Mizuho Securities UK Holdings Ltd - Basel II Pillar 3 Disclosures

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Content

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1 Overview

1.1 Background

The European Union ('EU') Capital Requirements Directive ('CRD', the 'Directive') covers the implementation of the Basel capital adequacy framework (Basel II) and applies it to all investment firms, building societies and banks. The CRD was formally adopted by the EU on 14th June 2006 and became effective in the UK on 1st January 2007.

Implementation of the Directive in the UK was by way of rules introduced by the Financial Services Authority ('FSA') through its General Prudential sourcebook ('GENPRU') and Prudential sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). Among them are disclosure requirements applicable to banks, which are known as 'Pillar 3'. These are designed to promote market discipline by providing market participants with key information on a firm's risk exposures and risk management processes. Pillar 3 also aims to complement the requirements described under Pillar 1 and Pillar 2 of Basel II.

Mizuho Securities UK Holdings Ltd ('MSUKH' or 'the Company') has adopted the standardised approach to market and credit risk and the basic indicator approach for operational risk for its Pillar 1 calculations from 1st January 2008. It also became subject to Pillar 2 and Pillar 3 requirements from the same date.

1.2 Basis and Frequency of the disclosure

This disclosure document has been prepared by MSUKH in accordance with the requirements of Pillar 3 under BIPRU 11.

Unless otherwise stated, all figures are as at the 31st March 2010 financial year-end.

Disclosures will be issued on an annual basis and published as soon as practical after the publication of the Financial Statements.

1.3 Structure as of 31st March 2010

MSUKH is the wholly owned European subsidiary of Mizuho Securities Co., Ltd ('MHSC' or 'Mizuho Securities'), a listed company with two significant shareholders being Mizuho Corporate Bank Ltd and The Norinchukin Bank. Mizuho Corporate Bank, Ltd is a wholly owned subsidiary of the Mizuho Financial Group, Inc. MSUKH has two subsidiaries, Mizuho International plc ('MHI') and Structured Credit America Ltd.

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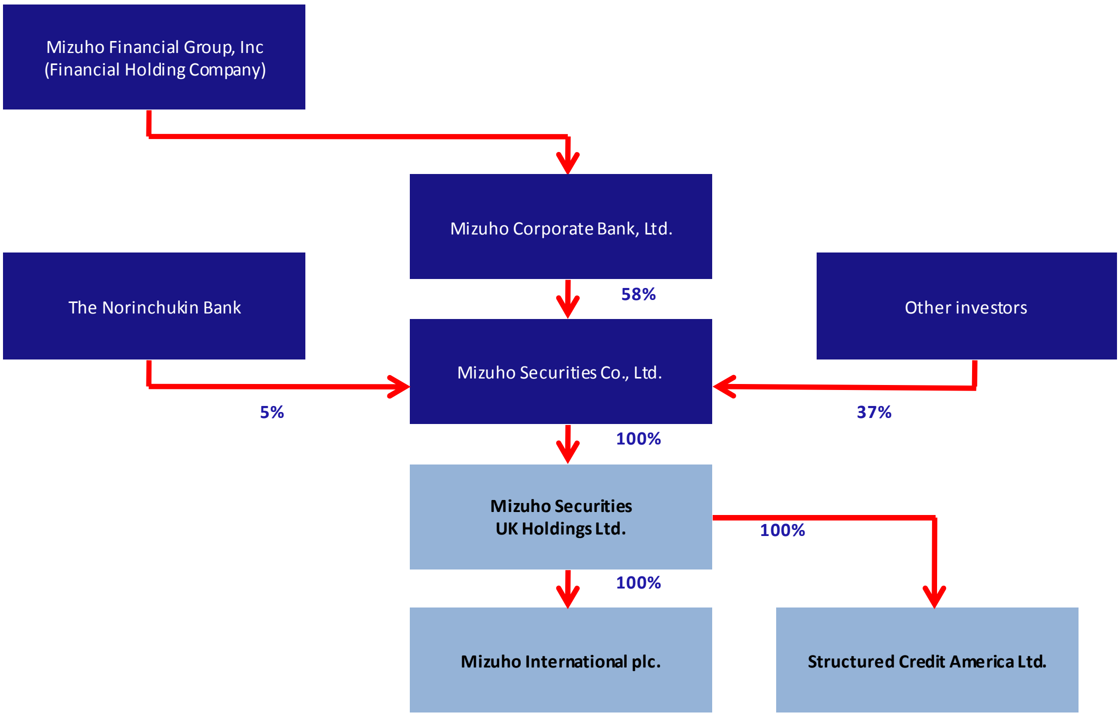

1.4 Location and Verification

These disclosures have been approved by the Company's Executive Committee and are published on the corporate website (www.mizuho-int.com). Not all Pillar 3 disclosures are applicable to the Company. In the case where a disclosure is omitted, it is deemed to not be applicable.

