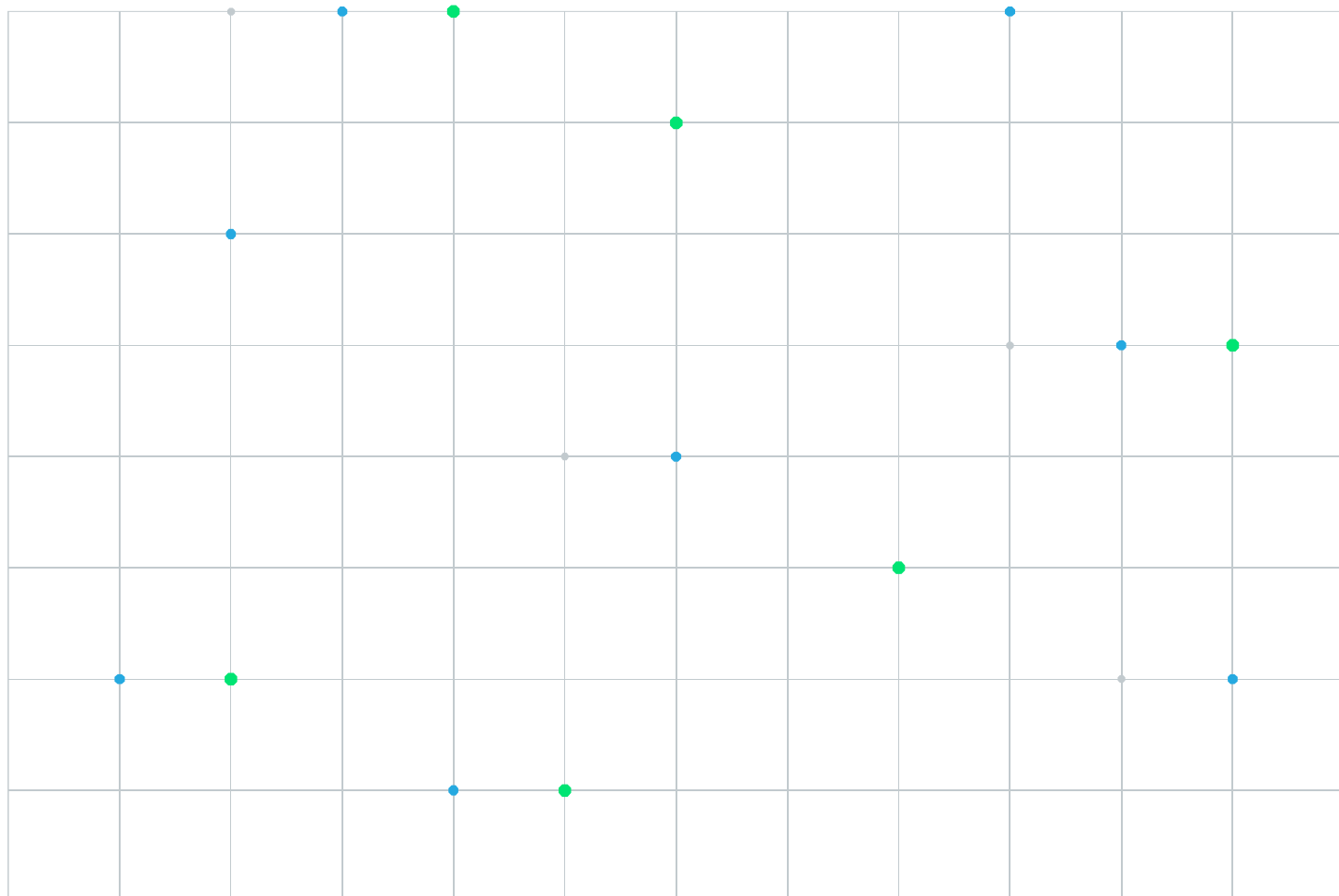


BrokerTec Europe Limited

Pillar 3 Disclosures

Reference Date: 31 March 2019



Contents

1.	Introduction	3
1.1.	Background and Scope	3
1.2.	Summary of key capital ratios	3
1.3.	Pillar 3 disclosure policy	3
1.4.	Basis of disclosures	4
2.	Business Overview and Governance	5
2.1.	Business overview	5
2.2.	Governance structure	5
2.3.	Board responsibilities, composition and reporting	6
2.4.	Board declaration – Adequacy of risk management arrangements	7
3.	Risk Management	8
3.1.	Risk management framework	8
3.2.	Risk function	8
3.3.	Risk profile of the business	8
4.	Capital Strategy	10
4.1.	Internal Capital Adequacy Assessment Process (ICAAP)	10
5.	Capital Resources	11
6.	Capital Requirements	12
7.	Remuneration Policy	14

1. Introduction

1.1. Background and Scope

The purpose of this document is to satisfy the disclosure requirements contained in Part Eight of Regulation (EU) No. 575/2013 (known as the Capital Requirements Regulation and hereafter referred to as the “CRR”).

These disclosure requirements, known as the Pillar 3 disclosures, require firms to publicly disclose certain details regarding their capital resources, risk exposures and risk management arrangements. The Pillar 3 requirements are intended to ensure that disclosures are sufficient to allow market participants to form an assessment of the firm’s risk profile and capital resources on a basis comparable to other financial services firms.

This document presents the Pillar 3 disclosures for BrokerTec Europe Limited (hereafter “the Company”, “the firm” or “BEL”) which is authorised by the Financial Conduct Authority (“FCA”) as an IFPRU limited activity firm. All disclosures, unless otherwise stated, apply as at 31 March 2019 or for the 12 months ending 31 March 2019 (the “Disclosure Period”).

1.2. Summary of key capital ratios

The key capital ratios for the Company are presented below, with prior year comparatives:

	31 March 2019	31 March 2018
Total risk weighted exposures (GBP millions)	104.5	81.8
Common Equity Tier 1 Ratio	33.0%	27.9%
Total Capital Ratio	33.0%	27.9%

1.3. Pillar 3 disclosure policy

