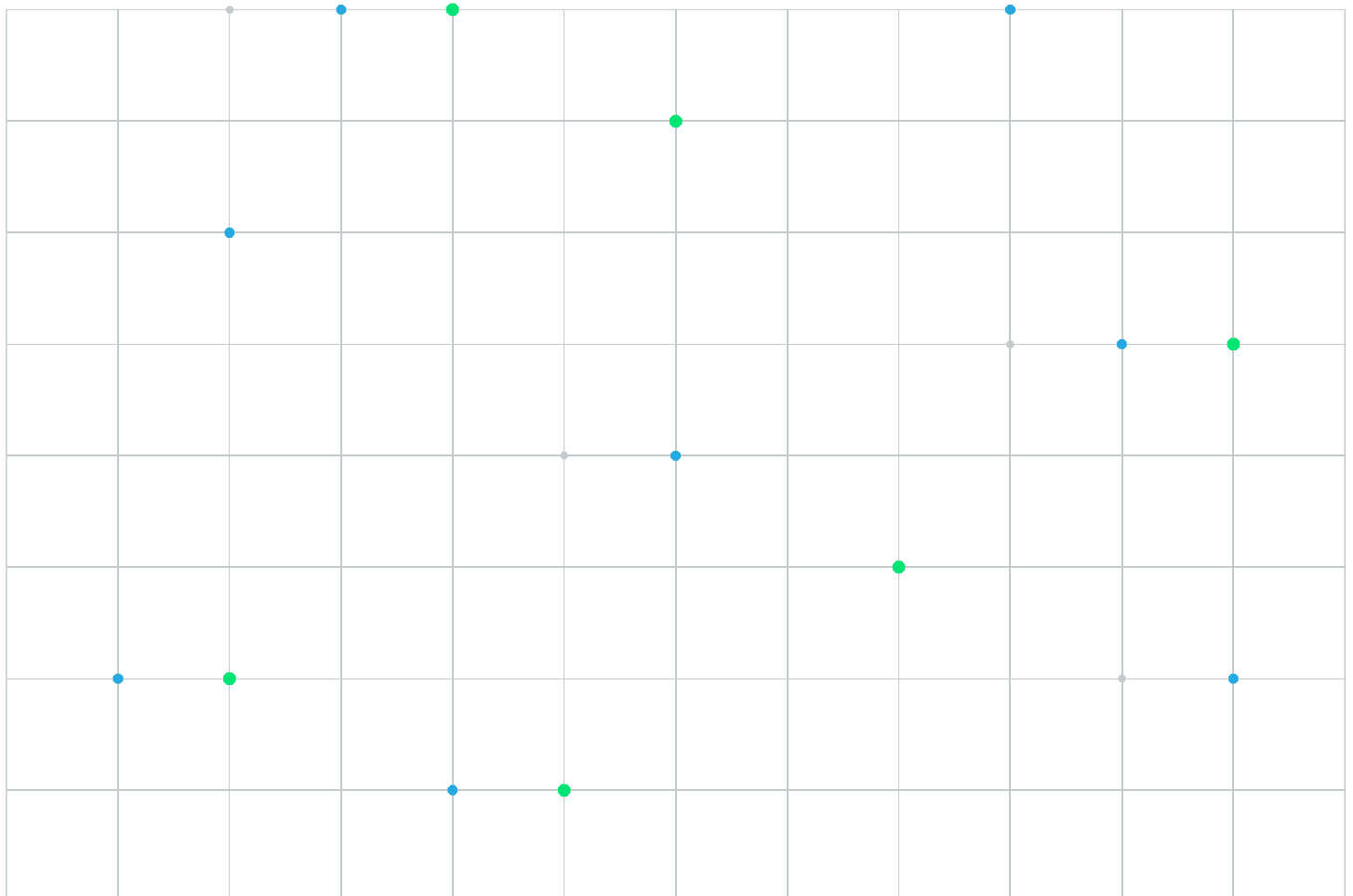


NEX SEF Limited Pillar 3 Disclosures

Reference Date: 31 December 2020



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1. Introduction

1.1. Background and Scope

The purpose of this document is to satisfy the disclosure requirements contained in Part Eight of the UK CRR¹. These requirements, known as the Pillar 3 disclosures, require firms to publicly disclose certain details regarding their capital resources, risk exposures and risk management arrangements and are intended to demonstrate 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 NEX SEF Limited (hereafter '**NSL**' or the '**Firm**') which is dually registered as a Swap Execution Facility² ('**SEF**') regulated by the Commodity Futures Trading Commission ('**CFTC**') in the United States and as a Multilateral Trading Facility ('**MTF**') authorised and regulated by the Financial Conduct Authority ('**FCA**') in the United Kingdom. NSL is an IFPRU limited licence investment firm³. All disclosures, unless otherwise stated, apply as at 31 December 2020 (the '**Reference Date**') or for the 12-month period ending 31 December 2020 (the '**Disclosure Period**').

1.2. Summary of key capital ratios

The key capital ratios for the Firm are presented below, with prior period comparatives:

	31 December 2020	31 December 2019
Total risk weighted exposures (\$'000)	5,938	7,188
Common Equity Tier 1 Ratio	140%	274%
Total Capital Ratio	140%	274%

1.3. Pillar 3 disclosure policy

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

The Pillar 3 disclosures are published on the website www.cmegroup.com. Some disclosures required by Part Eight of the UK CRR may be set out in the Firm's audited Financial Statements filed with Companies House and not repeated in this document. Such disclosures are referenced as appropriate in this document.

The Pillar 3 disclosures are prepared solely for the purpose of fulfilling NSL's disclosure obligations pursuant to Part Eight of the UK CRR. They are not externally audited and do not form any part of the Firm's financial statements. These disclosures are subject to internal verification and are reviewed and approved by the Firm's Board of Directors.

¹ The UK version of Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013) and amending Regulation (EU) No 648/2012, which is part of UK law by virtue of the European Union (Withdrawal) Act 2018.

² Registration pursuant to Section 5h of the Commodity Exchange Act and Commission Regulation 37.3(b),(6)(i).

³ Pursuant to Article 95(1) of the UK CRR.

1.4. Basis of disclosures

