Cantor Fitzgerald Services LLP (CFS LLP)

Pillar 3 Disclosures 2015

Approver	Date
FCALCO Committee	13th January 2017
CFE & CFS Board	15th March 2017

Contents

1. Overview

1.1. Background

The requirement for consistent capital adequacy standards across financial institutions was introduced by the European Capital Requirements Directive (“CRD”). This directive was subsequently enforced in the UK by the Financial Conduct Authority (“FCA”). The CRD outlines a framework consisting of 3 “pillars”:

Pillar 1:	Outlines minimum capital requirements.
Pillar 2:	Requires an assessment to be made of whether additional capital should be held against risks not covered by Pillar 1. This assessment is completed via the Internal Capital Adequacy Assessment Process (“ICAAP”).
Pillar 3:	Obliges a firm to make a public disclosure of both qualitative and quantitative information concerning its capital adequacy, providing information on its risk management policies, its risk exposures and its levels of capital resources.

These disclosures are made on behalf of the Cantor Fitzgerald Services LLP (“CFS LLP”) consolidated group (“the Group”). The Group is a member of the Cantor Fitzgerald L.P. group which is comprised of Cantor Fitzgerald L.P. (“CFLP”) and its subsidiaries.

Contained within the CFS LLP consolidated group are the following entities.

- Cantor Fitzgerald Europe (“CFE”) (a full scope investment firm)
- Cantor Fitzgerald (India) Holdings Private Limited (“CF India”) (unregulated entity currently in liquidation)

CFE, a subsidiary of CFS LLP and the operating entity of the Group, is regulated by the Financial Conduct Authority (”FCA”) and is authorised to conduct investment business in the UK under the Financial Services and Markets Act 2000 (“FSMA”). Furthermore, under the provisions of the Markets in Financial Instruments Directive (“MIFID”) is authorised to conduct cross border investment business into European Economic Area (“EEA”) member states. CFE also has a branch office in Israel. From 20 November 2013, the Group was regulated by the FCA.

Revised EU legislation comprising the Capital Requirements Directive (“CRD IV”) 2013/36/EU and the Capital Requirements Regulation (“CRR”) 575/2013 became effective on 1 January 2014. The Group has complied with the requirements from the effective date. The Country by Country disclosures required by Article 89 of the CRD IV are disclosed in the CFS LLP and CFE audited financial statements.

1.2. Disclosure policy

In accordance with the CRR, the Group has adopted a formal disclosure policy to comply with the disclosure requirements set out in Article 431, and has policies for assessing the appropriateness of the disclosures, including their verification and frequency.

Under Article 432 (1), a Group may omit one or more of the required disclosures if the information is not material, that is information that would not be likely to change or influence the decision of a user relying on that information for the purposes of making an economic decision. No disclosures for the Group have been omitted on these grounds.

Under Article 432 (2) a Group may omit one or more of the required disclosures if they would require the disclosure of any information regarded as proprietary or confidential, that is information which would, respectively, undermine a competitive position or breach an obligation of confidence between the Group and its customers. No disclosures for the Group have been omitted on these grounds. In accordance with the requirements of Article 433, these disclosures are updated annually or more frequently if there is a material change to the Group's circumstances.

Disclosures are required to be provided on a consolidated basis for the Group. In addition, Capital Resources and Capital Resource Requirement disclosures are required for significant subsidiaries on an individual basis. Information is required to be prepared on an annual basis and published as soon as practicable after the completion of the annual financial statements.

This report has been prepared to reflect the audited financial position as at 31 December 2015.

1.3. Nature of business

The Group acts as a corporate finance advisor, broker dealer and market maker in securities and derivatives operating from the United Kingdom and Israel.

