than 2014, reflecting lower debt capital market revenues, partially offset by record equity capital markets and advisory revenues.

Overall, capital markets revenues for 2015 decreased 16.6% from 2014, primarily due to significantly lower transaction volume in the leveraged finance market. From equity and debt capital raising activities, we generated \$408.5 million and \$398.2 million in revenues, respectively, an increase of 20.3% and a decrease of 36.5%, respectively, from 2014. Record advisory revenues of \$632.4 million for 2015, an increase of 12.5% from 2014, were primarily due to higher transaction volume.

## 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 (in thousands):

	2016	2015	2014	% Change from Prior Year	
				2016	2015
Asset management fees:					
Fixed income (1)	\$2,482	\$4,090	\$6,087	(39.3 )%	(32.8 )%
Equities	1,757	4,875	9,212	(64.0 )%	(47.1 )%
Multi-asset	22,173	20,173	8,863	9.9 %	127.6 %
Convertibles (2)	—	2,681	2,520	(100.0)%	6.4 %
Total asset management fees	26,412	31,819	26,682	(17.0 )%	19.3 %
Investment income (loss) from managed funds	4,650	(23,804)	(9,635 )	119.5 %	(147.1)%
Total	\$31,062	\$8,015	\$17,047	287.5 %	(53.0 )%

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

Fixed income asset management fees represent ongoing consideration we receive from the sale of contracts to manage certain collateralized loan obligations (“CLOs”) to Barings, LLC (formerly known as Babson Capital (1) Management, LLC) in January 2010. As sale consideration, we are entitled to a portion of the asset management fees earned under the contracts for their remaining lives. Investment income (loss) from managed funds primarily is comprised of net unrealized markups (markdowns) in private equity funds managed by related parties.

During the fourth quarter of 2014, as part of a strategic review of our business, we decided to liquidate our (2) International Asset Management business, which provided long only investment solutions in global convertible bonds to institutional investors. Asset management fees from this business comprise our convertibles asset strategy in the table above.

## Assets under Management

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

	November 30, 2016		2015
Assets under management (1):			
Equities	\$170	\$18	
Multi-asset	884	688	
Total	\$1,054	\$706	

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

## Non-interest Expenses

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

	2016	2015	2014	% Change from Prior Year	
	2016	2015	2014	2016	2015
Compensation and benefits	\$1,568,948	\$1,467,131	\$1,698,530	6.9 %	(13.6) %
Non-compensation expenses:					
Floor brokerage and clearing fees	167,205	199,780	215,329	(16.3) %	(7.2) %
Technology and communications	262,396	313,044	268,212	(16.2) %	16.7 %
Occupancy and equipment rental	101,133	101,138	107,767	— %	(6.2) %
Business development	93,105	105,963	106,984	(12.1) %	(1.0) %
Professional services	112,562	103,972	109,601	8.3 %	(5.1) %
Bad debt provision	7,365	(396)	55,355	N/M	N/M
Goodwill impairment	—	—	54,000	N/M	(100.0) %
Other	71,928	70,382	71,339	2.2 %	(1.3) %
Total non-compensation expenses	815,694	893,883	988,587	(8.7) %	(9.6) %
Total non-interest expenses	\$2,384,642	\$2,361,014	\$2,687,117	1.0 %	(12.1) %

N/M — Not Meaningful

## 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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

Included within Compensation and benefits expense are share-based amortization expense for senior executive awards granted in September 2012 and February 2016, non-annual share-based and cash-based awards to other employees and certain year end awards that contain future service requirements for vesting. Senior executive awards contain market and performance conditions and are being amortized over their respective future service periods.

Refer to Note 15, Compensation Plans included within this Annual Report on Form 10-K, for further details on compensation and benefits.

2016 Compared with 2015

Compensation and benefits expense was \$1,568.9 million for 2016 compared with \$1,467.1 million for 2015.

Compensation and benefits expense as a percentage of Net revenues was 65.0% for 2016 and 59.3% for 2015. The increase in the compensation ratio for 2016 as compared to 2015 is due to the composition of revenue by business line in the first quarter of 2016.

Compensation expense related to the amortization of share- and cash-based awards amounted to \$287.3 million for 2016 compared with \$307.1 million 2015.

Compensation and benefits expense directly related to the activities of our Bache business was \$87.7 million for 2015 and not meaningful for 2016. Included within compensation and benefits expense for the Bache business for 2015 are severance, retention and related benefits costs of \$38.2 million incurred as part of decisions surrounding the exit of this business.

Employee headcount was 3,329 globally at November 30, 2016, a decrease of 228 employees from our headcount of 3,557 at November 30, 2015. Our headcount has decreased, primarily as a result of exiting the Bache business, as well as continued discipline in headcount, productivity management and corporate services outsourcing.

2015 Compared with 2014

Compensation and benefits expense was \$1,467.1 million for 2015 compared with \$1,698.5 million for 2014.

Compensation and benefits expense as a percentage of Net revenues was 59.3% for 2015 and 56.8% for 2014.

Compensation expense related to the amortization of share- and cash-based awards amounted to \$307.1 million for 2015 compared with \$284.3 million for 2014.

Compensation and benefits expense directly related to the activities of our Bache business was \$87.7 million for 2015 and \$98.6 million for 2014. Included within compensation and benefits expense for the Bache business for 2015 are severance, retention and related benefits costs of \$38.2 million incurred as part of decisions surrounding the exit of this business.

At November 30, 2015, we had 3,557 employees globally, a decrease of 358 employees from our headcount at November 30, 2014 of 3,915. Since November 30, 2014, our headcount has decreased due to headcount reductions related to the exiting of the Bache business and corporate services outsourcing, partially offset by increases across our investment banking, equities and asset management businesses.

Non-Compensation Expenses

2016 Compared with 2015

Non-compensation expenses were \$815.7 million for 2016, a decrease of \$78.2 million, or 8.7%, compared with \$893.9 million for 2015.

Non-compensation expenses as a percentage of Net revenues was 33.8% and 36.1% for 2016 and 2015, respectively.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

Non-compensation expenses for 2016 were \$815.7 million, a decrease of \$78.2 million, or 8.7%, from 2015. The decrease in 2016 was due to our exiting the Bache business, which in 2015 generated \$127.2 million of non-compensation expenses, including accelerated amortization expense of \$19.7 million related to capitalized software, \$11.2 million in contract termination costs and professional services costs of approximately \$2.5 million in connection with our actions related to exiting the Bache business. There were no meaningful non-compensation expenses related to the Bache business in 2016. This reduction in 2016 was partially offset by higher Technology and communications expenses, excluding the Bache business, and higher Professional services expenses, excluding the Bache business. Technology and communications expenses, excluding the Bache business, increased due to higher costs associated with the development of the various trading systems and projects associated with corporate support infrastructure. In both years, we continued to incur legal and consulting fees as part of implementing various regulatory requirements, which are recognized in Professional services expenses. During 2015, we also released \$4.4 million in reserves related to the resolution of bankruptcy claims against Lehman Brothers Holdings, Inc., which is presented within Bad debt expenses.

## 2015 Compared with 2014

- Non-compensation expenses were \$893.9 million for 2015, a decrease of \$94.7 million, or 9.6%, compared with \$988.6 million in 2014.

Non-compensation expenses as a percentage of Net revenues was 36.1% and 33.1% for 2015 and 2014, respectively. The decrease in non-compensation expenses was primarily due to lower other expenses primarily related to impairment losses and bad debt expenses recognized for 2014. Non-compensation expenses for 2014 include a goodwill impairment loss of \$51.9 million related to our Jefferies Bache business, which constitutes our global futures sales and trading operations. In addition, a goodwill impairment loss of \$2.1 million was recognized in 2014 related to our International Asset Management business. Additionally, \$7.6 million in impairment losses were recognized related to customer relationship intangible assets within our Jefferies Bache and International Asset Management businesses, which is presented within Other expenses. During 2015, we also released \$4.4 million in reserves related to the resolution of bankruptcy claims against Lehman Brothers Holdings, Inc., which is presented within Bad debt expenses. During the fourth quarter of 2014, we recognized a bad debt provision, which primarily relates to a receivable of \$52.3 million from a client to which we provided futures clearing and execution services, which declared bankruptcy.

Non-compensation expenses associated directly with the activities of the Bache business were \$127.2 million for 2015 and \$249.6 million for 2014. Technology and communications expenses for 2015 included accelerated amortization expense of \$19.7 million related to capitalized software and \$11.2 million in contract termination costs related to our Jefferies Bache business. During 2015, we incurred professional services costs of approximately \$2.5 million in connection with our actions related to exiting the Bache business.

## Income Taxes

## 2016 Compared with 2015

For 2016, the provision for income taxes was \$14.6 million, an effective tax rate of 48.6%, compared with a provision for income taxes of \$18.9 million, an effective tax rate of 16.5%, for 2015.

The change in the effective tax rate during 2016 as compared with 2015 is primarily attributable to excess stock forfeitures related to share-based compensation that was less than the compensation cost recognized for financial reporting purposes.

Given the uncertainty surrounding tax reform in the U.S., in December 2016, we repatriated earnings and associated foreign taxes from certain foreign subsidiaries. This will have a positive impact on our effective tax rate in 2017.

## 2015 Compared with 2014

For 2015, the provision for income taxes was \$18.9 million, an effective tax rate of 16.5%, compared with a provision for income taxes of \$142.1 million, an effective tax rate of 46.9%, for 2014.

The change in the effective tax rate during 2015 as compared with 2014 is primarily due to net tax benefits related to the resolution of state income tax examinations and statute expirations during 2015, a change in the geographical mix of earnings and the impact of the goodwill impairment charge that was non-deductible in 2014.



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 Annual Report on Form 10-K.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

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 Annual Report on Form 10-K.

Valuation of Financial Instruments

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

For information on the composition of our financial instruments owned and financial instruments sold, not yet purchased recorded at fair value, see Note 4, Fair Value Disclosures, in our consolidated financial statements included within this Annual Report on Form 10-K.

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

Fair value is a market based measure; therefore, when market observable inputs are not available, our judgment is applied to reflect those judgments that a market participant would use in valuing the same asset or liability. The availability of observable inputs can vary for different products. We use prices and inputs that are current as of the measurement date even in periods of market disruption or illiquidity. The valuation of financial instruments classified in Level 3 of the fair value hierarchy involves the greatest amount of management judgment. (See Note 2, Summary of Significant Accounting Policies, and Note 4, Fair Value Disclosures, in our consolidated financial statements included within this Annual Report on Form 10-K for further information on the definitions of fair value, Level 1, Level 2 and Level 3 and related valuation techniques.)

Level 3 Assets and Liabilities – For information on the composition and activity of our Level 3 assets and Level 3 liabilities, see Note 4, Fair Value Disclosures, in our consolidated financial statements included within this Annual Report on Form 10-K.

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

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Goodwill

At November 30, 2016, goodwill recorded on our Consolidated Statement of Financial Condition is \$1,640.7 million (4.4% of total assets). The nature and accounting for goodwill is discussed in Note 2, Summary of Significant Accounting Policies and Note 10, Goodwill and Other Intangible Assets, in our consolidated financial statements included within this Annual Report on Form 10-K. Goodwill must be allocated to reporting units and tested for impairment at least annually, or when circumstances or events make it more likely than not that an impairment occurred. Goodwill is tested by comparing the estimated fair value of each reporting unit with its carrying value. Our annual goodwill impairment testing date is August 1, which did not indicate any goodwill impairment in any of our reporting units at August 1, 2016.

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

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

The carrying values of goodwill by reporting unit at November 30, 2016 are as follows: \$563.2 million in Investment Banking, \$159.9 million in Equities and Wealth Management, \$914.6 million in Fixed Income and \$3.0 million in Strategic Investments.

The results of our assessment on August 1, 2016 indicated that all our reporting units had a fair value in excess of their carrying amounts based on current projections. While no goodwill impairment was identified, the valuation methodology for our reporting units are sensitive to management's forecasts of future profitability, which comes with a level of uncertainty regarding U.S. and global economic conditions, trading volumes and equity and debt capital market transaction levels.