The disclosures are not subject to external audit, except when it refers to the Financial Statements. The Pillar 3 disclosure should be read in conjunction with the document 'Mizuho Securities UK Holdings Ltd Financial Statements 2010', which is published on the corporate website.

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2 Risk Management Objectives and Policies

2.1 Group Risk Appetite

MSUKH's business model is focused on low risk, client-flow business. Limited risk will be undertaken to the extent that it is required to support client activity. The Company has ceased to operate its high risk businesses or those businesses that typically involve complex products. This has resulted in a significant reduction in the Company's risk profile and there are limited remaining positions. The Company has sought to retain the appropriate staff to manage its Legacy positions and minimise risks until they can be liquidated.

Further information can be found in the 'Directors' Report' in the 2010 Financial Statements.

2.2 Risk Management

MSUKH has an exposure to the following principal risk types. The full analysis of all risks that MSUKH could be exposed to is documented in the Company's Internal Capital Adequacy Assessment Process ('ICAAP') document.

Market Risk

Market risk is the risk that changes in the value of a position arising from movements in interest rates, credit spreads, stock prices, exchange rates and other market risk factors will have an adverse impact on the Company's financial conditions or results.

MSUKH manages market risk in its trading portfolios through position and sensitivity limits, profit and loss limits, Value at Risk ('VaR') limits, and triggers placed on stress testing results. These limits are approved by the Risk Committee with stress triggers approved by the Executive Committee. In addition, MSUKH has total VaR limits set by its parent, Mizuho Securities.

Further information on the sensitivity analysis of the portfolio and the VaR model can be found in Note 32B in the 2010 Financial Statements.

Credit Risk

Credit Risk is the risk of financial loss arising from a customer, an issuer of, or counterparty to a financial instrument failing to meet its contractual obligations.

Risk Management has the responsibility for performing credit analysis and due diligence on individual counterparties and issuers, and for monitoring compliance with individual counterparty, issuer, geographic, product and market sector limits. Policy and limits are approved by the Risk Committee. The day to day management of credit risk is the responsibility of individual business units.

Risk Management analyses counterparty credit exposures to assess both current and potential credit risk. The potential credit risk exposure is based on estimates of future replacement costs over the remaining life of the instrument.

External credit ratings are used to assess the counterparty default risk. In the case where an external rating is not available, a rating based upon the Bank's internal credit rating methodology is used. On the basis of Credit Risk Management's analysis process, an appropriate credit limit will be established based upon levels defined in the appropriate policy.

Further information on MSUKH's exposure to credit risk can be found in Note 32C in the 2010 Financial Statements.

Liquidity Risk

Liquidity risk is the risk that the Company, despite remaining solvent, does not have sufficient financial resources to meet payment obligations as they fall due.

The process for managing and controlling MSUKH's funding requirements is covered in the Liquidity Policy. This is supported by further policy documents including the Statement of Liquidity Tolerance, Liquidity Stress Testing Policy and the Contingency Funding Plan. These policies have been approved by the Executive Committee and Board.

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Liquidity is actively managed through dealings in the major wholesale money markets and repo markets, enabling access to short term funding, as well as the issuance of longer term Medium Term Note ('MTN') funding instruments.

Day to day management of the funding operation is delegated to the Repo and Treasury department which co-ordinates the day to day funding requirement in all currencies by monitoring cash flow projections.

As part of the liquidity management processes, stress testing analysis is undertaken on a routine basis, including the severe stress tests specified by the FSA in Chapter 12 of BIPRU. These stress tests look at potential currency mismatches, the lack of access to certain markets and the impacts upon collateral that could result from a multi-notch downgrade. The analysis of MSUKH suggests that it has sufficient resources to withstand these severe stress scenarios.

Further information on liquidity risk management can be found in Note 33D in the 2009 Financial Statements.