Subject to certain exceptions, Article 432(1) of the UK 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 would not 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.

UK 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

NSL is a wholly-owned indirect subsidiary of CME Group Inc. ('**CME Group**' or the '**Group**'), a company incorporated in the United States in the State of Delaware. A description of the Firm's principal business activities during the Disclosure Period is included in its Financial Statements for the same period and are therefore not included in this document.

2.2. Governance structure

The activities of NSL are managed primarily as part of the Products and Services Division of CME Group, with other Divisions providing support and members of the Firm's Board of Directors (the '**Board**') employed within other areas of the organization.

The Board meets on a quarterly basis and provides commercial direction, within the constraints of Group policies, delegated authorities and overall Group strategy. The Board also oversees the performance of NSL's business.

During the Disclosure Period, the Board was assisted in its oversight of certain governance, risk management and control responsibilities by the Cash Markets Risk Committee (the '**Committee**'). The Committee met four times during the Disclosure Period and is responsible for oversight of the application of certain CME Group risk management policies and framework processes, as appropriate to the activities of the Group's cash markets businesses, which includes NSL. The Committee includes representatives from the Group's cash markets businesses and control functions.

2.3. Board responsibilities, composition and reporting

The Board is responsible for oversight of NSL'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 Firm'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 Firm's risk profile, especially those risks for which they may need to set aside capital. The Board receives information on risk via reporting from the Firm's management and Group control functions. Details of the directors of NSL as at 31 December 2020, and those who held office during the Disclosure Period, are provided in the Firm's Financial Statements.

In accordance with Article 435 2(a) of the UK CRR, the table below shows the number of directorships held by members of the Board as at 31 December 2020. All directorships within the CME Group are counted as one. Directorships held outside CME Group are counted individually.

Name	Directorships held
T. Bitsberger	2
W. Knottenbelt	1
D. Lucas	1
A. Seaman	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 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 Firm does not operate diversity targets.