Refer to Note 10, Goodwill and Other Intangible Assets in our consolidated financial statements included within this Annual Report on Form 10-K, for further details on goodwill.

Compensation and Benefits

A portion of our compensation and benefits represents discretionary bonuses, which are finalized at year end. In addition to the level of net revenues, our overall compensation expense in any given year is influenced by prevailing labor markets, revenue mix, profitability, individual and business performance metrics, and our use of share-based compensation programs. We believe the most appropriate way to allocate estimated annual total compensation among interim periods is in proportion to net revenues earned. Consequently, during the year we accrue compensation and benefits based on annual targeted compensation ratios, taking into account the mix of our revenues and the timing of expense recognition.

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## 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.

## The 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):

	November 30,		
	2016	2015	% Change
Total assets	\$36,941.3	\$38,564.0	(4.2)%
Cash and cash equivalents	3,529.1	3,510.2	0.5%
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	857.3	751.1	14.1%
Financial instruments owned	13,809.5	16,559.1	(16.6)%
Financial instruments sold, not yet purchased	8,359.2	6,785.1	23.2%
Total Level 3 assets	413.3	541.7	(23.7)%
Securities borrowed	\$7,743.6	\$6,975.1	11.0%
Securities purchased under agreements to resell	3,862.5	3,857.3	0.1%
Total securities borrowed and securities purchased under agreements to resell	\$11,606.1	\$10,832.4	7.1%
Securities loaned	\$2,819.1	\$2,979.3	(5.4)%
Securities sold under agreements to repurchase	6,791.7	10,004.4	(32.1)%
Total securities loaned and securities sold under agreements to repurchase	\$9,610.8	\$12,983.7	(26.0)%

Total assets at November 30, 2016 and 2015 were \$36.9 billion and \$38.6 billion, respectively, a decline of 4.2%.

This decline reflects reductions that we implemented beginning in the fourth quarter of 2015 given our view of the market environment, which is also reflected in an overall reduction in risk at the comparable period ends. During 2016, average total assets (measured based upon week-end balances) were approximately 17.6% higher than total assets at November 30, 2016.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

Our total Financial instruments owned inventory at November 30, 2016 was \$13.8 billion, a decrease of 16.6% from inventory of \$16.6 billion at November 30, 2015, primarily due to decreases in mortgage- and asset-backed securities due to global market and economic concerns in 2016. Financial instruments sold, not yet purchased inventory was \$8.4 billion and \$6.8 billion at November 30, 2016 and 2015, respectively, with the increase primarily driven by government, federal agency and other sovereign obligations and corporate equity and debt securities inventory due to increased market volatility caused by concerns about the pace of global economic growth and uncertainty around the Federal Reserve and major central banks' monetary policies partially offset by a decrease in loans due to settlements during 2016. Our overall net inventory position was \$5.5 billion and \$9.8 billion at November 30, 2016 and 2015, respectively. The change in our net inventory balance is attributed to a reduction in most net inventory positions, primarily mortgage- and asset-backed securities and government, federal agency and other sovereign obligations, partially offset by an increase in net loans. While our total Financial instruments owned declined from November 30, 2015 to November 30, 2016, our Level 3 Financial instruments owned as a percentage of total Financial instruments also declined to 3.0% at November 30, 2016 from 3.3% at November 30, 2015.

Securities financing assets and liabilities include both financing for our financial instruments trading activity and matched book transactions. Matched book transactions accommodate customers, as well as obtain securities for the settlement and financing of inventory positions. The aggregate outstanding balance of our securities borrowed and securities purchased under agreements to resell increased by 7.1% from November 30, 2015 to November 30, 2016, due to an increase in firm financing of our short inventory and a decrease in the netting benefit for our collateralized financing transactions, partially offset by a decrease in our matched book activity. The outstanding balance of our securities loaned and securities sold under agreement to repurchase decreased by 26.0% from November 30, 2015 to November 30, 2016 due to decreases in our matched book activity and firm financing of our inventory, partially offset by a decrease in the netting benefit for our collateralized financing transactions. Our average month end balances of total reverse repos and stock borrows during 2016 were 23.9% higher than the November 30, 2016 balances. Our average month end balances of total repos and stock loans during 2016 were 48.9% higher than the November 30, 2016 balances.

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

	Year Ended	
	2016	2015
Securities Purchased Under Agreements to Resell:		
Period end	\$3,862	\$3,857
Month end average	5,265	5,719
Maximum month end	7,001	7,577
Securities Sold Under Agreements to Repurchase:		
Period end	\$6,792	\$10,004
Month end average	11,410	14,026
Maximum month end	16,620	18,629

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

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## 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 (in thousands):

	November 30,	
	2016	2015
Total assets	\$36,941,276	\$38,563,972
Deduct: Securities borrowed	(7,743,562 )	(6,975,136 )
Securities purchased under agreements to resell	(3,862,488 )	(3,857,306 )
Add: Financial instruments sold, not yet purchased	8,359,202	6,785,064
Less derivative liabilities	(637,535 )	(208,548 )
Subtotal	7,721,667	6,576,516
Deduct: Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(857,337 )	(751,084 )
Goodwill and intangible assets	(1,847,124 )	(1,882,371 )
Adjusted assets (1)	\$30,352,432	\$31,674,591
Total equity	\$5,370,597	\$5,509,377
Deduct: Goodwill and intangible assets	(1,847,124 )	(1,882,371 )
Tangible total equity	\$3,523,473	\$3,627,006
Total member's equity (2)	\$5,369,946	\$5,481,909
Deduct: Goodwill and intangible assets	(1,847,124 )	(1,882,371 )
Tangible member's equity (2)	\$3,522,822	\$3,599,538
Leverage ratio (2) (3)	6.9	7.0
Tangible gross leverage ratio (2) (4)	10.0	10.2
Adjusted leverage ratio (1) (2) (5)	8.6	8.7

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.

As compared to November 30, 2015, the decrease to total member's equity at November 30, 2016 is attributed to foreign currency translation adjustments, primarily due to the decline in the British pound rate of exchange against the U.S. dollar, partially offset by net earnings.

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.

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;

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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;

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 \$10.5 billion at November 30, 2016 exceeded our cash capital requirements.

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

Maximum Liquidity Outflow is based on a scenario that includes both a market-wide stress and firm-specific stress, characterized by some or all of the following elements:

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

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

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

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

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

Liquidity needs over a 30-day scenario.

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

No support from government funding facilities.

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

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

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

All upcoming maturities of unsecured long-term debt, commercial paper, promissory notes and other unsecured funding products assuming we will be unable to issue new unsecured debt or rollover any maturing debt.

Repurchases of our outstanding long-term debt in the ordinary course of business as a market maker.



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

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

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

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

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

Other upcoming large cash outflows, such as tax payments.

Based on the sources and uses of liquidity calculated under the Maximum Liquidity Outflow scenarios, we determine, based on a calculated surplus or deficit, additional long-term funding that may be needed versus funding through the repurchase financing market and consider any adjustments that may be necessary to our inventory balances and cash holdings. At November 30, 2016, we have sufficient excess liquidity to meet all contingent cash outflows detailed in the Maximum Liquidity Outflow. We regularly refine our model to reflect changes in market or economic conditions and the firm’s business mix.

Sources of Liquidity

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

	November 30, 2016	Average Balance Quarter ended November 30, 2016 (1)	November 30, 2015	
Cash and cash equivalents:				
Cash in banks	\$905,003	\$866,598	\$973,796	
Certificate of deposit	25,000	25,000	75,000	
Money market investments	2,599,066	1,535,870	2,461,367	
Total cash and cash equivalents	3,529,069	2,427,468	3,510,163	
Other sources of liquidity:				
Debt securities owned and securities purchased under agreements to resell (2)	1,455,398	1,234,599	1,265,840	
Other (3)(4)	318,646	604,424	163,890	
Total other sources (4)	1,774,044	1,839,023	1,429,730	
Total cash and cash equivalents and other liquidity sources (4)	\$5,303,113	\$4,266,491	\$4,939,893	
Total cash and cash equivalents and other liquidity sources as % of total assets (4)	14.4	%	12.8	%
Total cash and cash equivalents and other liquidity sources as % of total assets less goodwill and intangible assets (4)	15.1	%	13.5	%

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

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

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

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

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Other sources of liquidity at November 30, 2015 has been reduced by \$141.2 million from what was previously (4) disclosed, to reflect adjustments for certain securities that have subsequently been identified to have been encumbered.

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 November 30, 2016, we had the ability to readily obtain repurchase financing for 75.4% 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 November 30, 2016 and 2015 (in thousands):

	November 30, 2016		2015	
	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)	Liquid Financial Instruments	Unencumbered Liquid Financial Instruments (2)
Corporate equity securities	\$1,815,819	\$ 280,733	\$1,881,419	\$ 268,664
Corporate debt securities	1,818,150	—	1,999,162	89,230
U.S. government, agency and municipal securities	3,157,737	600,456	2,987,784	317,518
Other sovereign obligations	2,258,035	854,942	2,444,339	1,026,842
Agency mortgage-backed securities (1)	1,090,391	—	3,371,680	—
Loans and other receivables	274,842	—	—	—
Total	\$10,414,974	\$ 1,736,131	\$12,684,384	\$ 1,702,254

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

(2) Unencumbered liquid balances represent assets that can be sold or used as collateral for a loan, but have not been. Average liquid financial instruments were \$11.8 billion and \$15.2 billion for 2016 and 2015, respectively. Average unencumbered liquid financial instruments were \$1.6 billion and \$1.9 billion for 2016 and 2015, 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.

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## 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 75.7% 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 November 30, 2016.

Our ability to finance our inventory via central clearinghouses and bi-lateral arrangements is augmented by our ability to draw bank loans on an uncommitted basis under our various banking arrangements. At November 30, 2016, 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 \$525.8 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 \$399.6 million and \$65.3 million for 2016 and 2015, respectively.

Our short-term borrowings include the following facilities:

**Demand Loan Facility.** 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 the 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.

**Secured Revolving Loan Facilities.** On October 29, 2015, we entered into a secured revolving loan facility (“First Secured Revolving Loan Facility”) whereby the lender agrees to make available a revolving loan facility in a maximum principal amount of \$50.0 million in U.S. dollars to purchase eligible receivables that meet certain requirements as defined in the First Secured Revolving Loan Facility agreement. Interest is based on an annual rate equal to the lesser of the LIBOR rate plus three and three-quarters percent or the maximum rate as defined in the First Secured Revolving Loan Facility agreement. On December 14, 2015, we entered into a second secured revolving loan facility (“Second Revolving Loan Facility”, and together with the First Secured Revolving Loan Facility, “Secured Revolving Loan Facilities”) whereby the lender agrees to make available a revolving loan facility in a maximum principal amount of \$50.0 million in U.S. dollars to purchase eligible receivables that meet certain requirements as defined in the Second Secured Revolving Loan Facility agreement. Interest is 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.

**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 in U.S. dollars. 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 November 30, 2016, we were in compliance with all debt covenants under the Intraday Credit Facility.





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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 November 30, 2016, our outstanding notes were \$718.0 million and are as follows:

Series	Issued	Principal	Maturity
2014-4 (1)	December 19, 2014	\$60.0 million	December 16, 2016
2014-5 (2)	January 20, 2015	\$68.1 million	January 18, 2017
2015-2 (1) (3)	May 12, 2015	\$170.0 million	May 15, 2018
2016-1 (1)	February 5, 2016	\$218.3 million	February 4, 2017
2016-3 (1)	May 12, 2016	\$201.6 million	May 11, 2017

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

(2) This note bears interest at a spread over three month LIBOR.

(3) At November 30, 2016, 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 Annual Report on Form 10-K.

**Total Long-Term Capital**

At November 30, 2016 and 2015, we had total long-term capital of \$10.5 billion and \$10.8 billion resulting in a long-term debt to equity capital ratio of 0.96:1 at both dates. Our total long-term capital base at November 30, 2016 and 2015 was as follows (in thousands):

	November 30,	
	2016	2015
Long-Term Debt (1) (2)	\$5,130,822	\$5,287,697
Total Equity	5,370,597	5,509,377
Total Long-Term Capital	\$10,501,419	\$10,797,074

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

(2) Long-term capital at November 30, 2015 excludes \$353.0 million of our 5.5% Senior Notes, as these notes matured (2) on March 15, 2016.

