

## MarketAxess Limited - Pillar 3 Disclosure

### Introduction

MarketAxess Limited (“MAL” or the “Group”) is a private limited company incorporated in England and Wales. MAL became a consolidated supervision group in June 2016 as defined by the Capital Requirements Regulation (“CRR”), by virtue of its regulated subsidiaries, MarketAxess Europe Limited (“MAE”) and MarketAxess Capital Limited (“MACL”).

MAE operates a multilateral trading facility (“MTF”) that enables fixed-income market participants to efficiently trade corporate bonds and other types of fixed-income instruments. MAE is designated an IFPRU Limited Licence €730k firm.

MACL is a BIPRU Limited Licence €50k firm, established in response to the MiFID II rule (Article 19(5)) that prohibits matched principal trading by a market operator on a MTF. MACL will act as counterparty to matched principle trading when it commences business, which is expected to occur on 2<sup>nd</sup> October 2017.

### Regulatory Context

The Group is regulated by the FCA and is subject to both the Capital Requirements Directive (2013/36/EU) (“CRD IV”) and the Capital Requirements Regulation (EU) No 575/2013 (“CRR”).

The regulatory framework primarily consists of three pillars:

- **Pillar 1:** sets out the minimum capital requirements that the Group needs to retain to meet its credit/counterparty risk, market risk and fixed overhead requirement;
- **Pillar 2:** requires the Group and the FCA, to take a view on whether it needs to hold additional capital against firm-specific risks either not covered sufficiently or not covered at all by Pillar 1. To assist in this process the Group 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 Group’s capital requirements outside those already considered under Pillar 1; and
- **Pillar 3:** requires the Group 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.

Part Eight (Articles 431 to 451 inclusive) 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.

### Scope of Application

The requirements of the regulation apply to the Group. The Group’s two regulated entities, MAE and MACL are fully consolidated into the Group for prudential purposes.

All financial disclosures in this document are as at 31 December 2016.

### Frequency

The Group will be making Pillar 3 disclosures annually and the disclosures are published in conjunction with the Financial Statements. Given the scale and range of activities, the Group currently assess that there is no need to publish some or all of its disclosures more frequently.

### Means of Disclosure

The disclosure will be published on our website:

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

Where equivalent disclosures have been made elsewhere (Financial Statements) this document will indicate where they can be found.

### Verification

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

### Materiality

Article 432(1) of the CRR 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 the Group deems a certain disclosure to be immaterial, it may be omitted from this disclosure.

### Proprietary or Confidentiality

Article 432(2) of the CRR provides for the omission of one or more items of the required disclosures if the information is proprietary or confidential. Information is regarded 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 the Group's investments therein less valuable.

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

### Governance & Risk Management

As part of the governance structure of the Group, the Risk and Internal Audit Department has been established as an independent control function, assessing, testing and reporting on the effectiveness of the Group's risks and internal controls which must comply with statutory, legal and regulatory requirements.

The Risk and Internal Audit Department maintains independence throughout its activities and reports directly to the Group's Board.

All of the Group's key risks are within the ICAAP, and form the main basis for the assessment of the Pillar 2 requirement. The Operational Risk assessment focus is on the key risks and contributes to the stress-testing framework.

The Group risk appetite is measured against a set of agreed risk categories. These risk measures are monitored and reported on a quarterly basis in the form of risk metrics.

The risk management process is adequate for our profile and strategy.

### **Governance Framework**

The Board of the Group is responsible for ensuring that the Group 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:

- Head of Europe and Asia - Christophe Roupie
- EU Chief Operating Officer- Scott Eaton
- European Product Manager - Gareth Coltman
- Head of EU & Asia 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
- Head of EU Marketing & Communications - Kyle White
- Head Investor and Dealer Client Sales- David Wright

### **Internal Audit and Risk Framework**

Risk within the Group 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 the Group;
- Scenario Analysis and Stress Tests on the most significant risks identified. This informs MAEL how risks are likely to behave and what, if any, impact there is likely to be to the balance sheet; and
- An internal control framework to govern its processes, procedures and controls to mitigate any risks aligned to International Internal Audit, Risk and Controls standards, as well as industry best practices.