Other Risks

Information on Operational Risk, Legal Risk and risks involving special purpose companies can be found in Notes 32E-G in the 2010 Financial Statements.

2.3 Structure of Governance Functions

The MSUKH Board of Directors ('the Board') is ultimately responsible for the management of the Company. The Board meets on a quarterly basis (and more frequently if required). The day to day management of the business is delegated to the Executive Committee. To effectively fulfil its responsibility the Executive Committee is supported by a number of other committees. Each committee is subject to terms of reference which defines their respective scope of delegated authority.

Board

Committee	Audit & Compliance Committee	Executive Committee	Remuneration Committee
Members	All Non-Executive Board members.	CEO (Chairman) various MDs and any other person appointed by the Board.	Certain Non-Executive Board members.
Objectives	a) To deal with audit and compliance matters as well as agree accounting policies with external auditors. b) To consider matters on behalf of Structured Credit America Ltd.	a) To conduct day to day running of the Company within the parameters agreed with the Board. b) To respond to any issues relating to the liquidity position of the Company following reports from the Risk Committee. c) To allocate capital across the business activities of Mizuho Internal plc and Structured Credit America Ltd and regularly review such allocation in line with ICAAP. d) To respond to any issues relating to the capital position of the Company following reports from the Risk Committee and/or the Operational Risk Committee and liaise with shareholder to the extent further capital needed. e) To consider matters on behalf of Structured Credit America Ltd.	To review the Company's remuneration policy as well as specific remuneration at certain levels.
Procedures	Report to the Board on audit and compliance issues as well as issues arising from financial statements.	Must seek the Board's approval for decisions outside agreed parameters (including incurring of unbudgeted costs of greater than £5 million).	Report to the Board.

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Executive Committee

Committee	Change & IT Steering Committee	Health and Safety Committee	New Product Committee (NPC)	Operational Risk Committee	Risk Committee
Members	Head of ISD (Chairman), representatives of user departments.	Head of Human Resources (Chairman), Managing Director, Head of MD's Office, Head of Facilities & Administration, Manager of Facilities & Administration.	Head of Securities Services (Chairman) and representatives of other support areas.	Head of Operational Risk (Chairman), Chief Operating Officer, Chief Financial Officer, various Department Heads, and other representatives of the Operational Risk Department as needed.	Chief Risk Officer (Chairman) and various Senior Managers
Objectives	a) To ensure effective governance for major projects or changes to business processes, IT systems and IT infrastructure. b) To ensure proposed changes to processes and systems are aligned with business strategy and realise the planned business benefits. c) To set relative priority for such changes and provide issue resolution. d) To receive and review reports from Project Working Groups.	a) To advise and review all aspects of health and safety. b) To keep staff appraised of new Health and Safety legislation and issues that may affect them. c) To provide a forum for staff to voice and discuss issues relating to health and safety. d) To recommend action to safeguard the health and safety of staff, contractors and visitors.	a) To assist the Executive Committee in its assessment of new product proposals developed by the Front Office. b) To perform a detailed review of new products, which will serve two principal purposes: i) To ensure that risks are identified, assessed and procedures established where necessary to control those risks. ii) To facilitate the execution of new products by the Front Office in an efficient manner.	a) To assist the Executive Committee to fulfil its responsibilities to ensure an appropriate framework is provided for managing operational risks. a) To provide a forum through which the detailed status of operational risk management is discussed before being reported to the Executive Committee. c) To initialise action to address any issues. d) To approve the calculation and allocation of Operational Risk capital for Economic and Regulatory purposes. e) To review the state of Disaster Recovery and Business Continuity readiness.	a) To advise the Executive Committee on risk methodologies and limits across the business and to monitor compliance with these limits. b) To discuss with shareholder the appropriate levels of risk limits needed to conduct the business in an effective and properly controlled manner. c) To set liquidity policy and monitor actual liquidity levels and report to the Executive Committee any liquidity issues. d) To review regularly the capital positions in accordance with ICAAP and any capital allocations decided by the Executive Committee; and report to Executive Committee any capital shortfall. e) To set price validation policy and monitor exceptions. f) To review counterparties.
Procedures	a) Recommend to the Executive Committee a medium term IT strategy; annual budgets for IT and business projects; annual IT infrastructure and system project plans. b) Report to the Executive Committee discretionary spend approved by the Committee; and any proposed unbudgeted IT expenditure greater than £250,000 for approval by the Executive Committee. c) Advise the Executive Committee of any deviations from plan.	Report to the Executive Committee on a regular basis on its activities and findings.	a) Present to the Executive Committee recommendation to approve a new business/product (n.b. can be undertaken only after this approval). b) Produce quarterly summary to the Executive Committee and semi annual summary to the Board.	a) Refer overall Operational Risk Policy and Framework for approval by the Executive Committee. b) Supply briefings to the Audit & Compliance Committee at least every three months.	a) Present to the Executive Committee weekly a review of risk profiles and decisions taken. b) Report to the Executive Committee and shareholder any major breaches of limits.