**Long-Term Debt**

During 2016, we issued structured notes with a total principal amount of approximately \$275.4 million. Certain of the 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 the structured notes was \$248.9 million at November 30, 2016. During 2016, approximately \$350.0 million of long-term borrowings matured or were retired. On January 17, 2017, we issued 4.85% senior notes with a principal amount of \$750.0 million, due 2027.

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 were non-recourse to us. In June 2016, the Class A Notes and the Class B Notes were repurchased and retired.

At November 30, 2016, our long-term debt has a weighted average maturity of approximately seven years.

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Our long-term debt ratings at November 30, 2016 are as follows:

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

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

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

At November 30, 2016, the long-term ratings on our principal operating broker-dealers, Jefferies LLC (“Jefferies”) (a U.S. broker-dealer) and Jefferies International Limited (a U.K. broker-dealer) are as follows:

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

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

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.

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 November 30, 2016, the amount of additional collateral that could be called by counterparties, exchanges and clearing organizations under the terms of such agreements in the event of a downgrade of our long-term credit rating below investment grade was \$51.4 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, 2015, the decrease to total member’s equity at November 30, 2016 is attributed to foreign currency translation adjustments, primarily due to the decline in the British pound rate of exchange against the U.S. dollar, partially offset by net earnings.

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.

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At November 30, 2016, Jefferies and Jefferies Execution's net capital and excess net capital were as follows (in thousands):

	Net Capital	Excess Net Capital
Jefferies	\$ 1,467,729	\$ 1,398,748
Jefferies Execution	8,260	8,010

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 18, Commitments, Contingencies and Guarantees, in our consolidated financial statements included within this Annual Report on Form 10-K.

The table below provides information about our contractual obligations at November 30, 2016. 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	
Contractual obligations:						
Unsecured long-term debt (contractual principal payments net of unamortized discounts and premiums) (1)	\$ 346.2	\$ 824.2	\$ 1,317.3	\$ 827.6	\$ 2,168.1	\$ 5,483.4
Interest payment obligations on senior notes (2)	298.1	259.7	407.7	268.7	1,111.9	2,346.1
Operating leases (net of subleases) - premises and equipment (3)	61.2	61.7	109.9	100.5	512.0	845.3
Master sale and leaseback agreement (3)	3.8	1.5	0.2	—	—	5.5
Purchase obligations (4)	87.5	57.8	77.9	51.5	11.4	286.1
Total contractual obligations	\$ 796.8	\$ 1,204.9	\$ 1,913.0	\$ 1,248.3	\$ 3,803.4	\$ 8,966.4

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

(2) Amounts based on applicable interest rates at November 30, 2016.

(3) For additional information on operating leases related to certain premises and equipment and a master sale and leaseback agreement, see Note 18, Commitments, Contingencies and Guarantees, in our consolidated financial statements included within this Annual Report on Form 10-K.

(4) Purchase obligations for goods and services primarily include payments for outsourcing and computer and telecommunications maintenance agreements. Purchase obligations at November 30, 2016 reflect the minimum contractual obligations under legally enforceable contracts.

We expect to make cash payments of \$645.5 million on January 31, 2017 related to compensation awards for fiscal 2016. See Note 15, Compensation Plans, in our consolidated financial statements included within this Annual Report on Form 10-K for further information.

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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 Annual Report on Form 10-K. We are routinely involved with variable interest entities ("VIEs") in the normal course of business. At November 30, 2016, we did not have any commitments to purchase assets from our VIEs. For additional information regarding our involvement with VIEs, see Note 7, Securitization Activities, and Note 8, Variable Interest Entities, in our consolidated financial statements included within this Annual Report on Form 10-K.

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 17, Income Taxes, in our consolidated financial statements included within this Annual Report on Form 10-K for further information.

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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.





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## 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 decreased to \$7.91 million for 2016 from \$12.39 million for 2015. The decrease was driven by lower block trading activity and firmwide defensive positioning resulting in lower equity risk and fixed income exposures, partially offset by a lower diversification benefit. Excluding our investment in KCG, our average VaR decreased to \$5.77 million for 2016 from \$9.97 million for 2015.

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

Risk Categories:	VaR at November 30, 2016	Daily VaR (1) Value-at-Risk In Trading Portfolios			VaR at November 30, 2015	Daily VaR for 2015		
		Daily VaR for 2016				Daily VaR for 2015		
		Average	High	Low		Average	High	Low
Interest Rates	\$ 5.82	\$ 4.96	\$ 6.99	\$ 3.43	\$ 5.01	\$5.84	\$8.06	\$4.19
Equity Prices	6.71	5.42	9.55	2.60	6.69	9.79	13.61	5.39
Currency Rates	0.19	0.41	3.01	0.07	0.30	0.46	3.32	0.12
Commodity Prices	0.51	0.84	2.44	0.31	0.82	0.57	1.62	0.04
Diversification Effect (2)	(4.79 )	(3.72 )	N/A	N/A	(5.09 )	(4.27 )	N/A	N/A

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Firmwide                    \$ 8.44        \$ 7.91        \$ 11.40        \$ 4.30        \$ 7.73        \$12.39    \$17.75    \$6.35

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

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

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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

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 2016, results of the evaluation at the aggregate level demonstrated three 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 November 30, 2016 (in thousands):

	10% Sensitivity
Private investments	\$ 20,980
Corporate debt securities in default	5,040
Trade claims	491

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JEFFERIES GROUP LLC AND SUBSIDIARIES

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 \$250,000 at November 30, 2016.

Daily Net Trading Revenue

Excluding trading losses associated with the daily marking to market of our investment in KCG, there were 21 days with trading losses out of a total of 253 trading days in 2016. Including these losses, there were 38 days with trading losses. The histogram below presents the distribution of our actual daily net trading revenue for substantially all of our trading activities for 2016 (in millions).

Scenario Analysis and Stress Tests

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

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

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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

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

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

Credit Exposures

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

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

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

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

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

Current counterparty credit exposures at November 30, 2016 and November 30, 2015 are summarized in the tables below and provided by credit quality, region and industry (in millions). Credit exposures presented take netting and collateral into consideration by counterparty and master agreement. Collateral taken into consideration includes both collateral received as cash as well as collateral received in the form of securities or other arrangements. Current exposure is the loss that would be incurred on a particular set of positions in the event of default by the counterparty, assuming no recovery. Current exposure equals the fair value of the positions less collateral. Issuer risk is the credit risk arising from inventory positions (for example, corporate debt securities and secondary bank loans). Issuer risk is included in our country risk exposure tables below. Of our counterparty credit exposure at November 30, 2016, excluding cash and cash equivalents, the percentage of exposure from investment grade counterparties increased slightly to 82% from 79% at November 30, 2015, and is mainly concentrated in North America.

When comparing our credit exposure at November 30, 2016 with credit exposure at November 30, 2015, excluding cash and cash equivalents, current exposure has decreased 6% to approximately \$1.2 billion from \$1.3 billion. Counterparty credit exposure decreased over 2015 by 24% from loans and lending primarily due to North American loans and by 11% over the year from securities and margin finance. Counterparty credit exposure from OTC derivatives increased by 54%, primarily associated with CLO warehouse funding arrangements.



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## 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	At	At	At	At	At						
	November 30, 2016	November 30, 2015 (1)	November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015 (1)						
AAA Range	\$—	\$—	\$—	\$11.8	\$—	\$—	\$—	\$11.8	\$2,601.4	\$2,461.4	\$2,601.4	\$2,473.2
AA Range	44.0	—	87.3	152.3	2.1	4.4	133.4	156.7	37.0	175.0	170.4	331.7
A Range	4.2	1.0	539.2	556.4	214.7	96.0	758.1	653.4	814.1	846.3	1,572.2	1,499.7
BBB Range	4.9	86.6	117.3	107.9	9.4	31.7	131.6	226.2	51.2	25.8	182.8	252.0
BB or Lower	100.1	181.6	6.2	14.8	23.8	30.1	130.1	226.5	25.1	—	155.2	226.5
Unrated	93.5	56.3	—	—	—	0.1	93.5	56.4	0.3	1.7	93.8	58.1
Total	\$246.7	\$325.5	\$750.0	\$843.2	\$250.0	\$162.3	\$1,246.7	\$1,331.0	\$3,529.1	\$3,510.2	\$4,775.8	\$4,841.2

## Counterparty Credit Exposure by Region

	Loans and Lending	Securities and Margin Finance	OTC Derivatives	Total	Cash and Cash Equivalents	Total with Cash and Cash Equivalents						
	At	At	At	At	At	At						
	November 30, 2016	November 30, 2015 (1)	November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015 (1)						
Asia/Latin America/Other	\$4.9	\$10.1	\$16.3	\$15.3	\$32.7	\$40.6	\$53.9	\$66.0	\$165.8	\$159.6	\$219.7	\$225.6
Europe	—	0.4	234.4	212.2	20.9	43.4	255.3	256.0	248.0	341.8	503.3	597.8
North America	241.8	315.0	499.3	615.7	196.4	78.3	937.5	1,009.0	3,115.3	3,008.8	4,052.8	4,017.8
Total	\$246.7	\$325.5	\$750.0	\$843.2	\$250.0	\$162.3	\$1,246.7	\$1,331.0	\$3,529.1	\$3,510.2	\$4,775.8	\$4,841.2

## Counterparty Credit Exposure by Industry

	Loans and Lending	Securities and Margin Finance	OTC Derivatives	Total	Cash and Cash Equivalents	Total with Cash and Cash Equivalents						
	At	At	At	At	At	At						
	November 30, 2016	November 30, 2015 (1)	November 30, 2016	November 30, 2015	November 30, 2016	November 30, 2015 (1)						
Asset Managers	\$—	\$—	\$39.7	\$69.8	\$10.9	\$—	\$50.6	\$69.8	\$2,599.1	\$2,461.3	\$2,649.7	\$2,531.1
Banks, Broker-dealers	0.2	0.9	435.9	464.9	170.4	95.2	606.5	561.0	930.0	1,048.9	1,536.5	1,609.9
Commodities	—	—	—	—	3.3	16.7	3.3	16.7	—	—	3.3	16.7
Corporates	204.4	193.9	—	—	18.4	11.3	222.8	205.2	—	—	222.8	205.2
Other	42.1	130.7	274.4	308.5	47.0	39.1	363.5	478.3	—	—	363.5	478.3

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Total	\$246.7	\$325.5	\$750.0	\$843.2	\$250.0	\$162.3	\$1,246.7	\$1,331.0	\$3,529.1	\$3,510.2	\$4,775.8	\$4,841.2
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Loans and lending amounts have been recast to conform to the current period's presentation. Loans and lending (1) amounts include the current exposure, the amount at risk on a default event with no recovery of loans. Previously, loans and lending amounts represented the notional value.

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 Annual Report on Form 10-K.