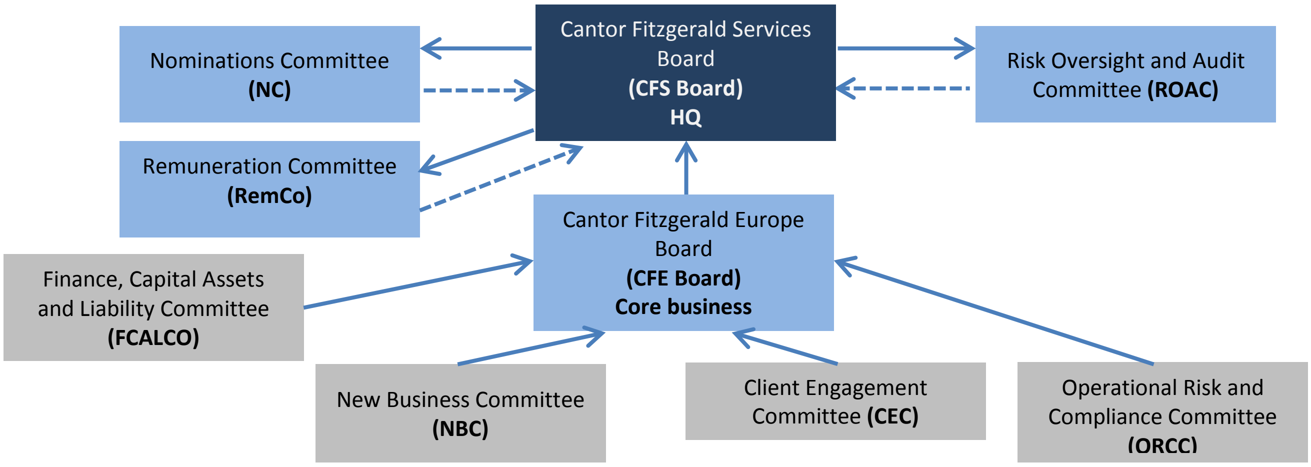
1.4. Scope of application

Financial information has been prepared on a full consolidation basis for CFS LLP and its subsidiaries. Intra-group transactions and balances are eliminated on consolidation. Details of the activities of subsidiary undertakings of the Group as at 31 December 2015 are as follows:

Entity	Nature of business	Registration
Cantor Fitzgerald Europe	Corporate Finance Advisor / Broker Dealer / Market Maker	England & Wales
Cantor Fitzgerald (India) Holdings Private Limited	In liquidation	Mauritius

2. Risk management

2.1. Committee Structure



2.2. Governance

Overall responsibility for the risk management of the Group lies with the Board of CFS LLP ("the Board"). The Board relies on the Risk Oversight and Audit Committee ("ROAC") to provide recommendations on risk appetite, tolerance and strategy. In recommending the risk appetite, the ROAC is responsible for reviewing and challenging the risk appetite methodology including the assumptions and models used in the methodology.

The ROAC is also responsible for ensuring the accurate and timely monitoring of capital and risk exposures and for reviewing reports on any material limit breaches and the adequacy of any proposed mitigation.

The CFS LLP Board is responsible for implementing the risk management framework in line with the Group's strategic and operational goals establishing a system of financial, operational and compliance controls and monitoring through risk management systems.

The business is responsible for the identification and day-to-day management of risks. Senior management, with the responsibility for overseeing the front and back office functions, are responsible for all control related business issues and management of the issues in their business function, within the limits and control environment established by the Board.

Through monitoring and reporting the Risk Management department is responsible for ensuring the operational, credit and market risks are kept in line with risk appetite. For operational risk, this is accomplished by a range of interconnecting risk and control methodologies that are embedded throughout the Company. As for credit and market risk, this is accomplished by establishing consistent standards, applying those standards in the assessment of counterparties and positions, adhering to delegated authority limits, and monitoring current and potential exposures after the execution of transactions.

The Risk Management department has an independent reporting line and the Chief Risk Officer sits on the relevant CFS LLP governing committees.

The Internal Audit function provides assurance that the system of internal controls achieves its objectives and also highlights gaps and areas where controls can be improved. The Internal Audit function reports directly to the CFS LLP Audit Committee.

The Market and Credit Risk Management Policy and the Operational Risk Policy, as approved by the Board and the Operational Risk Framework, describe the roles and responsibilities in relation to risk identification, assessment, management, monitoring and reporting of risks.

2.3. Risk identification

It is the responsibility of the Group's business units and functions to identify the most material risks faced by the business area under their oversight. The methods used to identify risks can vary across business units and functions, but typically they would include:

- Risks that have occurred externally that are relevant to the Group;
- Risks identified through the Risk and Control Self Assessments process;
- Risks identified by senior executives through strategic planning or governance processes;
- Risks where there have been previous internal incidents in the Group;
- Risks identified on assessment and from due diligence of new business products acquisitions and any material changes on existing business, and
- Risks identified by internal or external audit.

The New Business Committee is responsible for ensuring that any new business or material change to an existing business has been assessed in respect of any new risks it may create including the impact to the Group's capital and liquidity.