MSUKH believes that a strong internal control environment is paramount to achieving its corporate objectives with the Risk Management and control function seen as a fundamental part of the environment required to identify and manage the risks to which the Company is exposed.

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3 Capital Resources

3.1 Total Available Capital

The following tables show the breakdown of the total available capital for MSUKH as at 31st March 2010. The capital resources are calculated in accordance with GENPRU 2.

	£'000
Core Tier 1	**421,065**
Deductions	**(1,274)**
Total Tier 1 Capital	**419,791**
Total Tier 2 Capital	**-**
Total Tier 3 Capital	**43,127**
Total Financial Resources	**462,918**

3.2 Financial Resources

MSUKH has a simple capital structure with Total Financial Resources consisting of Tier 1 capital and Tier 3 capital. Tier 1 capital comprises of the audited profit and loss, share premium and equity share capital. Tier 3 capital represents unaudited profit from trading book activities.

MSUKH does not have any innovative Tier 1 instruments. Share capital consists of both yen and sterling denominated ordinary shares. Further details on the share capital are provided in Note 26 in the 2010 Financial Statements.

The deduction is related to the investment in a limited liability partnership ('LLP'). This investment is classified as a material holding.

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4 Capital Adequacy

4.1 Capital Management

MSUKH has adopted the standardised approach to market and credit risk and the basic indicator approach to operational risk to calculate the Basel II Pillar 1 minimum capital requirement.

It is MSUKH's policy to maintain capital resources consistent with its risk appetite.

MSUKH produces daily capital reports, summarising the capital requirement against available capital resources. This is distributed to senior management, business heads as well as senior management at Mizuho Securities. MSUKH aims to maintain a sound capital position at all times and therefore considers not only its current position but also it's projected use in both its capital base and capital requirements. Capital projections and capital stress testing is updated and reviewed by senior management on a monthly basis.

4.2 Internal Capital Adequacy Assessment Process – Pillar 2

MSUKH produces an ICAAP that includes an assessment of the risks faced by the firm and whether the capital requirement under Pillar 1 combined with management actions would sufficiently cover these risks.

Risk types considered under the ICAAP include market risk, credit risk, concentration risk, operational risk, liquidity risk, securitisation risk, insurance risk, pension obligation risk, legal risk, reputation risk, underwriting risk, settlement risk, structural FX risk, business risk and risks in the non-trading book.

The ICAAP is reviewed and approved by the Board.

4.3 Minimum Capital Requirement – Credit Risk (non trading book)

The table below shows MSUKH's overall minimum capital requirement for credit risk calculated under the standardised approach and expressed as 8% of the risk weighted exposure.

	As at 31.3.2010
Minimum Capital Requirement 8%	**£'000**
Exposure Classes	**40,658**
Financial Institutions	15,768
Corporate	132
Insurance	24,758
Other	**1,858**
Fixed and other assets	1,858
Credit risk minimum capital requirement	**42,516**

4.4 Minimum Capital Requirement – Pillar 1

The minimum capital requirement is calculated as the sum of the credit risk requirement in the non trading book described in 4.3 and the trading book capital component (see overleaf). The operational risk capital requirement is calculated under the basic indicator approach. The foreign currency Position Risk Requirement ('PRR') is the amount of regulatory capital required to cover the risk of losses on open foreign currency positions from fluctuations in FX rates.

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MSUKH does not have any investments in collective investment undertakings or commodities.