Pillar 3 disclosures are made on an annual basis using the Company’s financial reporting year end date of 31 March. The disclosures will be published as soon as is practicable after the approval of the Company’s Annual Report and Financial Statements. More frequent disclosures will be made if there is a material change in the nature of the Company’s risk profile during any particular year.

The Pillar 3 disclosures are published on the website www.nex.com. Some disclosures required by Part Eight of the CRR may be set out separately in the Company’s Annual Report and Financial Statements and not repeated in this document. These disclosures are referenced as appropriate in this document.

The disclosures are prepared solely for the purpose of fulfilling the Company’s Pillar 3 disclosure obligations. They are not externally audited and do not form any part of the Company’s financial statements. These disclosures are subject to internal verification and are reviewed and approved by the Company’s Directors.

1.4. Basis of disclosures

Subject to certain exceptions, Article 432(1) of the CRR provides that a firm may omit one or more of the required disclosures if the information is not regarded as material, i.e. if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. No disclosures have been omitted from this document on these grounds.

CRR Article 432(2) allows that a firm may omit one or more of the items included in the disclosure requirements (again subject to certain exceptions) if those items include information regarded as proprietary or confidential, i.e. information which if disclosed publicly could undermine a firm's competitive position or breach a binding obligation to confidentiality between the firm and its customers or other counterparties. No disclosures have been omitted from this document on these grounds.

2. Business Overview and Governance

2.1. Business overview

BEL is a 100% owned subsidiary of NEX Markets Limited. On 18 May 2018 the shareholders of NEX Group plc, BEL's previous ultimate parent company, voted to approve an offer from CME Group Inc. to acquire NEX Group plc. The acquisition was finalised in November 2018. BEL is now part of CME Group, the ultimate parent company of which is CME Group Inc., a company incorporated in the United States in the State of Delaware.