The Risk Management department review the risks identified and challenge that additional risks should be considered.

All identified risks are mapped to the Group's risk categorisation model to ensure that all risks to which the Group is exposed are categorised and reported in a consistent manner.

2.4. Coverage of risks

Pillar 3 disclosures in this document cover credit risk (section 5), market risk (section 6), operational risk (section 7), non-trading book equities (section 8) and interest rate risk (section 9).

3. Capital Resources

3.1. Summary

Capital resources available to the Group and for the significant subsidiaries are based on the audited financial statements as at 31 December 2015 are as follows:

$m	Group	CFE
Core Tier One		
Partners' capital resources	32.4	33.6
Minority interests	0.6	-
Intangible assets	(1.0)	(1.0)
	32.0	32.6
Tier Two		
Subordinated loans	64.1	64.1
	64.1	64.1
Total Capital Resources	96.1	96.7

Reconciliation to Financial Statements		
$m	**Group**	**CFE**
Members' Interest	32.4	33.6
Minority interests	0.6	-
Total equity	33.0	33.6
Tier One adjustment - Intangible assets	(1.0)	(1.0)
Tier Two adjustment - Subordinated loans	64.1	64.1
Total Capital Resources	96.1	96.7

3.2 Terms and conditions of capital resource items

Details of the Group's subordinated loans with CFLP are as at 31 December 2015 are as follows:

Counterparty	Value ($m)	Effective date	Maturity date	Interest rate
Cantor Fitzgerald L.P.	7.0	31/10/2009	30/09/2021	3 month LIBOR + 450bps
Cantor Fitzgerald L.P.	17.0	31/12/2009	30/09/2021	3 month LIBOR + 450bps
Cantor Fitzgerald L.P.	16.0	29/09/2011	30/09/2021	3 month LIBOR + 450bps
Cantor Fitzgerald L.P.	15.0	13/12/2011	30/09/2021	3 month LIBOR + 450bps
Cantor Fitzgerald L.P.	8.0	20/12/2012	30/09/2021	3 month LIBOR + 450bps
Cantor Fitzgerald L.P.	1.1	24/05/2013	30/09/2021	3 month LIBOR + 450bps
TOTAL	64.1			

As at December 2015, CFE had subordinated loans with CFLP totalling US$64.1m (2014: US$64.1m). The subordinated loan meets the criteria to qualify as Tier 2 Capital as defined in Articles 62 and 63 of the CRR. During 2015, there were no repayments of subordinated loans.

3.3 Deductions from capital resources

Certain employee loans of US$979k are classified as intangible assets for regulatory reporting purposes. Where losses are incurred, these are immediately deducted from CET 1 capital.

3.4 Impediments to transfer of capital resources

The principal restriction on the transfer of capital within the Group is the requirement for the regulated entity to maintain certain levels of capital to meet the thresholds set by regulators. In addition, Articles 77 and 78 of the CRR only allow for the repayment of subordinated debt that qualifies as Tier 2 capital instruments under limited circumstances.

4. Capital adequacy

4.1. Approach to assessing capital adequacy

The Group has an Internal Capital Adequacy Assessment Process ("ICAAP") to determine the risks that the Group is potentially exposed to and to ensure that capital is held proportionate to these risks.

The ICAAP assesses the risks, the minimum capital requirements and the capacity of the business to survive a severe downside scenario. This forms the basis of the own capital requirements under the FCA's Pillar 2 requirements. In assessing the total amount of capital to be held under Pillar 2, the Group assumes that the higher of the Pillar 1 (Minimum capital requirements) or Pillar 2 amount should be held for each risk category.

4.2. Minimum capital requirements: Pillar 1

Capital requirements (unaudited) for the Group and for the significant subsidiaries as at 31 December 2015 are as follows:

$m	Group	CFE
Credit risk	1.9	1.8
Counterparty risk	1.2	1.2
Market risk	4.7	4.7
Operational risk	9.2	9.2
Total capital requirements	17.0	16.9
Total capital resources	96.2	96.7
Excess capital resources	79.2	79.8
Core Tier 1 Capital ratio	15.0%	15.4%

The firm's capital ratios as at 31 December 2015 are above the minimum ratios per Articles 93 and 94 of the CRR.