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## 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 November 30, 2016 and 2015 to the sovereign governments, corporations and financial institutions in those non- U.S. countries in which we have a net long issuer and counterparty exposure (in millions):

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 and Lending	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Cash and Cash Equivalents Excluding	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
November 30, 2015									
	Issuer Risk			Counterparty Risk			Issuer and Counterparty Risk		
	Fair Value of Long Debt Securities	Fair Value of Short Debt Securities	Net Derivative Notional Exposure	Loans and Lending	Securities and Margin Finance	OTC Derivatives	Cash and Cash Equivalents	Cash and Cash Equivalents Excluding	Including Cash and Cash Equivalents
Belgium	\$413.8	\$(48.8)	\$6.2	—	—	—	\$157.8	\$371.2	\$529.0
United Kingdom	711.6	(359.3)	52.4	0.4	31.6	25.4	26.3	462.1	488.4
Netherlands	543.5	(139.6)	(23.4)	—	36.2	2.0	—	418.7	418.7
Italy	1,112.2	(662.4)	(105.6)	—	—	0.2	—	344.4	344.4
Ireland	164.3	(27.4)	3.3	—	3.5	—	—	143.7	143.7
Spain	394.0	(291.9)	(1.6)	—	—	0.2	26.6	100.7	127.3
Australia	86.6	(24.9)	9.6	37.4	—	0.3	0.8	109.0	109.8
Hong Kong	38.1	(22.3)	(2.9)	—	0.4	—	74.8	13.3	88.1
Switzerland	79.5	(28.9)	(6.6)	—	34.5	5.2	3.7	83.7	87.4
Portugal	111.9	(38.2)	—	—	—	—	—	73.7	73.7
Total	\$3,655.5	\$(1,643.7)	\$(68.6)	\$37.8	\$106.2	\$33.3	\$290.0	\$2,120.5	\$2,410.5

In addition, our issuer and counterparty risk exposure to Puerto Rico was \$31.0 million, which is in connection with our municipal securities market-making activities. The government of Puerto Rico is seeking to restructure much of its \$70.0 billion in debt on a voluntary basis. At November 30, 2016, we had no other material exposure to countries

where either sovereign or non-sovereign sectors potentially pose potential default risk as the result of liquidity concerns.

#### Operational Risk

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

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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.

Item 7A. 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 II, Item 7 of this Form 10-K.

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Item 8. Financial Statements and Supplementary Data

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Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management evaluated our internal control over financial reporting as of November 30, 2016. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control — Integrated Framework (2013). As a result of this assessment and based on the criteria in this framework, management has concluded that, as of November 30, 2016, our internal control over financial reporting was effective.

PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited and issued a report on our internal control over financial reporting, which appears on page 47.

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Member of Jefferies Group LLC:

In our opinion, the accompanying consolidated statements of financial condition and the related consolidated statements of earnings, of comprehensive income, of changes in equity, and of cash flows present fairly, in all material respects, the financial position of Jefferies Group LLC and its subsidiaries (the “Company”) at November 30, 2016 and 2015 and the results of their operations and their cash flows for each of the three years in the period ended November 30, 2016 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15(a)(1) and Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of November 30, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying “Management's Report on Internal Control over Financial Reporting”. Our responsibility is to express opinions on these financial statements, on the financial statement schedules and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP  
New York, New York

January 27, 2017

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

	November 30, 2016	2015
<b>ASSETS</b>		
Cash and cash equivalents (\$16,805 and \$2,015 at November 30, 2016 and 2015, respectively, related to consolidated VIEs)	\$3,529,069	\$3,510,163
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	857,337	751,084
Financial instruments owned, at fair value, (including securities pledged of \$9,706,881 and \$12,207,123 at November 30, 2016 and 2015, respectively; and \$87,153 and \$68,951 at November 30, 2016 and 2015, respectively, related to consolidated VIEs)	13,809,512	16,559,116
Investments in managed funds	186,508	85,775
Loans to and investments in related parties	653,872	825,908
Securities borrowed	7,743,562	6,975,136
Securities purchased under agreements to resell	3,862,488	3,857,306
Receivables:		
Brokers, dealers and clearing organizations	2,009,163	1,574,759
Customers	843,114	1,191,316
Fees, interest and other (\$1,547 and \$329 at November 30, 2016 and 2015, respectively, related to consolidated VIEs)	310,894	260,924
Premises and equipment	265,553	243,486
Goodwill	1,640,653	1,656,588
Other assets	1,229,551	1,072,411
Total assets	\$36,941,276	\$38,563,972
<b>LIABILITIES AND EQUITY</b>		
Short-term borrowings	\$525,842	\$310,659
Financial instruments sold, not yet purchased, at fair value	8,359,202	6,785,064
Collateralized financings:		
Securities loaned	2,819,132	2,979,300
Securities sold under agreements to repurchase	6,791,676	10,004,428
Other secured financings (includes \$41,768 and \$68,345 at fair value at November 31, 2016 and 2015, respectively; and \$755,544 and \$762,909 at November 30, 2016 and 2015, respectively, related to consolidated VIEs)	755,576	762,909
Payables:		
Brokers, dealers and clearing organizations	3,290,404	2,742,001
Customers	2,297,292	2,780,493
Accrued expenses and other liabilities (\$735 and \$893 at November 30, 2016 and 2015, respectively, related to consolidated VIEs)	1,248,200	1,049,019
Long-term debt (includes \$248,856 and \$0 at fair value at November 30, 2016 and 2015, respectively)	5,483,355	5,640,722
Total liabilities	31,570,679	33,054,595
<b>EQUITY</b>		
Member's paid-in capital	5,538,103	5,526,855
Accumulated other comprehensive loss:		
Currency translation adjustments	(152,305	) (36,811
Changes in instrument specific credit risk	(6,494	) —
Additional minimum pension liability	(9,358	) (8,135

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Total accumulated other comprehensive loss	(168,157	) (44,946	)
Total member's equity	5,369,946	5,481,909	
Noncontrolling interests	651	27,468	
Total equity	5,370,597	5,509,377	
Total liabilities and equity	\$36,941,276	\$38,563,972	

See accompanying notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands)

	Year Ended November 30,		
	2016	2015	2014
Revenues:			
Commissions and other fees	\$611,574	\$659,002	\$668,801
Principal transactions	519,652	172,608	532,292
Investment banking	1,193,973	1,439,007	1,529,274
Asset management fees and investment income from managed funds	31,062	8,015	17,047
Interest	857,838	922,189	1,019,970
Other	19,724	74,074	78,881
Total revenues	3,233,823	3,274,895	3,846,265
Interest expense	819,209	799,654	856,127
Net revenues	2,414,614	2,475,241	2,990,138
Non-interest expenses:			
Compensation and benefits	1,568,948	1,467,131	1,698,530
Non-compensation expenses:			
Floor brokerage and clearing fees	167,205	199,780	215,329
Technology and communications	262,396	313,044	268,212
Occupancy and equipment rental	101,133	101,138	107,767
Business development	93,105	105,963	106,984
Professional services	112,562	103,972	109,601
Bad debt provision	7,365	(396)	55,355
Goodwill impairment	—	—	54,000
Other	71,928	70,382	71,339
Total non-compensation expenses	815,694	893,883	988,587
Total non-interest expenses	2,384,642	2,361,014	2,687,117
Earnings before income taxes	29,972	114,227	303,021
Income tax expense	14,566	18,898	142,061
Net earnings	15,406	95,329	160,960
Net earnings (loss) attributable to noncontrolling interests	(28)	1,795	3,400
Net earnings attributable to Jefferies Group LLC	\$15,434	\$93,534	\$157,560
See accompanying notes to consolidated financial statements.			

Table of ContentsJEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended November 30,		
	2016	2015	2014
Net earnings	\$15,406	\$95,329	\$160,960
Other comprehensive loss, net of tax:			
Currency translation and other adjustments	(115,494 )	(27,157 )	(30,995 )
Changes in instrument specific credit risk, net of tax (1)	(6,494 )	—	—
Minimum pension liability adjustments, net of tax (2)	(1,223 )	(3,116 )	(7,778 )
Total other comprehensive loss, net of tax (3)	(123,211 )	(30,273 )	(38,773 )
Comprehensive income (loss)	(107,805 )	65,056	122,187
Net earnings (loss) attributable to noncontrolling interests	(28 )	1,795	3,400
Comprehensive income (loss) attributable to Jefferies Group LLC	\$(107,777)	\$63,261	\$118,787

(1) Includes income tax benefit of approximately \$4.3 million for the year ended November 30, 2016.

(2) Includes income tax benefit of approximately \$0.3 million, \$4.2 million and \$0.5 million for the years ended November 30, 2016, 2015 and 2014, respectively.

(3) None of the components of other comprehensive loss are attributable to noncontrolling interests.

See accompanying notes to consolidated financial statements.

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

(In thousands)

	Year Ended November 30,		
	2016	2015	2014
Member's paid-in capital:			
Balance, beginning of period	\$5,526,855	\$5,439,256	\$5,280,420
Net earnings attributable to Jefferies Group LLC	15,434	93,534	157,560
Tax benefit (detriment) for issuance of share-based awards	(4,186 )	(5,935 )	1,276
Balance, end of period	\$5,538,103	\$5,526,855	\$5,439,256
Accumulated other comprehensive income (loss) (1) (2):			
Balance, beginning of period	\$(44,946 )	\$(14,673 )	\$24,100
Currency adjustments	(115,494 )	(27,157 )	(30,995 )
Changes in instrument specific credit risk, net of tax	(6,494 )	—	—
Pension adjustments, net of tax	(1,223 )	(3,116 )	(7,778 )
Balance, end of period	\$(168,157 )	\$(44,946 )	\$(14,673 )
Total member's equity	\$5,369,946	\$5,481,909	\$5,424,583
Noncontrolling interests:			
Balance, beginning of period	\$27,468	\$38,848	\$117,154
Net earnings (loss) attributable to noncontrolling interests	(28 )	1,795	3,400
Contributions	9,390	—	39,075
Distributions	(563 )	(4,982 )	—
Deconsolidation of asset management company	(35,616 )	(8,193 )	(120,781 )
Balance, end of period	\$651	\$27,468	\$38,848
Total equity	\$5,370,597	\$5,509,377	\$5,463,431

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

(2) There were no material reclassifications out of Accumulated other comprehensive income during the years ended November 30, 2016, 2015 and 2014.

See accompanying notes to consolidated financial statements.

Table of ContentsJEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended November 30,		
	2016	2015	2014
Cash flows from operating activities:			
Net earnings	\$15,406	\$95,329	\$160,960
Adjustments to reconcile net earnings to net cash used in operating activities:			
Depreciation and amortization	(2,365 )	15,236	691
Goodwill impairment	—	—	54,000
Deferred income taxes	(14,013 )	88,796	122,195
Income on loans to and investments in related parties	(17,184 )	(75,717 )	(90,243 )
Distributions received on investments in related parties	38,180	76,681	53,985
Other adjustments	(32,711 )	(97,804 )	(78,064 )
Net change in assets and liabilities:			
Cash and securities segregated and on deposit for regulatory purposes or deposited with clearing and depository organizations	(107,771)	2,691,028	166,108
Receivables:			
Brokers, dealers and clearing organizations	(477,273)	576,832	11,872
Customers	348,055	57,837	(294,412 )
Fees, interest and other	(54,366 )	541	(12,062 )
Securities borrowed	(805,779)	(127,060 )	(1,497,438)
Financial instruments owned	2,529,114	2,003,978	(2,243,053)
Investments in managed funds	(138,572)	15,498	13,473
Securities purchased under agreements to resell	(112,777)	53,817	(200,568 )
Other assets	(173,616)	(63,110 )	(146,114 )
Payables:			
Brokers, dealers and clearing organizations	584,426	471,661	968,615
Customers	(483,188)	(3,455,080)	1,089,423
Securities loaned	(122,946)	385,929	95,607
Financial instruments sold, not yet purchased	1,753,647	(2,043,319)	1,832,930
Securities sold under agreements to repurchase	(3,144,433)	(650,795 )	(84,303 )
Accrued expenses and other liabilities	296,067	(259,665 )	48,485
Net cash used in operating activities	(122,099)	(239,387 )	(27,913 )
Cash flows from investing activities:			
Contributions to loans to and investments in related parties	(538,186)	(1,438,675)	(2,786,394)
Distributions from loans to and investments in related parties	689,226	1,384,944	2,751,384
Net payments on premises and equipment	(75,772 )	(68,813 )	(110,536 )
Payment on purchase of aircraft	(27,500 )	—	—
Proceeds from sale of aircraft	29,450	—	—
Deconsolidation of asset management entity	(77 )	(16,512 )	(137,856 )
Cash received from contingent consideration	2,617	4,444	6,253
Net cash provided by (used in) investing activities	79,758	(134,612 )	(277,149 )

Table of ContentsJEFFERIES GROUP LLC AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS – CONTINUED

(In thousands)

	Year Ended November 30,		
	2016	2015	2014
Cash flows from financing activities:			
Excess tax benefits from the issuance of share-based awards	\$489	\$749	\$1,921
Proceeds from short-term borrowings	15,313,383	17,263,217	18,965,163
Payments on short-term borrowings	(15,108,501)	(16,964,558)	(18,965,163)
Proceeds from secured credit facility	—	903,000	2,819,000
Payments on secured credit facility	—	(1,073,000)	(2,849,000)
Net (payments on) proceeds from other secured financings	(7,333)	) 157,085	371,113
Net proceeds from issuance of long-term debt, net of issuance costs	299,779	—	681,222
Repayment of long-term debt	(373,246)	) (500,000)	) (250,000)
Net change in bank overdrafts	(46,536)	) 29,295	20,974
Proceeds from contributions of noncontrolling interests	9,390	—	39,075
Payments on distributions to noncontrolling interests	(563)	) (4,982)	) —
Net cash provided by (used in) financing activities	86,862	(189,194)	) 834,305
Effect of changes in exchange rates on cash and cash equivalents	(25,615)	) (6,612)	) (10,394)
Net increase (decrease) in cash and cash equivalents	18,906	(569,805)	) 518,849
Cash and cash equivalents at beginning of period	3,510,163	4,079,968	3,561,119
Cash and cash equivalents at end of period	\$3,529,069	\$3,510,163	\$4,079,968
Supplemental disclosures of cash flow information:			
Cash paid (received) during the period for:			
Interest	\$859,466	\$859,815	\$922,194
Income taxes, net	(6,410)	) (683)	) 120,703
See accompanying notes to consolidated financial statements.			

