

MarketAxess Europe Limited - Pillar 3 Disclosure

Introduction

Regulatory Context

Prior to 2014, Pillar 3 disclosures for MarketAxess Europe Limited (“MAEL”) were presented in accordance with Chapter 11 of the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) as required by the Financial Conduct Authority (“FCA”).

From 2014 a new set of prudential requirements, the Prudential Sourcebook for Investment Firms (“IFPRU”) replaced BIPRU for investment firms subject to the EU’s Capital Requirements Directive IV (“CRD IV”).

MAEL is designated by the FCA as an IFPRU €730k limited licence firm and complies with the following:

- IFPRU;
- CRD IV;
- Capital Requirements Regulation (EU) No 575/2013 (“CRR”); and
- Relevant technical standards released by the European Banking Authority (“EBA”).

MAEL prepares its Pillar 3 disclosure on an unconsolidated basis in accordance with Chapter 11 of IFPRU.

Frequency

MAEL will be making Pillar 3 disclosures annually. The disclosures will be as at MAEL’s last accounting reference date.

Media and Location

The disclosure will be published on our website:

<http://www.marketaxess.com/pdfs/Pillar3Disclosure.pdf>

Verification

The information contained in this document has not been audited by MAEL’s external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on MAEL.

Materiality

MAEL regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

If MAEL deems a certain disclosure to be immaterial, it may be omitted from this disclosure.

Confidentiality

MAEL regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render MAEL's investments therein less valuable.

Further, MAEL must regard information as confidential if there are obligations to customers or other counterparty relationships binding MAEL to confidentiality. In the event that any such information is omitted, MAEL shall disclose such and explain the grounds why it has not been disclosed.

Summary

CRD IV rules are set out under three "Pillars":

- **Pillar 1:** sets out the minimum capital requirements that MAEL needs to retain to meet its credit/counterparty risk, market risk and fixed overhead requirement;
- **Pillar 2:** requires MAEL and the FCA, to take a view on whether it needs to hold additional capital against firm-specific risks not covered by Pillar 1; to assist in this process MAEL undertakes an Internal Capital Adequacy Assessment Process (ICAAP) which serves to provide procedures to identify, cost and mitigate, where possible, factors which may have an impact on the MAEL'S capital requirement outside those already considered under Pillar 1; and
- **Pillar 3:** requires MAEL to develop a set of disclosures which will allow market participants to assess key information about its underlying risks, risk management controls and capital position.

Articles 431 to 451 of the EU CRR and IFPRU set out the provision for Pillar 3 disclosure. This must be done in accordance with a formal disclosure document. The disclosure of this document meets our obligation with respect to Pillar 3.

The regulatory aim of the disclosure is to improve market discipline.

MAEL operates an electronic trading platform which enables sophisticated participants to trade bonds and other fixed income instruments. MAEL's main risks have been identified as business and operational risk. MAEL is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

MAEL has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

The ICAAP assessment is reviewed by the Board of Directors and amended when necessary or at a minimum annually.

A number of key operations are outsourced by our clients to third party providers such as administrators reducing our exposure to operational risk. MAEL has an operational risk framework (described below) in place to mitigate operational risk. MAEL's main exposure to credit risk is the risk that invoiced distribution fees and commissions cannot be collected. MAEL holds all cash balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by MAEL and is limited to our exposure to any cash amounts held by us in a foreign currency.

Background to MarketAxess Europe Limited

Background

MAEL is incorporated in the UK and is authorised and regulated by the FCA (FRN 196601) to conduct designated investment business. Our core activity is to act as the "Operator of multilateral trading facility ("MTF") and we fall within the category of a "€730k Limited Licence firm". MAEL does not fall within the FCA's definition of a significant IFPRU firm.

The following entity is covered by the ICAAP: MarketAxess Europe Limited. MAEL is a solo regulated entity with an EEA parent.

Risk Management Objectives and Governance

Risk Management Objective

MAEL has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite. The **risk management process is adequate for our size and complexity.**

Governance Framework

The Board of MAEL is responsible for ensuring that the firm has in place a suitably robust Risk Management Framework in order to ensure that risks are adequately identified, assessed and mitigated.

The London Management Team ("LMT") monitors the overall risk appetite for the business. Risk exposure is monitored against the set risk appetite approved by the Board of Directors on an ongoing basis through risk reporting and escalation process. The review and assessment of risk appetite is updated on at least an annual basis.