2.4. Board declaration – Adequacy of risk management arrangements

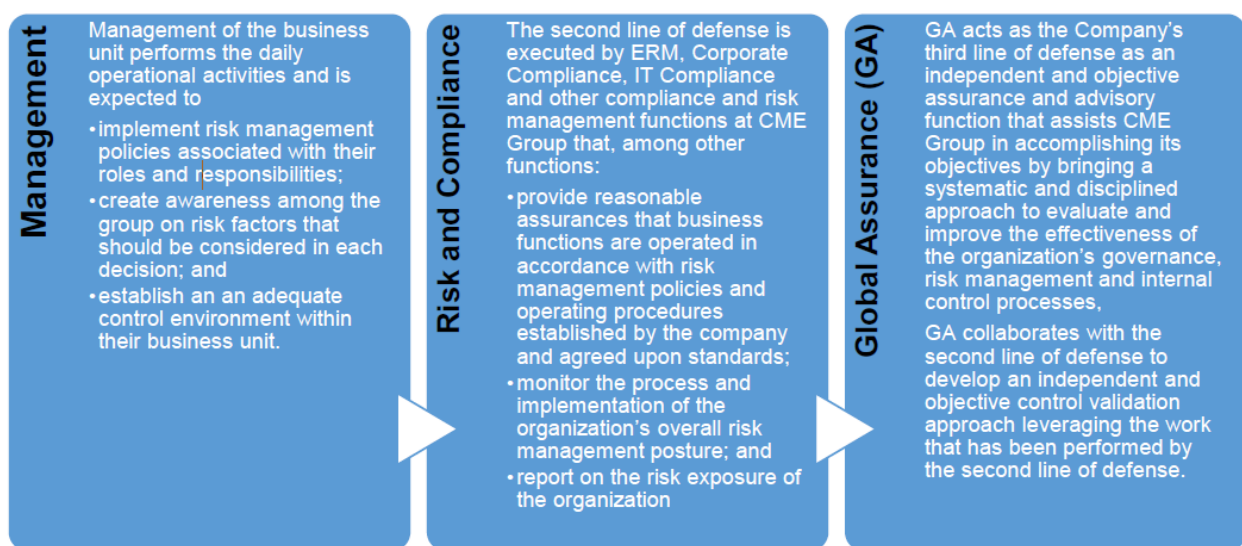
The Board is ultimately responsible for ensuring the Firm has an appropriate risk management framework and has implemented an effective governance and risk management structure. The Board is responsible for reviewing the effectiveness of the Firm's risk management arrangements and systems of financial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

3. Risk Management

3.1. Risk management framework

The risk management framework, strategy and policies of the Firm are determined by the Board of its ultimate parent company, CME Group Inc., which has an Enterprise Risk Management ('ERM') Framework that defines requirements and responsibilities for the assessment, monitoring and reporting of risk across the CME Group.

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



3.2. Risk function

CME Group maintains an ERM function, independent of individual business lines, 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 the enterprise of CME Group, including NSL where appropriate or material, to the Risk Committee of the Board of Directors of CME Group on a quarterly basis.

3.3. Risk profile of the business

NSL is predominantly exposed to operational risk, strategic risk, reputational risk and compliance risk, including regulatory risk relating to compliance with the requirements of the CFTC and FCA. NSL does not trade on its own account or take positions in the instruments executed on the SEF. 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 Firm, including how those risks are managed.

Risk Types		Principal Management Strategies
Financial	Credit	Credit risk is incurred only in relation to accounts receivable balances on fees due from clients or through inter-company arrangements and from potential loss of cash deposits resulting from a bank failure. Receivables and cash balances are monitored by central Group Finance and Treasury functions.
	Foreign Currency	NSL 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 function responsible for the independent oversight and coordination of the Group's 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 Firm facilities. Staff training, awareness and accountability.
	Resilience and Recoverability	Documented and tested incident response and business continuity programmes. 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.
	Planning and Execution	Key Business Commitment ('KBC') process, including project portfolio governance and program/project management.
	Trading Operations	Dedicated Market Support team monitors the operation of the market. Restricted trading system access.
	Legal and Compliance	Robust compliance and client onboarding controls, including documented Code of Conduct and corporate and regulatory compliance programs. Documented policies and procedures, communicated to all relevant staff. Regular and ongoing staff training. CME Group 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 risks, threats and opportunities.	
Reputational	Centralised corporate communications function oversight of the communication of significant business developments and monitoring of press and social media coverage.	