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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 22, 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 retains a credit rating separate from Leucadia and is a Securities and Exchange Commission (“SEC”) reporting company, filing annual, quarterly and periodic financial reports. Richard Handler, our Chief Executive Officer and Chairman, is the Chief Executive Officer of Leucadia, as well as a Director of Leucadia. Brian P. Friedman, our Chairman of the Executive Committee, is Leucadia’s President and a Director of Leucadia.

We operate in two business segments, Capital Markets and Asset Management. Capital Markets, which represents substantially our entire business, includes our securities, commodities, futures and foreign exchange trading and investment banking activities, which provides the research, sales, trading, origination and advisory effort for various equity, fixed income and advisory products and services. Asset Management provides investment management services to various private investment funds and separate accounts.

Basis of Presentation

The accompanying Consolidated Financial Statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for financial information.

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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## Immaterial Adjustments

We made immaterial correcting adjustments (referred to as “adjustments”) to our Consolidated Statements of Cash Flows for the years ended November 30, 2015 and 2014. 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 for the years ended November 30, 2015 and 2014. 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 were made to the Net change in accrued expenses and other liabilities and the Net change in bank overdrafts (in thousands):

	Year Ended November 30,	
	2015	2014
Increase (decrease)		
Net change in accrued expenses and other liabilities	\$(29,295)	\$(20,974)
Net change in bank overdrafts	29,295	20,974

The following table sets forth the adjustments and revisions to our Consolidated Statements of Cash Flows (in thousands):

	Year Ended November 30,			
	2015		2014	
	As Originally Reported	As Revised	As Originally Reported	As Revised
Operating activities				
Increase (decrease) in accrued expenses and other liabilities	\$(230,370)	\$(259,665)	\$69,459	\$48,485
Net cash used in operating activities	(210,092 )	(239,387 )	(6,939 )	(27,913 )
Financing activities				
Net change in bank overdrafts	\$—	\$29,295	\$—	\$20,974
Net cash provided by (used in) financing activities	(218,489 )	(189,194 )	813,331	834,305

## 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. Fees received on loans carried at fair value are also recorded within Principal transaction revenues.



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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**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. Gains and losses are recognized in Principal transaction revenues in our Consolidated Statements of Earnings. The fair value of a financial instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the exit price).



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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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 at 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

Level 2: 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.



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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.

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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 21, 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.

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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.

**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.

At November 30, 2016 and 2015, furniture, fixtures and equipment, including amounts under capital leases, amounted to \$374.2 million and \$365.8 million, respectively, and leasehold improvements amounted to \$200.5 million and \$190.5 million, respectively. Accumulated depreciation and amortization was \$309.2 million and \$312.8 million at November 30, 2016 and 2015, respectively.

Depreciation and amortization expense amounted to \$47.9 million, \$78.7 million and \$58.0 million for the years ended November 30, 2016, 2015 and 2014, respectively.

**Goodwill and Intangible Assets**

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

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

magnitude of such a charge. Adverse market or economic events could result in impairment charges in future periods.

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

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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.

Intangible assets are included in Other assets on the Consolidated Statement of Financial Condition. The Company's 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.

The tax benefits related to share-based awards are recognized as an increase to Additional paid-in capital. These amounts, and other windfall tax benefits/(detriment), are included in Tax benefit/(detriment) for issuance of share-based awards on the Consolidated Statements of Changes in Equity. In the event tax deductions associated with share-based awards are less than the cumulative compensation cost recognized for financial reporting purposes, we look to Leucadia's consolidated pool of windfall tax benefits in the calculation of our income tax provision. During the first quarter of fiscal 2016, the consolidated pool of windfall tax benefits had been exhausted. As a result, our tax detriments are now recognized in our Consolidated Statement of Earnings until such time the Leucadia consolidated cumulative compensation cost recognized for tax purposes exceeds the amount recognized for financial reporting purposes.

We record uncertain tax positions using a two-step process: (i) we determine whether it is more likely than not that each tax position will be sustained on the basis of the technical merits of the position; and (ii) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Legal Reserves

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

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



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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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.

Share-based Compensation

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

Foreign Currency Translation

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

Securitization Activities

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

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

Note 3. Accounting Developments

Accounting Standards to be Adopted in Future Periods

Statement of Cash Flows. In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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.



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**Employee Share-Based Payments.** In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. 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 will result 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 will be presented as an operating activity rather than a financing activity in the Consolidated Statements of Cash Flows on a retrospective basis.

**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 retained earnings. 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**

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

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

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## 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 \$24.3 million and \$36.7 million at November 30, 2016 and 2015, respectively, by level within the fair value hierarchy (in thousands):

	November 30, 2016			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	\$1,742,463	\$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 Investments at fair value based on NAV	\$5,568,241	\$12,059,672	\$413,288	\$(4,255,998)	\$13,785,203
<b>Liabilities:</b>					
<b>Financial instruments sold, not yet purchased:</b>					
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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

	November 30, 2015			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	\$1,853,351	\$133,732	\$40,906	\$—	\$2,027,989
Corporate debt securities	—	2,867,165	25,876	—	2,893,041
CDOs and CLOs	—	89,144	85,092	—	174,236
U.S. government and federal agency securities	2,555,018	90,633	—	—	2,645,651
Municipal securities	—	487,141	—	—	487,141
Sovereign obligations	1,251,366	1,407,955	120	—	2,659,441
Residential mortgage-backed securities	—	2,731,070	70,263	—	2,801,333
Commercial mortgage-backed securities	—	1,014,913	14,326	—	1,029,239
Other asset-backed securities	—	118,629	42,925	—	161,554
Loans and other receivables	—	1,123,044	189,289	—	1,312,333
Derivatives	1,037	4,395,704	19,785	(4,165,446)	251,080
Investments at fair value	—	26,224	53,120	—	79,344
Total financial instruments owned, excluding Investments at fair value based on NAV	\$5,660,772	\$14,485,354	\$541,702	\$(4,165,446)	\$16,522,382
<b>Liabilities:</b>					
<b>Financial instruments sold, not yet purchased:</b>					
Corporate equity securities	\$1,382,377	\$36,518	\$38	\$—	\$1,418,933
Corporate debt securities	—	1,556,941	—	—	1,556,941
U.S. government and federal agency securities	1,488,121	—	—	—	1,488,121
Sovereign obligations	837,614	505,382	—	—	1,342,996
Residential mortgage-backed securities	—	117	—	—	117
Loans	—	758,939	10,469	—	769,408
Derivatives	364	4,446,639	19,543	(4,257,998)	208,548
Total financial instruments sold, not yet purchased	\$3,708,476	\$7,304,536	\$30,050	\$(4,257,998)	\$6,785,064
Other secured financings (3)	\$—	\$67,801	\$544	\$—	\$68,345

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

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

(3) Level 2 liabilities include \$67.8 million of other secured financings that were previously not disclosed in our Annual Report on Form 10-K for the year ended November 30, 2015.

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.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**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.



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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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.

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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## 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):

	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	
	November 30, 2015 (7)		
	Fair Value (1)	Unfunded Commitments	Redemption Frequency (if currently eligible)
Equity Long/Short Hedge Funds (2)	\$54,725	\$ —	Monthly, Quarterly
Fixed Income and High Yield Hedge Funds (3)	1,703	—	—
Fund of Funds (4)	287	94	—
Equity Funds (5)	42,111	20,791	—
Multi-asset Funds (6)	23,358	—	Monthly, Quarterly
Convertible Bond Funds (8)	326	—	At Will
Total	\$122,510	\$ 20,885	

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

(2) 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 November 30, 2016, approximately 2% of the fair value of investments in this category is 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. At November 30, 2015, the underlying assets of 8% of these funds were being liquidated and we are unable to estimate when the underlying assets will be fully liquidated.

(4) This category includes investments in fund of funds that invest in various private equity funds. At November 30, 2016 and 2015, approximately 100% and 95%, respectively, of the fair value of investments in this category are managed by us and have no redemption provisions. The investments in this category are gradually being liquidated or we have requested redemption; however, we are unable to estimate when these funds will be received.

(5)

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

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

(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 November 30, 2016 and 2015, investments representing approximately 12% and 100%, respectively, of the fair value of investments in this category are redeemable with 30-90 days prior written notice.

(7) Prior period amounts have been recast to conform to the current year's presentation due to the presentation of multi-asset funds. Previously, these investments had been classified within equity long/short hedge funds.

(8) This category represents an investment in the Jefferies Umbrella Fund, an open-ended investment company managed by us that invested primarily in convertible bonds. The underlying assets were fully liquidated during the year ended November 30, 2016.

**Other Secured Financings**

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

**Long-term Debt-Structured Notes**

Long-term debt includes variable rate and fixed to floating rate structured notes that contain 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.

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

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

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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 year ended November 30, 2016 (in thousands):

Year Ended November 30, 2016

	Balance at November 30, 2015	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuances/ net/ (out of) Level 3	Balance at November 30, 2016	Change in unrealized gains/ (losses) relating to instruments still held at November 30, 2016 (1)
<b>Assets:</b>								
<b>Financial instruments owned:</b>								
Corporate equity securities	\$40,906	\$ (8,463 )	\$ 3,365	\$ (49 )	\$ (671 )	\$ — (13,349)	\$ 21,739	\$ 291
Corporate debt securities	25,876	(16,230 )	27,242	(29,347)	(7,223 )	— 24,687	25,005	(18,799 )
CDOs and CLOs	85,092	(14,918 )	52,316	(69,394)	(2,750 )	— 4,008	54,354	(7,628 )
Municipal securities	—	(1,462 )	—	—	—	— 28,719	27,257	(1,462 )
Sovereign obligations	120	5	—	(125 )	—	—	—	—
RMBS	70,263	(9,612 )	623	(12,249)	(931 )	— (9,322 )	38,772	(1,095 )
CMBS	14,326	(7,550 )	3,132	(2,024)	(2,229 )	— 14,925	20,580	(7,243 )
Other ABS	42,925	(14,381 )	133,986	(102,952)	(8,769 )	— (9,898 )	40,911	(18,056 )
Loans and other receivables	189,289	(42,566 )	75,264	(69,262)	(46,851 )	— (24,002 )	81,872	(52,003 )
Investments at fair value	53,120	(13,278 )	26,228	(542 )	(1,107 )	— 31,948	96,369	(13,208 )
<b>Liabilities:</b>								
<b>Financial instruments sold, not yet purchased:</b>								
Corporate equity securities	\$38	\$ —	\$ —	\$ 313	\$ (38 )	\$ — —	\$ 313	\$ —
Corporate debt securities	—	(27 )	—	550	—	—	523	—
Net derivatives (2)	(242 )	(1,760 )	—	11,101	31	2,067 (7,756 )	3,441	(6,458 )
Loans	10,469	—	—	378	—	— (10,469 )	378	—
Other secured financings	544	(126 )	—	—	—	—	418	(126 )

(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 Year Ended November 30, 2016

During the year ended November 30, 2016, transfers of assets of \$179.6 million from Level 2 to Level 3 of the fair value hierarchy are primarily attributed to:

- CDOs and CLOs of \$19.4 million, RMBS of \$17.5 million, CMBS of \$17.4 million and other ABS of \$16.9 million, for which no recent trade activity was observed for purposes of determining observable inputs;
- Loans and other receivables of \$13.8 million due to a lower number of contributors for certain vendor quotes supporting classification within Level 2;

Investments at fair value of \$31.9 million, municipal securities of \$28.7 million and corporate debt securities of \$28.1 million due to a lack of observable market transactions.