	As at 31.3.2010
Minimum Capital Requirement 8%	**£'000**
Interest Rate PRR	75,894
Equity PRR	445
Option PRR	0
Foreign Currency PRR	1,939
Market Risk Total	**78,278**
Counterparty Risk Capital Component	30,687
Concentration Risk Capital Component	529
Credit Risk Capital Component	42,516
Credit Risk Total	**73,732**
Operational Risk capital requirement	19,680
Total Pillar 1 Capital Requirement	**171,690**

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5 Counterparty Credit Risk, Mitigation, Dilution and Reporting

5.1 Overview of Counterparty Risk in the Trading Book

Counterparty credit risk is defined as a risk of financial loss to the Company if a counterparty to a financial instrument or a customer fails to meet its contractual obligations. The evaluation of a counterparty rating is based on the external ratings provided by designated External Credit Assessment Institutions (ECAIs). Unrated institutions are assigned a Credit Quality Step of 3 and other entity types a Credit Quality Step of 4.

The following tables show the exposure values associated with each credit quality step for total credit risk exposures:

Government, Central Banks and International Organisations

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure value after credit risk mitigation £'000
1	0%	AAA to AA-	15,999	15,999
2	20%	A+ to A-	0	0
3	50%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
Total			15,999	15,999

Central Counterparties

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure value after credit risk mitigation £'000
1	0%	AAA to AA-	118,128	118,128
2	20%	A+ to A-	0	0
3	50%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
Total			118,128	118,128

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Financial Institutions

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure value after credit risk mitigation £'000
1	20%	AAA to AA-	537,453	462,983
2	50%	A+ to A-	269,280	193,156
3	50%	BBB+ to BBB-	20,310	20,310
4	100%	BB+ to BB-	0	0
5	100%	B+ to B-	0	0
6	150%	Below B-	0	0
	50%	Unrated	268,351	238,901
Total			1,095,394	915,350

Corporates

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure value after credit risk mitigation £'000
1	20%	AAA to AA-	0	0
2	50%	A+ to A-	0	0
3	100%	BBB+ to BBB-	0	0
4	100%	BB+ to BB-	0	0
5	150%	B+ to B-	0	0
6	150%	Below B-	0	0
	100%	Unrated	64,784	64,784
Total			64,784	64,784

GRAND TOTAL			**1,294,305**	**1,114,261**

5.2 Counterparty Credit Risk on Derivatives in the Trading Book

MSUKH uses derivative instruments to hedge its market risk. Positive and negative exposures are offset within the same counterparty provided that a Netting Agreement is in place.

The table below shows the exposure to counterparty credit risk for derivative contracts at 31st March 2010 for MSUKH:

	Gross Positive Fair Value of Contracts £'000	Total Netting Benefits £'000	Netted Current Credit Exposure £'000	Collateral Held £'000	Net Derivates Credit Exposure £'000
Trading Book	334,421	(174,722)	292,839	0	393,839
Total	334,421	(174,722)	393,839	0	393,839

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Net derivative credit exposure represents the credit exposure to derivatives transactions after taking into account of legally enforceable netting agreements and collateral arrangements with counterparties. Note that the ‘Netted Current Credit Exposure’ is inclusive of the FSA prescribed Potential Future Exposure (‘PFE’) add-ons which are not included as part of the Fair Value calculation.

Collateralisation of the derivatives is one of the main tools used by the market to manage counterparty credit exposure. The value of the collateral received can be offset against the market value of the derivative.

5.3 Credit Risk Limits and Policies

The counterparty limits used for exposure management are set against Total Exposure. Maximum limits are based on policy and are determined by the counterparty credit assessment and nature of the products being traded. Transactions that would exceed the maximum prescribed level must be approved by the Risk Committee, and, for certain products or transactions, by MHSC Risk Management.

5.4 Credit Derivatives

The majority of credit derivatives held on the balance sheet are part of the Legacy business and are no longer actively traded. Credit derivatives were originally used for proprietary trading and as a credit risk mitigation tool. As at 31st March 2010, single name credit derivatives could still be used to hedge exposures in the new business model.

Banking book credit derivatives are used as a credit risk mitigant allowing credit exposure to be transferred from an issuer to the counterparty of a credit derivative. The transfer will, in most cases, reduce a specific counterparty credit risk requirement. However it will have no effect on total exposure. The table below summarises MSUKH’s notional CDS credit derivative exposure.

	Protection Sold	**Protection Purchased**	**Total**
	£'000	**£'000**	**£'000**
Credit Default Swaps - Trading book	699,896	933,740	1,633,637
Total	**699,896**	**933,740**	**1,633,637**

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5.5 Impairment Provisions

Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the financial asset, and that the loss event has an impact on the future cash flows on the financial assets.