The LMT is composed of:

- EU Chief Operating Officer- Scott Eaton
- European Product Manager - Gareth Coltman
- Head of EU Finance - Alan Harrod
- Head of Dealer Sales- Chris Jones
- EU & Asia General Counsel - Miranda Morad
- Head of Europe & Asia HR- Tamara Murray
- Head of Trax and Operations Services - Christopher Smith
- Head of EU Technology - Marc Richin
- Head of EU Business Management and Regulatory Affairs- Jason Waight
- Marketing & Communications Manager- Kyle White
- Head Investor and Dealer Client Sales- David Wright

Risk Framework

Risk within MAEL is managed by use of the following:

- A Global Risk Committee for the MarketAxess group;
- Senior Management is accountable to the LMT for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of MAEL;
- Scenario Analysis and Stress Tests on the most significant risks identified. This informs MAEL how risk are likely to behave and what, if any, impact there is likely to be to our balance sheet; and
- An internal control framework to govern its processes and procedures and to mitigate any risks.

MAEL has implemented a ‘three lines of defence’ model in order to identify, manage and mitigate actual or potential risks.

Level 1: Business line management are responsible for identifying and mitigating the risks arising within their areas of functional activity

Level 2: Independent assurance functions such as Compliance, Legal, and Finance teams provide technical guidance to business line and Senior Management

Level 3: The Risk Management team provide independent assurance to both the Board and the LMT.

Disclosure: Capital Resources

MAEL is an IFPRU €730k Limited Licence MiFID Investment Firm.

Tier 1 Capital comprises of Shares and Audited Reserves/Losses at 31 December 2015 :

	(000's)
Tier 1 Capital	£27,530
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£0
Total Capital	£27,530

To meet our Capital Adequacy Resource Requirement, MAEL is required to hold the greater of:

- Base capital requirement of €730,000; or
- The sum of credit risk capital requirement and market risk capital requirement based on a risk weighted balance sheet; or
- Fixed overheads capital requirement.

Plus:

- Any Pillar 2 capital add-on requirement identified in the ICAAP.

Credit risk

For our Pillar 1 regulatory capital calculation of Credit Risk as an IFPRU firm we can no longer use the Simplified method of calculating risk weights but instead we use the Standardised approach which is more granular in detail.

Depending on the nature of the debt, credit risk exposure is charged either at 8% or a lower limit of 1.6% for balances at recognised credit institutions or held for less than 90 days.

	Exposure (000's)	Risk Weight	Risk weighted exposure amount (000's)
Tangible assets	£2,895	100%	£2,895
Institutions (including cash at bank)	£23,786	20%	£4,757
Corporates	£7,008	100%	£7,008
Total	£33,689		£14,660
Credit Risk Capital Component	8% of risk weighted exposure		£1,172

MAEL has Non Trading Book potential exposure only on its non-sterling balances

Market Risk calculation

Rule	Position (000's)	Risk Weight @ 8%	(000's)
Interest rate positional risk requirement	£0	100%	£0
Equity positional risk requirement	£0	100%	£0
Commodity positional risk requirement	£0	100%	£0
Foreign currency positional risk requirement	£216	100%	£17
Total	£216		£17

Operational risk and Fixed overhead requirement

MAEL is not subject to a Pillar 1 Operational Risk requirement and so the Fixed Overhead Requirement (FOR) is disclosed as a proxy for Operational Risk. Our Pillar 1 Capital Resources Requirement is the higher of the [FOR] or [the sum of Market Risk Capital Requirement and Credit Risk Requirement].

Fixed Overhead Requirement	£2,749,000
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Referring to the new EBA guidelines MAEL is required to apply a Fixed Overheads requirement equal to one quarter of our relevant fixed expenditure after deducting discretionary payments.

Disclosure: Credit Risk and Dilution Risk

MAEL is primarily exposed to Credit Risk from the risk of non-collection of distribution fees and commissions. Thorough due diligence of prospective participants (i.e. Clients and Dealers) are undertaken by the Credit Committee including creditworthiness.

All cash balances are held with Banks assigned high credit ratings.

Consequently risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

Disclosure: Non-Trading Book Exposures in Equities

This disclosure is not required as MAEL does not have a Non-Trading Book Exposure to Equities.

Disclosures: Exposures to Interest Rate Risk in the Non-Trading Book

Although MAEL has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

Disclosures: Securitisation

This disclosure is not required as MAEL does not securitise its assets.

Encumbered assets:

MAEL holds one encumbered asset of £700,000 being collateral held at Pershing Securities Limited.

Disclosure: Remuneration¹

MAEL is not significant for the purposes of the CRR therefore it applies the remuneration disclosure requirements in a manner that is appropriate to its size, internal organisation and the nature, scope and complexity of its activities The Remuneration Committee is responsible for MAEL's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

Aggregate Quantitative Remuneration by Senior Management and other Remuneration Code Staff

Fixed compensation	GBP 1,672,000
Variable compensation	GBP 1,683,000
Total	GBP 3,355,000

¹ Article 450 of EU Regulation 648/2012 (EU CRR)