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During the year ended November 30, 2016, transfers of assets of \$133.2 million from Level 3 to Level 2 are primarily attributed to:

• RMBS of \$26.8 million, other ABS of \$26.8 million and CDOs and CLOs of \$15.4 million, for which market trades were observed in the year for either identical or similar securities;

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Loans and other receivables of \$37.8 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.

There were \$10.5 million transfers of loan liabilities from Level 3 to Level 2 due to an increase in observable inputs in the valuation.

Net losses on Level 3 assets were \$128.5 million and net gains on Level 3 net liabilities were \$1.9 million for the year ended November 30, 2016. Net losses on Level 3 assets were primarily due to decreased valuations of loans and other receivables, corporate debt securities, CDOs and CLOs, other ABS, certain investments at fair value, RMBS, corporate equity securities and CMBS. Net gains on Level 3 net 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 year ended November 30, 2015 (in thousands):

Year Ended November 30, 2015

	Balance at November 30, 2014	Total gains/ losses (realized and unrealized) (1)	Purchases	Sales	Settlements	Issuances/ (out of) Level 3	Balance at November 30, 2015	Change in unrealized gains/ (losses) relating to instruments still held at November 30, 2015 (1)
<b>Assets:</b>								
<b>Financial instruments owned:</b>								
Corporate equity securities	\$20,964	\$ 11,154	\$21,385	\$(6,391)	\$ —	\$ — \$(6,206)	\$40,906	\$ 11,424
Corporate debt securities	22,766	(11,013 )	21,534	(14,636 )	—	— 7,225	25,876	(9,443 )
CDOs and CLOs	124,650	(66,332 )	104,998	(107,381 )	(5,754 )	— 34,911	85,092	(48,514 )
Municipal securities	—	10	—	—	(21,551 )	— 21,541	—	—
Sovereign obligations	—	47	1,032	(1,031 )	—	— 72	120	39
RMBS	82,557	(12,951 )	18,961	(31,762 )	(597 )	— 14,055	70,263	(4,498 )
CMBS	26,655	(3,813 )	3,480	(10,146 )	(6,861 )	— 5,011	14,326	(3,205 )
Other ABS	2,294	(990 )	42,922	(1,299 )	(2 )	— —	42,925	(254 )
Loans and other receivables	97,258	(14,755 )	792,345	(576,536 )	(124,365 )	— 15,342	189,289	(16,802 )
Investments at fair value	53,224	64,380	5,510	(124,852 )	(4,093 )	— 58,951	53,120	(388 )
<b>Liabilities:</b>								
<b>Financial instruments sold, not yet purchased:</b>								
Corporate equity securities	\$38	\$ —	\$ —	\$ —	\$ —	\$ —	\$38	\$ —
Corporate debt securities	223	(110 )	(6,804 )	6,691	—	—	—	—
Net derivatives (2)	(4,638 )	(7,310 )	(6,705 )	13,522	37	2,437 2,415	(242 )	4,754
Loans	14,450	(163 )	(2,059 )	229	—	— (1,988 )	10,469	104
Other secured financings	30,825	—	—	—	(15,704 )	36,995(51,572 )	544	—
Embedded conversion option	693	(693 )	—	—	—	—	—	693

- (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 Year Ended November 30, 2015

During the year ended November 30, 2015, transfers of assets of \$236.7 million from Level 2 to Level 3 of the fair value hierarchy are primarily attributed to:

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

• CDOs and CLOs of \$69.8 million, non-agency RMBS of \$30.4 million and CMBS of \$11.3 million, for which no recent trade activity was observed for purposes of determining observable inputs;

• Municipal securities of \$21.5 million and loans and other receivables of \$20.1 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;

• Investments at fair value of \$74.7 million and corporate debt securities of \$7.4 million due to a lack of observable market transactions.

During the year ended November 30, 2015, transfers of assets of \$85.8 million from Level 3 to Level 2 are primarily attributed to:

• Non-agency RMBS of \$16.3 million and CMBS of \$6.3 million, for which market trades were observed in the period for either identical or similar securities;

• CDOs and CLOs of \$34.9 million and loans and other receivables of \$4.7 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

• Investments at fair value of \$15.8 million due to an increase in observable market transactions;

• Corporate equity securities of \$7.7 million due to an increase in observable market transactions.

During the year ended November 30, 2015, there were \$51.6 million transfers of other secured financings from Level 3 to Level 2 due to an increase in observable inputs in the valuation.

Net losses on Level 3 assets were \$34.3 million and net gains on Level 3 net liabilities were \$8.3 million for the year ended November 30, 2015. Net losses on Level 3 assets were primarily due to decreased valuations of CDOs and CLOs, certain loans and other receivables, RMBS and CMBS, partially offset by increased valuations of certain investments at fair value and corporate equity securities. Net gains on Level 3 liabilities were primarily due to decreased valuations of certain derivative liabilities.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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 year ended November 30, 2014 (in thousands):

Year Ended November 30, 2014

	Total				Net		Change in		
	Balance	gains/			transfers	Balance	relating to	unrealized	
	at	losses	Purchases	Sales	(out of)	at	instruments	gain/	
	November	and	and		Level 3	November	still held	(losses)	
	30,	unrealized)	unrealized			30, 2014	at	relating to	
	2013	(1)	(1)				November	instruments	
							30, 2014	still held	
							at	at	
							November	November	
							(1)	30, 2014	
							(1)	(1)	
<b>Assets:</b>									
<b>Financial instruments owned:</b>									
Corporate equity securities	\$9,884	\$ 957	\$18,138	\$(12,826)	\$ —	\$ —	\$ —	\$20,964	\$ 2,324
Corporate debt securities	25,666	6,629	38,316	(40,328 )	—	—	(7,517 )	22,766	8,982
CDOs and CLOs	37,216	(6,386 )	204,337	(181,757 )	(1,297)	—	72,537	124,650	(1,141 )
U.S. government and federal agency securities	—	13	2,505	(2,518 )	—	—	—	—	—
RMBS	105,492	(9,870 )	42,632	(61,689 )	(1,847)	—	7,839	82,557	(4,679 )
CMBS	17,568	(4,237 )	49,159	(51,360 )	(782)	—	16,307	26,655	(2,384 )
Other ABS	12,611	1,784	4,987	(18,002 )	—	—	914	2,294	1,484
Loans and other receivables	145,890	(31,311)	130,169	(92,140 )	(60,390)	—	5,040	97,258	(26,864 )
Investments, at fair value	66,931	13,781	32,493	(43,286 )	(1,243)	—	(15,452)	53,224	(1,876 )
<b>Liabilities:</b>									
<b>Financial instruments sold, not yet purchased:</b>									
Corporate equity securities	\$38	\$ —	\$—	\$—	\$ —	\$ —	\$ —	\$38	\$—
Corporate debt securities	—	(149 )	(565 )	960	—	—	(23 )	223	(8 )
Net derivatives (2)	6,905	15,055	(24,682 )	1,094	322	—	(3,332 )	(4,638 )	(15,615 )
Loans	22,462	—	(18,332 )	11,338	—	—	(1,018 )	14,450	—
Other secured financings	8,711	—	—	—	(17,525)	39,639	—	30,825	—
Embedded conversion option	9,574	(8,881 )	—	—	—	—	—	693	8,881

(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 Year Ended November 30, 2014

During the year ended November 30, 2014, transfers of assets of \$139.0 million from Level 2 to Level 3 of the fair value hierarchy are attributed to:

• Non-agency RMBS of \$30.3 million and CMBS of \$16.6 million, for which no recent trade activity was observed for purposes of determining observable inputs;

• Loans and other receivables of \$8.5 million due to a lower number of contributors comprising vendor quotes to support classification within Level 2;

• CDOs and CLOs of \$73.0 million which have little to no transparency related to trade activity.

Corporate equity securities of \$9.7 million due to a lack of observable market transactions.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

During the year ended November 30, 2014, transfers of assets of \$54.6 million from Level 3 to Level 2 are attributed to:

- Non-agency RMBS of \$22.4 million, for which market trades were observed in the period for either identical or similar securities;

- Loans and other receivables of \$3.5 million and investments at fair value of \$15.5 million due to a greater number of contributors for certain vendor quotes supporting classification into Level 2;

- Corporate equity securities of \$4.9 million and corporate debt securities of \$7.5 million due to an increase in observable market transactions.

During the year ended November 30, 2014, there were transfers of loan liabilities of \$1.0 million from Level 3 to Level 2 and \$3.3 million of net derivative liabilities from Level 3 to Level 2 due to an increase in observable inputs in the valuation and an increase in observable inputs used in valuing of derivative contracts, respectively.

Net losses on Level 3 assets were \$28.6 million and net losses on Level 3 liabilities were \$6.0 million for the year ended November 30, 2014. Net losses on Level 3 assets were primarily due to a decrease in valuation of certain loans and other receivables, RMBS and CMBS, partially offset by increased valuations of certain investments at fair value, certain corporate debt securities and other ABS. Net losses on Level 3 liabilities were primarily due to increased valuations of certain derivatives, partially offset by decreased valuations of the embedded conversion option.

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

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

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

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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%	—
		Market approach	Transaction level	\$30	—
CDOs and CLOs	\$ 33,016	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					
Private equity securities	\$ 42,907	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%	—

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

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

November 30, 2015

Financial Instruments Owned	Fair Value (in thousands)	Valuation Technique	Significant Unobservable Input(s)	Input / Range	Weighted Average
Corporate equity securities	\$ 20,285				
Non-exchange traded securities		Market approach	EBITDA multiple Transaction level Underlying stock price	4.4 \$1 \$5-\$102	— — \$ 19
Corporate debt securities	\$ 20,257	Convertible bond model	Discount rate/yield	86%	—
CDOs and CLOs	\$ 49,923	Market approach Discounted cash flows	Transaction level Constant prepayment rate Constant default rate Loss severity Yield	\$59 5%-20% 2%-8% 25%-90% 6%-13%	— 13 % 2 % 52 % 10 %
RMBS	\$ 70,263	Discounted cash flows	Constant prepayment rate Constant default rate Loss severity Yield	0%-50% 1%-9% 25%-70% 1%-9%	13 % 3 % 39 % 6 %
CMBS	\$ 14,326	Discounted cash flows	Yield Cumulative loss rate	7%-30% 2%-63%	16 % 23 %
Other ABS	\$ 21,463	Discounted cash flows	Constant prepayment rate Constant default rate Loss severity Yield	6%-8% 3%-5% 55%-75% 7%-22%	7 % 4 % 62 % 18 %
		Over-collateralization	Over-collateralization percentage	117%-125%	118 %
Loans and other receivables	\$ 161,470	Comparable pricing Market approach Scenario analysis	Comparable asset price Discount rate/yield EBITDA multiple Estimated recovery percentage	\$99-\$100 2%-17% 10.0 6%-100%	\$ 99.7 12 % — 83 %
Derivatives	\$ 19,785				
Commodity forwards		Market approach	Discount rate/yield Transaction level	47% \$9,500,000	— —
Unfunded commitments		Comparable pricing	Comparable asset price	\$100	—
		Market approach	Credit spread	298 bps	—
Total return swaps		Comparable pricing	Comparable asset price	\$91.7-\$92.4	\$ 92.1
Investments at fair value	\$ 7,693				
Private equity securities		Market approach	Transaction level Price	\$64 \$5,200,000	— —
Liabilities					
Financial Instruments Sold, Not Yet Purchased:					
Derivatives	\$ 19,543				