The core activity of the Company is to operate Multilateral Trading Facilities ("MTFs") providing electronic inter-dealer brokerage that is low cost and highly liquid and provides price transparency to market participants. From the beginning of the Disclosure Period BEL's services consisted of the following two MTFs:

- The BrokerTec MTF, for the trading of European Government Bonds ("EGBs"), UK Gilts, European (including Gilt) Repos, and basis trading against Eurex and ICE bond futures.
- The EBS MTF for the trading of FX products and, via the NEX Treasury offering, Money Market Funds, Term Deposits and Certificates of Deposit.

On 18 March 2019 the EBS MTF and the EGB and EU Repo trading activity on the BrokerTec MTF were transferred to another CME Group entity as part of the Group's Brexit readiness preparations. BEL retains the BrokerTec MTF for trading in UK Gilts and Gilt Repo. The Company has branches in Singapore and Australia. During the Disclosure Period, BEL held a majority stake in e-MID SIM S.p.A., an Italian domiciled and regulated entity that operates an electronic trading platform for deposits and money market instruments.

2.2. Governance structure

During the Disclosure Period, the activities of BEL were managed as part of the Cash Markets and Optimisation Services ("CMOS") Division of CME Group. The control and governance framework applicable to BEL as at 31 March 2019 is shown below.

	BrokerTec Europe Limited Board of Directors	NEX Markets Risk Committee	NEX Markets Global Management Team
Purpose	Strategic direction and business performance	Independent controls review and integrated assurance	Operational and strategic management
Members	<ul style="list-style-type: none"> • NEX Markets CEO • NEX Markets COO • MD BrokerTec EMEA • Head of FX EMEA • Head of FX Asia 	<ul style="list-style-type: none"> • NEX Markets COO • NEX Markets CFO • NEX Markets CIO • Head of FX EMEA • Head of Fixed Income • Business Manager <p>Group representatives from: Risk, Compliance, Information Risk Mgt., Business Continuity Mgt., Legal, HR, Internal Audit</p>	<ul style="list-style-type: none"> • NEX Markets CEO • NEX Markets COO • NEX Markets CFO • NEX Markets CIO • MD BrokerTec EMEA • Head of FX EMEA • Head of FX Asia • Head of Fixed Income • Head of HR • Head of Sales • Head of Marketing
Chair	NEX Markets CEO	Business Manager	NEX Markets COO
Frequency	Ad hoc	Quarterly	Bi-weekly via telephone Bi-monthly in person

The Board of Directors of BrokerTec Europe Limited (“the Board”) meets on an ad-hoc basis and provides commercial direction, within the constraints of Group policies, delegated authorities and overall Group strategy. The Board also oversees the performance of the BEL business.

The NEX Markets Risk Committee met four times during the Disclosure Period and is responsible for oversight of the application of group risk management policies and framework processes, as appropriate to the activities of NEX Markets businesses. The Committee includes representatives from the business unit and the Group control functions.

2.3. Board responsibilities, composition and reporting

The Board is responsible for oversight of BEL’s strategy and for ensuring that the necessary resources are in place to achieve its strategic and tactical objectives. The Board is responsible for overseeing and directing the Company’s business and the management of the risks arising from that business, which includes ensuring there are adequate and effective internal systems of control with clear responsibilities for identifying, assessing, managing, monitoring and reporting its risks. Directors are expected to be aware of the major aspects of the Company’s risk profile, especially those risks for which they may need to set aside capital. During the Disclosure Period, the Board was assisted in its oversight of certain governance, risk management and control responsibilities by the NEX Markets Risk Committee.

Details of the directors of the Company as at 31 March 2019, and those who held office during the Disclosure Period, are provided in the Company’s Annual Report and Accounts.

Number of directorships held by members of the Board

In accordance with Article 435 2(a) of the CRR, the table below shows the number of directorships held by members of the Board as at 31 March 2019. All directorships within the CME Group are counted as one. Directorships held outside CME Group are counted individually.