As of 31st March 2010 MSUKH did not have any impairment provisions.

5.6 Non Trading Book Credit Exposures

The gross counterparty credit risk exposure in the non trading book before any mitigation as at 31st March 2010 and averaged for the year is summarised as follows:

	Average Gross Credit exposure £'000	Total Gross Credit exposure £'000
Government	0	0
Financial Institutions	206,331	223,902
Corporates	1,568	1,648
Other items*	323,133	332,709
Total	531,032	558,259

*Other items: life policies, farm credits, other investments, fixed assets & other sundry General Ledger accounts.

Geographical distribution of these exposures as at 31st March 2010 is as follows:

	UK £'000	Japan £'000	US £'000	Europe £'000	Rest of the Worlds £'000	Total £'000
Financial Institutions	85,389	36,008	34,378	12,547	55,580	223,902
Corporates			1,648			1,648
Other items	32,377		173,393	84,451	42,488	332,709
Total	117,766	36,008	209,419	96,998	98,068	558,259

The residual maturity breakdown of exposures by exposure class as at 31st March 2010 is as follows:

	Up to 12 months £'000	1-5 years £'000	5-10 years £'000	More than 10 years £'000	Total £'000
Financial Institutions	92,280	44,419		87,203	223,902
Corporates				1,648	1,648
Other items	23,233			309,476	332,709
Total	115,513	44,419	0	398,327	558,259

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6 Market Risk

6.1 Market Risk Overview

Market risk is defined as the risk that the value of a position will decrease due to movements in market factors. The main market risk factors are:

- Equity Risk – the risk that equity prices will change;
- Interest Rate Risk – the risk that interest rates will change;
- Currency Risk – the risk that foreign exchange rates will change; and
- Commodity risk – the risk that commodity prices will change (MSUKH does not have exposure to this risk type).

6.2 Monitoring of Market Risk

Market risk is measured through the calculation of VAR, sensitivity exposures and stress testing.

Although MSUKH internally measures risk through VAR and monitors this risk using VAR limits and sensitivities, it calculates its market risk capital requirement using the standardised approach under BIPRU.

7 Concentration Risk Capital

Concentration risk is the risk of focusing significant finances/exposure to a single counterparty or group of connected counterparties.

As of 31st March 2010 MSUKH had a concentration risk capital requirement resulting from exposures to connected counterparties within the Mizuho Financial Group.

8 Exposure to Equity Risk in the Non-Trading Book

As at 31st March 2010, the Company had small holdings of equities for investment purposes.

9 Exposure to Interest Rate Risk in the Non-Trading Book

The company's non trading book comprises assets and liabilities which are not held for trading activities. These include the raising and provision of funding to support the Company's trading activities.

MSUKH seeks to minimise interest rate risk where possible through hedging with derivatives.

A summary of MSUKH's interest rate risk exposure in the non-trading book allocated by time bands can be found in Note 32B of the 2010 Financial Statements.

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10 Securitisation

Securitisation is a structured finance process. MSUKH has historically been involved in the repackaging of cash-flow-producing financial assets into securities that are then sold to investors.

The Securitisation business is a Legacy business with all existing positions to be unwound (when and where appropriate) in the future.

MSUKH's main exposure to securitisations relates to asset backed securities. These assets are held within the Structured Credit America Ltd entity.

The table below shows total securitisation exposures split by relevant credit ratings. The risk weights of the securitisation positions are derived from external credit rating agencies such as Moody's and Standard & Poor's ('S&P'):

Credit Quality Step	Risk Weight	S & P Rating	Gross Exposure Value £'000	Exposure value after credit risk mitigation £'000
1	20%	AAA to AA-	4,092	4,092
2	50%	A+ to A-	17	17
3	100%	BBB+ to BBB-	87	87
4	100%	BB+ to BB-	1,759	1,759
	1250%	B+ & below	43,080	43,080
Total			49,035	49,080

Note that over the last 12 months the exposure has decreased from £114m to £49m, in line with the Company's objective of winding down these exposures as part of exiting its credit structuring businesses.

MSUKH's role and involvement in the securitisation process is summarised in Note 32E in the 2010 Financial Statements.

MSUKH accounting policies relating to securitisation are summarised in Note 2L in the 2010 Financial Statements.

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