5. Credit risk

5.1. Risk management framework

The Board sets the credit risk appetite and oversees the application of credit risk policies. Changes to the Credit Risk Policy will be recommended by the FCALCO for consideration and approval by the Board. The Board has delegated to the FCALCO the following responsibilities:

- Review any appropriate credit related issues brought to the Committee's attention;
- Review and approve proposed credit limits over and above delegated authority to be booked in the Group to ensure they meet credit policies and risk appetite; and
- Authorise delegation of credit approval.

Members of the Risk Management department are granted credit approval authority consistent with their experience. Each Credit Officer granted credit approval authority is provided with a memo outlining the extent of that approval authority. All such delegated authorities must be approved by the Global Credit Committee ("GCC") before such delegation of authority may be activated. The GCC reviews and approves counterparty credit limits. Transactions that expose CFE to potential credit risk must also be approved according to the market and credit risk policy.

Where a proposed limit is in excess of delegated authorities, the CFE Board and the GCC must assess the creditworthiness of the counterparty, assign an internal rating, and establish the credit limit. The CFE Board has the authority to decline or reduce any credit approval made by the GCC, FCALCO or made by a member of the Risk Management department under delegated authority.

The credit review is an important part of the Group's credit risk management process. The purpose of the credit review is to assess the Group's exposure to the counterparty relative to that counterparty's financial capacity; to establish, reaffirm or modify the internal risk ratings; to establish, reaffirm or modify credit limits; and to take corrective action to remedy any deficiencies that might have been identified in the review process. Credit reviews are required at the time of the initial approval of credit limits for counterparty and on a periodic basis thereafter based on the counterparty's review cycle.

The Group undertakes credit reviews of other members of the Cantor group with which it trades and assigns credit limits to these entities. All such limits are presented to the GCC, FCALCO and CFE Board for approval.

The Risk Management department is responsible for the day-to-day monitoring of credit limits and activity of matched principal transactions. A daily credit report is prepared which is circulated widely and includes selected members of the CFE Board and FCALCO on the distribution list.

Brokerage receivables are tracked and collected by the brokerage receivables department of Finance. Outstanding, overdue receivable balances are aggressively chased and all amounts overdue more than 90 days are reported to the FCALCO.

The investment selection, reinvestment and diversification of cash placed on deposit are managed on a day-to-day basis by the Treasury Department and is subject to treasury policies and procedures.

A monthly report is prepared for the FCALCO. This report contains management information on credit exposures, credit stress testing, credit limit breaches and related matters. A summarised version of this report is prepared for the CFE Board and the ROAC.

5.2. Credit Risk mitigation

In addition to the processes in place to mitigate risk in Section 5.1, CFE utilises stock lending and stock borrows for short term liquidity management. Market prices on the collateral received on these transactions are monitored daily. CFE also holds legally enforceable netting agreements with clearing parties and certain group companies.

The counterparty credit risk charge for the Firm's stock lending is calculated using the Financial Collateral Simple method as prescribed in Article 222 of the CRR. The charge for 31 December 2015 (unaudited) is set out below:

$m	Cash/Stock Lent	Collateral	Haircut	Currency mismatch	Net Exposure	Risk weighting %	Risk weighted exposure	@ 8%
Total	53.5	48.9	7.7	0.3	12.6	20	2.5	0.2

5.3. Credit Risk Exposures

5.3.1.Period end exposures

$m	RWA As at 31 Dec 2015	Pre - Mitigation	Pre - Mitigation Average	Post - Mitigation	Post - Mitigation Average
Central governments or central banks	-	41.0	41.0	41.0	41.0
Financial Institutions	23.8	153.6	199.5	115.8	136.3
Corporate	4.6	18.9	24.4	4.7	7.0
Past due items	2.4	1.6	1.7	1.6	1.8
Other items	3.4	2.5	2.4	2.5	2.4
Total credit risk exposures	34.2	217.6	269.0	165.6	188.5

5.3.2. Geographic distribution of exposure classes

$m	United Kingdom	Rest of Europe	North America	Asia	Rest of world	Total
Central governments or central banks	-	-	41.0	-	-	41.0
Financial Institutions	83.4	7.4	59.0	3.4	0.4	153.6
Corporate	8.9	0.5	7.7	1.7	0.1	18.9
Past due items	0.6	0.4	0.6	-	-	1.6
Other items	2.5	-	-	-	-	2.5
Total credit risk exposures	95.4	8.3	108.3	5.1	0.5	217.6

5.3.3. Maturity profile of credit risk exposures

$m	< 1 year	Total
Central governments or central banks	41.0	41.0
Financial Institutions	153.6	153.6
Corporate	18.9	18.9
Past due items	1.6	1.6
Other items	2.5	2.5
Total credit risk exposures	217.6	217.6

5.4. Past due items

5.4.1.Past due and impaired credit risk exposures

Past due items mainly represent debtors from the Group's name give-up business. Past due is defined as any item due for more than 90 days.