Name	Directorships held
J. Cohen	1
J. Edwards	1
T. Cartledge	1
S. Johnson	1
J. Ward	1

Recruitment policy for members of the Board

During the Disclosure Period, policy for the recruitment of Board members involved relevant members of NEX and CME Group senior management with candidates being identified and assessed on the basis of their skills, knowledge and experience relevant to the role. The selection process may include a number of assessment methods and all appointments are subject to internal approvals in accordance with the Group’s delegated authorities.

Policy on diversity

CME Group recognises that equality in the workplace is good management practice and makes sound business sense and is committed to eliminating discrimination and encouraging diversity. The Company does not operate diversity targets.

2.4. Board declaration – Adequacy of risk management arrangements

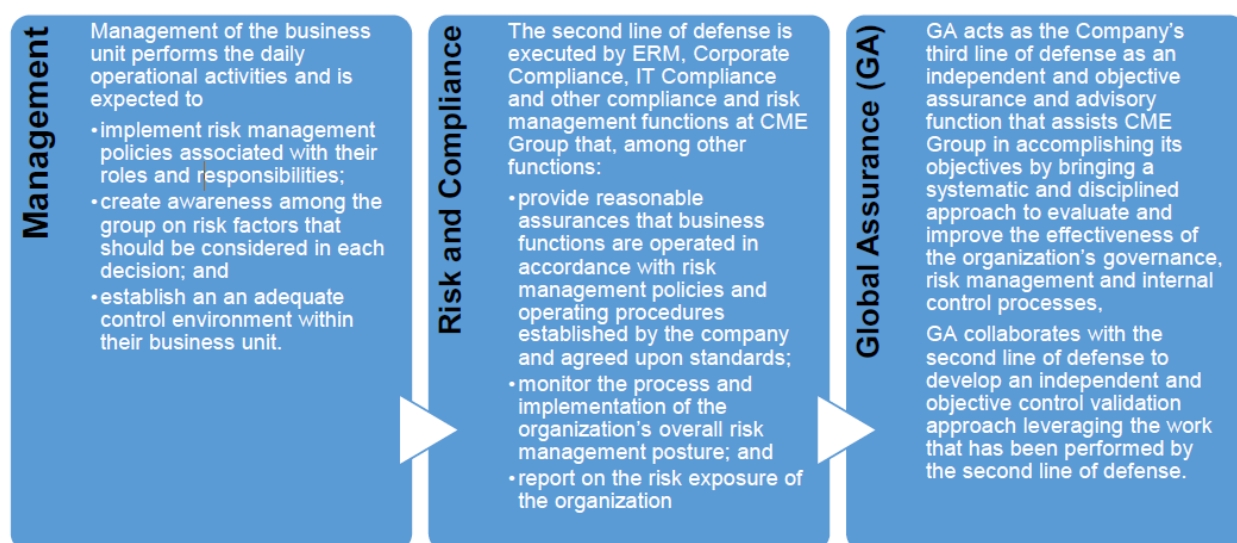
The Board is ultimately responsible for ensuring the Company has an appropriate risk management framework and has implemented an effective governance and risk management structure. The Board is responsible for reviewing the effectiveness of the Company's risk management arrangements and systems of financial and internal control. The Board considers that it has in place adequate systems and controls with regard to the Company's risk profile and strategy.

3. Risk Management

3.1. Risk management framework

The risk management framework, strategy and policies of the Company are determined by the board of its ultimate parent company, CME Group Inc., which has a framework that defines requirements and responsibilities for the assessment, monitoring and reporting of risk across the CME Group. Elements of the NEX Group operational risk framework continued to be applied during the Disclosure Period and as part of an ongoing transition, due to be completed in 2020.

CME Group uses the three lines of defense model to manage and mitigate risk, as explained below:



3.2. Risk function

CME Group maintains a strong Enterprise Risk Management ("ERM") function, independent of individual business lines or divisions, responsible for providing risk management expertise, challenge and reporting with regard to material risk issues and developments. The ERM function reports on matters relating to all parts of the CME Group, including BEL, to the Risk Committee of the Board of Directors of CME Group.