### Three lines of Defence

The Group operates the three lines of defence model:

1. The first line is each business line that is client facing, together with all those that execute and process transactions. Key first line functions would include Sales, Customer Services, Operations, Finance etc. The first line is responsible for managing and monitoring the risks that exist in their respective areas, and to ensure that all controls are functioning effectively. By identifying these risks, the first line functions are able to make decisions on improvements required in their control environment.
2. The second line are those functions that oversee or specialise in risk management, such as Risk Management, Compliance and IT Security functions. The second line provides oversight over the first line of defence, to ensure that risk management activities are adequately focused in accordance with the Risk Management Framework.
3. The Internal Audit and Risk Department acts as a third line of defence and provides independent assurance. External consultants are further used to support the work of the Internal Audit and Risk department when required for assurance reviews with the Group entities being subject to external statutory audit on an annual basis.

### Own Funds

A reconciliation of the Group's financial statements for the year ended 31 December 2016 to regulatory own funds is shown below:

<b>Equity Per Balance Sheet</b>	<b>Group (£'000s)</b>
Share Capital	20,407
Retained Earnings <sup>1</sup>	47,792
<b>Total Equity</b>	<b>68,199</b>
<b>Regulatory Adjustments</b>	
Deductions:	
- Qualifying Holdings	(31,308)
- Transitional Adjustments	(163)
<b>Total Regulatory Adjustments</b>	<b>(31,471)</b>
<b>Total Regulatory Own Funds</b>	<b>36,728</b>

<sup>1</sup> Retained Earnings include audited profit for the year ended 31 December 2016.

### Capital Requirements

To meet our Capital Adequacy Resource Requirement, the Group 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, which the Group performs on at least an annual basis.

### Credit risk

The credit risk capital component of a Group is 8% of the total of its risk weighted exposure amounts. The 'standardised method' has been applied for calculating credit risk, where the credit risk of each underlying asset held by the Group is analysed.

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	2,507	100%	£2,507
Institutions (including cash at bank)	46,178	20%	£9,236
Corporates	15,528	100%	£15,528
<b>Total</b>	<b>64,213</b>		<b>£27,270</b>
<b>Credit Risk Capital Component</b>	8% of risk weighted exposure		<b>2,182</b>

### Use of ECAs

Where a credit assessment is available, the Group has nominated Fitch Ratings Limited to rate the relevant exposures, under the standardised approach.

**Market Risk**

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

<b>Rule</b>	<b>Position</b>	<b>Risk Weight @ 8%</b>	
	<b>(£000's)</b>		<b>(£000's)</b>
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	401	100%	32
<b>Total</b>	<b>401</b>		<b>32</b>

**Operational Risk and Fixed Overhead Requirement**

As a limited licence Group, MAL 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

**£4,438,000**

Referring to the new EBA guidelines, the Group is required to apply a Fixed Overheads requirement equal to one quarter of our relevant fixed expenditure after deducting discretionary payments.

**Exposures in equities not included in the trading book**

The Group has no exposure to equities not included in the trading book.

**Exposures to Interest Rate Risk on positions not included the Non-Trading Book**

The information required by Article 448 in relation to exposure to interest rate risk is not disclosed due to the immateriality of such exposure.

**Exposures to Securitisation Positions**

The Group has no exposure to securitisation activity.

**Asset Encumbrance**

The Group holds one encumbered asset of £500,000 being collateral held at Pershing Securities Limited.

**Remuneration<sup>1</sup>**

The Group 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 Group'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 1,892,000
Variable compensation	GBP 2,814,000
<b>Total</b>	<b>GBP 4,706,000</b>

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