4. Capital Strategy

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

4.1. Internal Capital Adequacy Assessment Process ('ICAAP')

As a limited license investment firm, NSL is required to undertake an ICAAP in accordance with the FCA's rules in IFPRU 2.2. This forms the basis for the Firm's approach to its internal assessment of the adequacy of its capital to support current and future activities. NSL 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 Firm's ICAAP is owned by its Board of Directors.

The purpose of the ICAAP is to inform NSL's Board of Directors and its senior management of the ongoing assessment of the Firm's risks, how the Firm 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 Firm's current and planned business activities under stressed conditions and the calculation of wind down costs.

Additionally, the sustainability of the Firm'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 Firm's Own Funds are comprised entirely of Common Equity Tier 1 ('CET 1') capital meeting the definition of Article 26 of the UK CRR, as noted below.

	31 December 2020 \$'000	31 December 2019 \$'000
CET 1 capital	8,342	19,681
Additional Tier 1 capital	-	-
Tier 2 capital	-	-
Own Funds	8,342	19,681

CET 1 capital is comprised of retained earnings and other distributable reserves.

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

	31 December 2020 \$'000	31 December 2019 \$'000
Total shareholders' funds	8,342	19,681
Deductions and adjustments	-	-
Own Funds	8,342	19,681

6. Capital Requirements

As a limited licence investment firm, NSL calculates its total Pillar 1 capital requirement in accordance with UK CRR Article 95 as the greater of (i) the sum of its credit and market risk exposures, and (ii) its Fixed Overheads Requirement (calculated per UK CRR Article 97).

Risk Weighted Exposures by Risk Type:

	31 December 2020		31 December 2019	
	Risk weighted exposure \$'000	Own Funds requirement \$'000	Risk weighted exposure \$'000	Own Funds requirement \$'000
Credit risk	3,424	274	5,469	438
Foreign exchange risk	575	46	-	-
	3,999	320	5,469	438
Fixed Overheads Requirement	5,938	475	7,188	575
Total	5,938	475	7,188	575

Credit Risk Exposures by Exposure Class:

The following table provides an analysis of credit risk exposures as at 31 December 2020.

	Exposure value	Average exposure value	Risk weighted exposure	Own Funds requirement
	\$'000	\$'000	\$'000	\$'000
Institutions	15,894	24,964	3,179	254
Corporates	158	309	158	13
Central governments and central banks	4	2	10	1
Other items	77	83	77	6
Total	16,133	25,358	3,424	274

Credit risk exposures are calculated in accordance with the Standardised Approach described in Part Three, Title II, Chapter 2 of the UK 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 Firm 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	15,178
Rest of Europe	327
Other	628
Total	16,133

As at 31 December 2020 the Firm 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	16,133
Undated	-
Total	16,133

7. Remuneration Disclosures

The following disclosures are made pursuant to Article 450 of the UK CRR and relate to staff whose professional activities have a material impact on the Firm's risk profile (referred to as '**Material Risk Takers**').

Number of staff in senior management or other positions who were considered to be Material Risk Takers during the Disclosure Period:

Senior Management	3
Other Material Risk Takers	16
Total	19

Aggregate remuneration awarded for the Disclosure Period:

€ million	Senior management	Other material risk takers	Total
Fixed	0.7	3.2	3.9
Variable – Cash	0.5	1.6	2.1
Variable – Shares	0.5	1.3	1.8
Total	1.7	6.1	7.8

No individual Material Risk Taker's total remuneration for the Disclosure Period exceeded EUR 1 million.

Deferred remuneration:

€ million	Senior management	Other material risk takers	Total
Awarded during the Disclosure Period	0	0	0
Paid out during the Disclosure Period	0	0	0

Outstanding⁴ deferred remuneration:

€ million	Senior management	Other material risk takers	Total
Vested	0	0	0
Unvested	0	0	0

The Firm does not maintain its own Remuneration Committee. The CME Group Compensation Committee oversees remuneration programs for the overall organisation, including NSL. CME Group's remuneration programs are designed to provide appropriate incentives for creating long-term shareholder value and delivering on financial and strategic goals while discouraging excessive risk taking. Consistent with Group-wide practices, annual performance reviews are conducted for each employee of the organization. These performance reviews form the basis of awarding variable remuneration and serve as a key link between pay and performance.

⁴ As at the Reference Date.