3.3. Risk profile of the business

As the operator of a regulated, electronic trading venue, BEL is predominantly exposed to operational risk, strategic risk and compliance risk, including regulatory risk relating to compliance with the requirements of the FCA. BEL does not trade on its own account or take positions in the instruments traded on the venue. As such it is generally not exposed to market risk or to credit risk on the settlement of trades.

The following table provides an overview of the risk profile associated with the business strategy and activities of the Company, including how those risks are managed.

Risk Types		Management Strategies
Financial	Credit	Credit risk is incurred only in relation to accounts receivable balances on fees due from clients or inter-company debtors and from potential bank default on cash balances. All counterparties are subject to regular review and assessment and receivables are monitored by a central Group Finance function.
	Foreign Currency	BEL is subject to FX risk on cash balances held or expenses or remittance of funds in currencies other than the Firm's functional currency. Foreign currency positions are not considered to be significant.
Operational	Information Security	Clearly delineated policies, standards and procedures. Centralised, corporate group responsible for independent oversight and coordination of cyber security programme, security event monitoring and incident response. Penetration and application testing, multi-factor authentication, aggressive and timely patching, monitoring of incoming and outgoing data connections. Restrictions on physical access to Company facilities. Staff training, awareness and accountability.
	Recoverability	Documented and tested incident response and business continuity programme. Timely escalation and mitigation of risk events.
	Information Technology	Monitoring of system availability and performance levels. Product release and change management processes. Timely escalation and mitigation of risk events.
	Sourcing and Third Party	Key vendor management programme.
Legal and Compliance		The Company has robust compliance and client onboarding controls in place. Documented policies and procedures are communicated to all relevant staff. Regular and ongoing staff training. Group internal legal and compliance departments act as independent advisory and investigation functions to enable and defend the Group's strategic aims. Utilisation of standard contracts for baseline services. Regular advice from appropriately qualified external advisors and professionals.
Strategic and Commercial		Maintenance of internal and external regulatory affairs advisors to provide updates on regulatory developments and convey the Group's perspective on legislative and regulatory issues to policymakers. Internal resource tasked with monitoring, analysing and implementing change necessitated by regulatory developments. Reporting and discussion of key and emerging risks at the NEX Markets Risk Committee.

4. Capital Strategy

The Company's capital strategy is to maintain an effective and strong capital base which maximises the return to its shareholders, while also maintaining flexibility and ensuring compliance with supervisory regulatory requirements.

4.1. Internal Capital Adequacy Assessment Process (ICAAP)

As a limited activity firm investment firm, BEL is required to undertake an ICAAP in accordance with the FCA's rules in IFPRU 2.2. This forms the basis for the Company's approach to its internal assessment of the adequacy of its capital to support current and future activities. BEL formally undertakes a review of its ICAAP on at least an annual basis. However, the processes and assessments that form the basis of the ICAAP are part of the ongoing risk management framework. The Company's ICAAP is owned by its Board of Directors.

The purpose of the ICAAP is to inform the Company's Board of Directors and its senior management of the ongoing assessment of the Company's risks, how the Company intends to mitigate those risks, and how much capital is considered necessary to withstand severe yet plausible risk events. This includes an assessment of capital requirements based on scenarios considering the current and planned business activities under stressed conditions and the calculation of wind down costs.

Additionally, the sustainability of the Company's business plan is tested through the assessment of extreme impact / tail-risk events to provide an understanding of those risks that have the potential to make the business model unviable.

5. Capital Resources

The Company's own funds are comprised entirely of Common Equity Tier 1 (CET1) capital meeting the definition of Article 26 of the CRR, as noted below.

	31 March 2019 £'000	31 March 2018 £'000
Common Equity Tier 1 capital	34,505	22,790
Additional Tier 1 capital	-	-
Tier 2 capital	-	-
Own Funds	34,505	22,790

CET1 capital is comprised of the following elements:

- Fully paid up ordinary share capital
- Retained earnings
- Accumulated other comprehensive income
- Distributable capital contribution reserve

The following table shows a reconciliation of Own Funds to the Total Shareholders' Funds reported in the audited financial statements of the Company.