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Equity options		Option model	Volatility	45%	—
		Default rate	Default probability	0%	—
Unfunded commitments		Comparable pricing	Comparable asset price	\$79-\$100	\$ 82.6
		Market approach	Discount rate/yield	3%-10%	10 %
		Discounted cash flows	Constant prepayment rate	20%	—
			Constant default rate	2%	—
			Loss severity	25%	—
			Yield	11%	—
Total return swaps		Comparable pricing	Comparable asset price	\$91.7-92.4	\$ 92.1
Loans and other receivables	\$ 10,469	Comparable pricing	Comparable asset price	\$100	—

The fair values of certain Level 3 assets and liabilities that were determined based on third-party pricing information, unadjusted past transaction prices, reported NAV or a percentage of the reported enterprise fair value are excluded from the above tables. At November 30, 2016 and 2015, asset exclusions consisted of \$131.5 million and \$156.2 million, respectively, primarily comprised of private equity securities, CDOs and CLOs, municipal securities, non-exchange traded securities and loans and other receivables. At November 30, 2016 and 2015, liability exclusions consisted of \$1.6 million and \$0.6 million, respectively, of other secured financings, loans and other receivables, and corporate debt and equity securities.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Sensitivity of Fair Values to Changes in Significant Unobservable Inputs

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

Loans and other receivables, unfunded commitments, non-exchange traded securities, equity swaps and total return 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, commodity forwards, credit default 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, non-exchange traded 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 or other asset backed securities would result in a significantly higher (lower) fair value measurement.

Loans and other receivables and CDOs and CLOs 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.

CDOs and CLOs, RMBS and CMBS and other ABS, variable funding notes and unfunded commitments 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 would have differing impacts depending on the capital structure of the security. A significant increase (decrease) in the security yield would result in a significantly lower (higher) fair value measurement.

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

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

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

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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## 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 Statement 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):

	Year Ended November 30,		
	2016	2015	2014
Financial Instruments Owned:			
Loans and other receivables	\$(68,812)	\$(17,389)	\$(24,785)
Financial Instruments Sold:			
Loans	\$9	\$(162)	\$(585)
Loan commitments	5,509	7,502	(15,459)
Long-term debt:			
Changes in instrument specific credit risk (1)	\$(10,745)	\$—	\$—
Other changes in fair value (2)	30,995	—	—

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

(2) Other changes in fair value 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):

	November 30,	
	2016	2015
Financial Instruments Owned:		
Loans and other receivables (1)	\$1,325,938	\$408,369
Loans and other receivables on nonaccrual status and/or greater than 90 days past due (1) (2)	205,746	54,652
Long-term debt	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 \$64.6 million and \$29.7 million at November 30, 2016 and 2015, respectively.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The aggregate fair value of loans and other receivables on nonaccrual status and/or greater than 90 days past due was \$29.8 million and \$307.5 million at November 30, 2016 and 2015, respectively, which includes loans and other receivables greater than 90 days past due, was \$18.9 million and \$11.3 million at November 30, 2016 and 2015, respectively.

## Assets and Liabilities Measured at Fair Value on a Non-recurring Basis

Certain assets were measured at fair value on a non-recurring basis and are not included in the tables above. These assets include goodwill and intangible assets. The following table presents those assets measured at fair value on a non-recurring basis for which the Company recognized a non-recurring fair value adjustment during the years ended November 30, 2016, 2015 and 2014 (in thousands):

	Carrying Value at November 30, 2016	Level 2	Level 3	Impairment Losses for the Year Ended November 30, 2016
Capital Markets Reporting Unit:				
Exchange ownership interests and registrations (1)	\$ 2,716	\$2,716	\$	—\$ 1,284
	Carrying Value at November 30, 2015	Level 2	Level 3	Impairment Losses for the Year Ended November 30, 2015
Futures Reporting Unit (2):				
Exchange ownership interests and registrations (1)	\$ 4,178	\$4,178	\$	—\$ 1,289
	Carrying Value at November 30, 2014	Level 2	Level 3	Impairment Losses for the Year Ended November 30, 2014
Futures Reporting Unit (2):				
Exchange ownership interests and registrations (1)	\$ 5,608	\$5,608	\$	—\$ 178
Goodwill (3)	—	—	—	51,900
Intangible assets (4)	—	—	—	7,534
International Asset Management Reporting Unit (5):				
Goodwill (5)	\$ —	\$—	\$	—\$ 2,100
Intangible assets (5)	—	—	—	60

Impairment losses of \$1.3 million, \$1.3 million and \$0.2 million, were recognized in Other expenses, during the years ended November 30, 2016, 2015 and 2014, respectively, for exchange memberships, which represent (1) ownership interests in market exchanges on which trading business is conducted, and registrations. The fair value of these exchange memberships is based on observed quoted sales prices for each individual membership. (See Note 10, Goodwill and Other Intangible Assets.)

(2) Given management's decision to pursue strategic alternatives for our Futures business, including possible disposal, as a result of the operating performance and margin challenges experienced by the business, an impairment analysis of the carrying amounts of goodwill, intangible assets and certain other assets employed directly by the

business was performed at November 30, 2015 and 2014, respectively. (See Note 10, Goodwill and Other Intangible Assets.)

An impairment loss for goodwill allocated to our Futures business with a carrying amount of \$51.9 million was recognized for the year ended November 30, 2014. The fair value of the Futures business was estimated 1) by (3) comparison to similar companies using publicly traded price-to-tangible book multiples as the basis for valuation and 2) by utilizing a discounted cash flow methodology based on internally developed forecasts of profitability and an appropriate risk-adjusted discount rate.

(4) See Note 10, Goodwill and Other Intangible Assets for further information.



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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Given management's decision to liquidate our International Asset Management business, an impairment analysis of (5) the carrying amounts of goodwill, intangible assets and certain other assets employed directly by the business was performed at November 30, 2014. (See Note 10, Goodwill and Other Intangible Assets.

There were no assets measured at fair value on a non-recurring basis, which utilized Level 1 inputs during the years ended November 30, 2016, 2015 and 2014. There were no liabilities measured at fair value on a non-recurring basis during the years ended November 30, 2016, 2015 and 2014.

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 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. Net realized and unrealized gains and losses are recognized in Principal transaction revenues in the Consolidated Statements of Earnings on a trade date basis and as a component of cash flows from operating activities in the Consolidated Statements of Cash Flows. Acting in a trading capacity, we may enter into derivative transactions to satisfy the needs of our clients and to manage our own exposure to market and credit risks resulting from our trading activities. (See Note 4, Fair Value Disclosures, and Note 18, 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 November 30, 2016 and 2015 categorized by type of derivative contract and the platform on which these derivatives are transacted. The fair value of assets/liabilities represents our receivable/payable for derivative financial instruments, gross of counterparty netting and cash collateral received and pledged. The following tables also provide information regarding 1) the extent to which, under enforceable master netting arrangements, such balances are presented net in the Consolidated Statements of Financial Condition as appropriate under U.S. GAAP and 2) the extent to which other rights of setoff associated with these arrangements exist and could have an effect on our financial position (in thousands, except contract amounts).



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

	November 30, 2016 (1)			
	Assets		Liabilities	
	Fair Value	Number of Contracts	Fair Value	Number of Contracts
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 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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

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 (1) 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.

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

The total amount of bilateral OTC contracts remained unchanged.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

Gains (Losses)	Year Ended November 30,		
	2016	2015	2014
Interest rate contracts	\$(34,319 )	\$(37,601 )	\$(149,587)
Foreign exchange contracts	18,122	36,101	39,872
Equity contracts	(650,815 )	(137,636 )	(327,978 )
Commodity contracts	1,310	21,409	58,746
Credit contracts	13,039	(14,397 )	(23,934 )
Total	\$(652,663)	\$(132,124)	\$(402,881)

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 November 30, 2016 (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	\$27,436	\$5,727	\$ —	\$ —	\$33,163
Credit default swaps	—	4,542	3,463	(1,588 )	6,417
Total return swaps	20,749	389	—	(200 )	20,938
Foreign currency forwards, swaps and options	95,052	35,988	—	(10,547 )	120,493
Interest rate swaps, options and forwards	120,053	189,153	134,507	(71,604 )	372,109
Total	\$263,290	\$235,799	\$ 137,970	\$ (83,939 )	553,120
Cross product counterparty netting					(623 )
Total OTC derivative assets included in Financial instruments owned					\$552,497

(1) At November 30, 2016, we held exchange traded derivative assets and other credit agreements with a fair value of \$25.4 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 November 30, 2016, cash collateral received was \$217.4 million.

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

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

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

	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	\$10,993	\$20,354	\$—	\$—	\$31,347
Credit default swaps	16	1,594	7,147	(1,588)	) 7,169
Total return swaps	12,088	2,407	—	(200)	) 14,295
Foreign currency forwards, swaps and options	92,375	26,011	—	(10,547)	) 107,839
Fixed income forwards	3,401	—	—	—	3,401
Interest rate swaps, options and forwards	108,085	121,975	92,029	(71,604)	) 250,485
Total	\$226,958	\$172,341	\$99,176	\$ (83,939)	) 414,536
Cross product counterparty netting					(623 )
Total OTC derivative liabilities included in Financial instruments sold, not yet purchased					\$413,913

(1) At November 30, 2016, we held exchange traded derivative liabilities and other credit agreements with a fair value of \$414.2 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 November 30, 2016, cash collateral pledged was \$190.6 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 November 30, 2016, the counterparty credit quality with respect to the fair value of our OTC derivatives assets was as follows (in thousands):

Counterparty credit quality (1):	
A- or higher	\$380,574
BBB- to BBB+	39,535
BB+ or lower	51,834
Unrated	80,554
Total	\$552,497

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 November 30, 2016 and 2015 is \$70.6 million and \$114.5 million, respectively, for which we have posted collateral of \$44.4 million and \$97.2 million, respectively, in the normal course of business. If the credit-risk-related contingent features underlying these agreements were triggered on November 30, 2016 and 2015, we would have been required to post an additional \$26.1 million and \$19.7 million, respectively, of collateral to our counterparties.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## 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):

	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

	November 30, 2015		
	Securities Lending Arrangements	Repurchase Agreements	Total
Collateral Pledged:			
Corporate equity securities	\$2,195,912	\$275,880	\$2,471,792
Corporate debt securities	748,405	1,752,222	2,500,627
Mortgage- and asset-backed securities	—	3,537,812	3,537,812
U.S. government and federal agency securities	34,983	12,006,081	12,041,064
Municipal securities	—	357,350	357,350
Sovereign obligations	—	1,804,103	1,804,103
Loans and other receivables	—	462,534	462,534
Total	\$2,979,300	\$20,195,982	\$23,175,282

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

	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





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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

We receive securities as collateral under resale agreements, securities borrowing transactions and customer margin loans. We also receive securities as collateral in connection with securities-for-securities transactions in which we are the lender of securities. In many instances, we are permitted by contract 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 November 30, 2016 and 2015, the approximate fair value of securities received as collateral by us that may be sold or repledged was \$25.5 billion and \$26.2 billion, respectively. At November 30, 2016 and 2015, a substantial portion of the securities received by us had been sold or repledged.

Offsetting of Securities Financing Agreements

To manage our exposure to credit risk associated with securities financing transactions, we may enter into master netting agreements and collateral arrangements with counterparties. Generally, transactions are executed under standard industry agreements, including, but not limited to, master securities lending agreements (securities lending transactions) and master repurchase agreements (repurchase transactions). 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).