	31 March 2019 £'000	31 March 2018 £'000
Shareholders' funds	34,505	22,790
Deductions and adjustments	-	-
Own Funds	34,505	22,790

6. Capital Requirements

As a limited activity firm, BEL calculates its total Pillar 1 capital requirement in accordance with CRR Article 96 as the sum of its credit and market risk exposures and its Fixed Overheads Requirement (calculated per CRR Article 97).

Risk Weighted Exposures by Risk Type:

	31 March 2019		31 March 2018	
	Risk weighted exposure £'000	Own Funds requirement £'000	Risk weighted exposure £'000	Own Funds requirement £'000
Credit risk	12,437	995	9,958	797
Foreign exchange risk	2,905	232	1,921	153
Fixed Overheads Requirement	89,150	7,132	69,922	5,594
Total	104,492	8,359	81,801	6,544

Credit Risk Exposures by Exposure Class:

The following table provides an analysis of credit risk exposures as at 31 March 2019.

	Exposure value £'000	Average exposure value £'000	Risk weighted exposure £'000	Own Funds requirement £'000
Central governments and central banks	91	105	191	15
Institutions	37,494	35,735	7,500	600
Corporates	4,563	4,528	4,563	365
Equity exposures	98	81	98	8
Other items	85	247	85	7
Total	42,331	40,694	12,437	995

Credit risk exposures are calculated in accordance with the Standardised Approach described in Part Three, Title II, Chapter 2 of the CRR. The nominated External Credit Assessment Institution (ECAI) is Fitch, whose ratings are used in the determination of risk weights for the following exposure classes:

- Institutions
- Corporates
- Central governments and central banks

The Company makes an estimate of the recoverable value of trade and other debtors for financial reporting purposes. When assessing impairment of trade and other receivables, management considers factors including the ageing profile of receivables and historical experience. An impairment review is undertaken at each balance sheet date or when such events or changes in circumstances indicate that an impairment loss may have occurred. No exposures are deemed to be impaired.

Credit Risk Exposures by Geographic Distribution:

	Exposure value £'000
United Kingdom	38,447
Rest of Europe	1,963
Other	1,921
Total	42,331

As at 31 March 2019 the Company had no exposures to countries which require the setting of a Counter-cyclical Capital Buffer above 0%.

Credit Risk Exposures by Residual Maturity:

	Exposure value £'000
Less than one year	42,331
Undated	-
Total	42,331

7. Remuneration Policy

BEL does not maintain its own Remuneration Committee. From the beginning of the Disclosure Period to the date of the acquisition of NEX Group by CME Group, the Company adhered to the overall Group policies and management of remuneration by deferring to the governance process managed by the NEX Group Remuneration Committee ("NEX Committee"). The NEX Committee managed the determination of salary, other remuneration, incentive programs and other terms of employment for the CEO, executive management and the Company's control functions as well as incentive programs for employees within the Company.

Following the acquisition, the CME Group Compensation Committee oversees remuneration programs for the overall organization, including the Company.

The number of employees in senior management or other senior positions in the Company who were considered to be material risk takers during the year ended 31 March 2019, comprised a total of 24 persons. Aggregate remuneration awarded for the financial year for these persons are provided in the table below. Three individuals were remunerated between 1.0M and 1.5M EUR and two individuals were remunerated between 2.0M and 2.5M EUR.

€ million	Senior management	Other material risk takers	Total
Fixed	2.1	3.9	6.0
Variable – Cash	4.7	4.2	8.9
Variable – LTIPs*	0.4	0.0	0.4
Total	7.2	8.1	15.3

**Note, as NEX Group was acquired by CME Group during the period, LTIP awards were generally not made for the financial year ending 31 March 2019. Awards will be made in subsequent financial years that align with the timing of CME Group's LTIP process.*