	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 (3)
<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

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

	November 30, 2015					
	Gross Amounts	Netting in Consolidated Statement of Financial Condition	Net Amounts in Consolidated Statement of Financial Condition	Additional Amounts Available for Setoff (1)	Available Collateral (2)	Net Amount (4)
<b>Assets</b>						
Securities borrowing arrangements	\$6,975,136	\$ —	\$ 6,975,136	\$(478,991)	\$(667,099)	\$ 5,829,046
Reverse repurchase agreements	14,048,860	(10,191,554)	3,857,306	(83,452)	(3,745,215)	28,639
<b>Liabilities</b>						
Securities lending arrangements	\$2,979,300	\$ —	\$ 2,979,300	\$(478,991)	\$(2,464,395)	\$ 35,914
Repurchase agreements	20,195,982	(10,191,554)	10,004,428	(83,452)	(8,103,468)	1,817,508

Under master netting agreements with our counterparties, we have the legal right of offset with a counterparty, which incorporates all of the counterparty's outstanding rights and obligations under the arrangement. These 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 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 \$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 collateral of \$834.2 million, which are subject to master netting agreements but we have not determined the agreements to be legally enforceable.

Amounts include \$5,796.1 million of securities borrowing arrangements, for which we have received securities collateral of \$5,613.3 million, and \$1,807.2 million of repurchase agreements, for which we have pledged securities collateral of \$1,875.3 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 \$857.3 million and \$751.1 million at November 30, 2016 and 2015, respectively. Segregated cash and securities consist of deposits in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, which subjects Jefferies as a broker-dealer carrying customer accounts to requirements related to maintaining cash or qualified securities in segregated special reserve bank accounts for the exclusive benefit of its customers.

#### Note 7. Securitization Activities

We engage in securitization activities related to corporate loans, commercial mortgage loans, consumer loans and mortgage-backed and other asset-backed securities. In our securitization transactions, we transfer these assets to special purpose entities ("SPEs") and act as the placement or structuring agent for the beneficial interests sold to investors by the SPE. A significant portion of our securitization transactions are 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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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

	Year Ended November 30,		
	2016	2015	2014
Transferred assets	\$5,786.0	\$5,770.5	\$6,112.6
Proceeds on new securitizations	5,809.0	5,811.3	6,221.1
Cash flows received on retained interests	28.2	31.2	46.3

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 November 30, 2016 and 2015.

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

Securitization Type	November 30,			
	2016		2015	
	Total Assets	Retained Interests	Total Assets	Retained Interests
U.S. government agency RMBS	\$7,584.9	\$ 31.0	\$10,901.9	\$ 203.6
U.S. government agency CMBS	1,806.3	29.6	2,313.4	87.2
CLOs	4,102.2	37.0	4,538.4	51.5
Consumer and other loans	395.7	25.3	655.0	31.0

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

Although not obligated, in connection with secondary market-making activities we may make a market in the securities issued by these SPEs. In these market-making transactions, we buy these securities from and sell these securities to investors. Securities purchased through these market-making activities are not considered to be continuing involvement in these SPEs. 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,



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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 November 30, 2016 and 2015 (in millions).

The assets and liabilities in the tables below are presented prior to consolidation and thus a portion of these assets and liabilities are eliminated in consolidation.

	November 30,			
	2016		2015	
	Securitization Vehicles	Other	Securitization Vehicles	Other
Cash	\$16.1	\$ 0.7	\$0.5	\$ 1.5
Financial instruments owned	86.6	0.6	68.3	0.6
Securities purchased under agreement to resell (1)	733.5	—	717.3	—
Fees, interest and other receivables	1.5	—	0.3	0.2
Total assets	\$837.7	\$ 1.3	\$786.4	\$ 2.3
Other secured financings (2)	\$813.1	\$ —	\$785.0	\$ —
Other liabilities	24.1	0.2	1.4	0.3
Total liabilities	\$837.2	\$ 0.2	\$786.4	\$ 0.3

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

(2) Approximately \$57.6 million and \$22.1 million of the secured financing represents an amount held by us in inventory and is eliminated in consolidation at November 30, 2016 and 2015, 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.

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.



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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

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):

	November 30, 2016			
	Carrying Amount		Maximum	VIE
	Assets	Liabilities	Exposure to Loss	Assets
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

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

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

Collateralized Loan Obligations. Assets collateralizing the CLOs include bank loans, participation interests and sub-investment grade and senior secured U.S. loans. We underwrite securities issued in CLO transactions on behalf of sponsors and provide advisory services to the sponsors. We may also sell corporate loans to the CLOs. Our variable interests in connection with 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,

- 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.

In addition, we owned variable interests in a CLO previously managed by us. During the year ended November 30, 2016, the CLO was liquidated and our variable interests, which consisted of debt securities and a right to a portion of the CLO's management and incentive fees, were repaid. Our exposure to loss from the CLO was limited to our investments in the debt securities held. The assets of the CLO consisted primarily of senior secured loans, unsecured

loans and high yield bonds.

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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

**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 have committed to invest equity in private equity funds (the "JCP Funds") managed by Jefferies Capital Partners, LLC (the "JCP Manager"). Additionally, we have committed to invest equity in the general partners of the JCP Funds (the "JCP General Partners") and the JCP Manager. Our variable interests in the JCP Funds, JCP General Partners and JCP Manager (collectively, the "JCP Entities") consist of equity interests 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 is \$148.1 million, of which \$125.1 million and \$124.6 million was funded at November 30, 2016 and 2015, respectively. The carrying value of our equity investments in the JCP Entities was \$37.6 million and \$39.3 million at November 30, 2016 and 2015, 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 our employees. The maximum exposure to loss of the guarantee was \$3.0 million at November 30, 2016 and 2015. Energy Partners I, LP, has assets consisting primarily of debt and equity investments.

**Other Private Investment Vehicles.** At November 30, 2016 and 2015, we had equity commitments to invest \$75.8 million and \$50.8 million, respectively, in various other private investment vehicles, of which \$74.3 million and \$49.3 million was funded, respectively. The carrying value of our equity investments was \$52.3 million and \$51.3 million at November 30, 2016 and 2015, 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.

At November 30, 2016 and 2015, we held \$1,002.2 million and \$3,359.1 million of agency mortgage-backed securities, respectively, and \$439.4 million and \$630.5 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 resecuritization 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.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

## 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 50% in Jefferies Capital Partners V L.P. and the SBI USA Fund L.P. (together, “JCP Fund V”), respectively, which are private equity funds managed by a team led by Brian P. Friedman, one of our directors and our Chairman of the Executive Committee.

## Jefferies Finance

On October 7, 2004, we entered into an agreement with Massachusetts Mutual Life Insurance Company (“MassMutual”) and Babson Capital Management LLC (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.

At November 30, 2016, we and MassMutual each have equity commitments to Jefferies Finance of \$600.0 million for a combined total commitment of \$1.2 billion. At November 30, 2016, we have 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, 2017 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 November 30, 2016. Advances are shared equally between us and MassMutual. The facility is scheduled to mature on March 1, 2017 with automatic one year extensions absent a 60 day termination notice by either party. At November 30, 2016 and 2015, we have funded \$0.0 and \$19.3 million, respectively, of each of our \$250.0 million and \$250.0 million commitments, respectively. During the years ended November 30, 2016, 2015 and 2014, we earned interest income of \$0.1 million, \$0.9 million, \$2.0 million, respectively, and unfunded commitment fees of \$1.2 million, \$1.6 million and \$1.9 million, respectively, which 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):

	November 30,	
	2016	2015
Total assets	\$7,277.3	\$7,292.1
Total liabilities	6,336.3	6,297.3
Total equity	941.1	994.8
Our total equity balance	470.5	497.4

Separate financial statements for Jefferies Finance are included in this Annual Report on Form 10-K. The results of Jefferies Finance were a net loss of \$(19.6) million for the year ended November 30, 2016, and net earnings of \$83.4 million and \$138.6 million for the years ended November 30, 2015 and 2014, respectively.

We engage in debt capital markets transactions with Jefferies Finance related to the originations of loans by Jefferies Finance. In connection with such transactions, we earned fees of \$112.6 million, \$122.7 million and \$199.5 million,

during the years ended November 30, 2016, 2015 and 2014, respectively, which are 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 \$0.5 million, \$5.9 million and \$10.6 million during the years ended November 30, 2016, 2015 and 2014, respectively, which are recognized as Business development expenses in the Consolidated Statements of Earnings.

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## JEFFERIES GROUP LLC AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

We acted as placement agent in connection with several CLOs managed by Jefferies Finance, for which we recognized fees of \$2.6 million, \$6.2 million and \$4.6 million during the years ended November 30, 2016, 2015 and 2014, respectively, which are included in Investment banking revenues on the Consolidated Statement of Earnings. At November 30, 2016 and 2015, we held securities issued by CLOs managed by Jefferies Finance, which are included within Financial instruments owned, and provided a guarantee whereby we are required to make certain payments to a CLO in the event that Jefferies Finance is unable to meet its obligations to the CLO. Additionally, we have entered into participation agreements and derivative contracts with Jefferies Finance based on certain securities issued by the CLO.

We acted as underwriter in connection with senior notes issued by Jefferies Finance, for which we recognized underwriting fees of \$1.3 million and \$7.7 million during the years ended November 30, 2015 and 2014, respectively. Under a service agreement, we charged Jefferies Finance \$46.1 million, \$51.7 million, and \$41.6 million for services provided during the years ended November 30, 2016, 2015 and 2014, respectively. At November 30, 2016, we had a payable to Jefferies Finance, included within Accrued expenses and other liabilities on the Consolidated Statements of Financial Condition, of \$5.8 million. At November 30, 2015 we had a receivable from Jefferies Finance, included within Other assets on the Consolidated Statements of Financial Condition, of \$7.8 million.

**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. During the year ended November 30, 2016, Jefferies LoanCore’s aggregate equity commitments were reduced from \$600.0 million to \$400.0 million. At November 30, 2016 and 2015, we had funded \$70.1 million and \$207.4 million, respectively, of each of our \$194.0 million and \$291.0 million equity commitments, respectively, and have a 48.5% voting interest in Jefferies LoanCore. The following is a summary of selected financial information for Jefferies LoanCore (in millions):

	November 30,	
	2016	2015
Total assets	\$1,827.2	\$2,069.1
Total liabilities	1,505.0	1,469.8
Total equity	322.2	599.3
Our total equity balance	156.3	290.7

Separate financial statements for Jefferies LoanCore are included in this Annual Report on Form 10-K. The net earnings of Jefferies LoanCore were \$71.8 million, \$79.0 million and \$38.7 million for the years ended November 30, 2016, 2015 and 2014, respectively.

Under a service agreement, we charged Jefferies LoanCore \$0.2 million, \$0.2 million and \$0.1 million during the years ended November 30, 2016, 2015 and 2014, respectively, for administrative services. Receivables from Jefferies LoanCore, included within Other assets on the Consolidated Statements of Financial Condition, were \$16,000 and \$16,000 at November 30, 2016 and 2015, respectively.

In connection with the securitization of commercial real estate loans originated by Jefferies LoanCore, we earned placement fees of \$0.1 million, \$1.6 million and \$1.6 million during the years ended November 30, 2016, 2015 and 2014, respectively.

**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 \$29.1 million and \$29.7 million at November 30, 2016 and 2015, respectively. We account for these investments at fair value based on the NAV of the funds provided by the fund managers (see Note 2, Summary of Significant Accounting Policies). Losses from these investments were \$1.1 million, \$24.3 million

and \$10.3 million for the years ended November 30, 2016, 2015 and 2014, respectively, and are included in Asset management fees and investment income (loss) from managed funds in the Consolidated Statements of Earnings. At November 30, 2016 and 2015, we were committed to invest equity of up to \$85.0 million in JCP Fund V. At November 30, 2016, our unfunded commitment relating to JCP Fund V was \$11.3 million.



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JEFFERIES GROUP LLC AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

The following is a summary of selected financial information for 100.0% of JCP Fund V, in which we own effectively 35.2% of the combined equity interests (in thousands):

	September	December
	30, 2016	31, 2015
	(1)	(1)
Total assets	\$ 82,869	\$ 76,555
Total liabilities	73	99
Total partners' capital	82,616	76,456