Aged brokerage receivable reports are produced and reviewed daily. The FCALCO reviews the status of outstanding brokerage receivables on a regular basis to assess whether impairment is necessary. An analysis of past due credit risk exposures by geography and counterparty type are as follows:

$m	Geography
North America	0.6
Europe	1.0
Total	1.6

$m	Counterparty
Financial Institutions	1.0
Corporate	0.6

Total	1.6

5.4.2. Value adjustments and provisions

The default rate on receivables aged over one year or more is very low and allowances for potentially irrecoverable amounts are determined on an individual case by case basis. The net movement in provisions is recognised through the profit and loss account for the period.

There were no value adjustments as at 31 December 2015.

5.5. Pillar 1: Standardised credit risk exposure classes

5.5.1. Methodology

The Group calculated credit risk requirements under the standardised approach, using external credit ratings provided by Standard & Poors ("S&P") and Moody's. Where both long term and short term ratings are provided, the long term ratings are used. Where counterparty has a rating on both S&P and Moody's, then the lower credit rating is taken. The external credit ratings are mapped to the prescribed credit quality assessment scale (credit quality step) that in turn produces standard risk weightings as follows:

Credit Quality Step	S&P	Moody's	Government	Financial Institutions > 3 mths	Financial Institutions < 3 mths	Corporate, Retail and Other Items
1	AAA to AA-	Aaa to Aa3	0%	20%	20%	20%
2	A+ to A-	A1 to A3	20%	50%	20%	50%
3	BBB+ to BBB-	Baa1 to Baa3	50%	50%	20%	100%
4	BB+ to BB-	Ba1 to Ba3	100%	100%	50%	100%
5	B+ to B-	B1 to B3	100%	100%	50%	150%
6	CCC+ and below	Caa1 and below	150%	150%	150%	150%
Unrated			100%	50%	20%	100%

5.5.2.Exposures by credit quality step

$m	Central governments or central banks	Financial Institutions	Corporate	Past due items	Other items	Total
Step 1	41.0	0.9	-	0.0	0.4	42.3
Step 2	-	137.7	4.0	1.0	-	142.7
Step 3	-	14.6	0.6	-	-	15.2
Step 4	-	0.0	3.3	0.6	-	3.9
Step 5	-	-	-	-	-	-
Step 6	-	0.0	-	-	-	0.0
Unrated	-	0.4	11.0	-	2.1	13.5
Total	41.0	153.6	18.9	1.6	2.5	217.6

All exposures in section 5.5 are reflected without taking into account the effects of credit risk mitigation as prescribed in Article 442 (c) of the CRR.

5.6. Net derivatives credit exposure

The Group's exposure to derivatives is mainly in the form of CFD's. The Group also uses FX derivative contracts to hedge its exposure to market risk arising from fluctuations in foreign exchange. The credit risk is the risk that the counterparty to a derivative instrument could default. The risk is mitigated by holding margin and in the case of FX derivatives and CFD's legally enforceable netting agreements. The derivative charge for CFD's and the FX derivatives is the mark-to market method as prescribed in Article 274 of the CRR where an exposure value is calculated by taking the sum of replacement cost and potential future credit exposure.

6 Market Risk

6.1 Risk management framework

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices or other factors will result in losses for a specified position. Although there are many types of market risks that can affect a portfolio's value, they can generally be described as factors arising from changes in interest rates, credit spreads, currency exchange rates, the liquidity of markets for specific financial instruments, and local or world political and economic events. Market risk related volatility includes factors dependent on evolving perceptions of the volatility of price changes, the passage of time, and the interactive effect of other market risks.

CFE is permitted to enter into certain unmatched principal transactions in the ordinary course of business and hold certain long and short inventory positions. These transactions are primarily for the purpose of facilitating clients' execution needs, adding liquidity to a market or attracting order flow. As a result, CFE may have market risk exposure on these transactions. Market risk exposure on these positions is mitigated by strict risk limits, and limited holding periods and hedging exposure. These positions are intended to be held short term to facilitate customer transactions and CFE's market-making activity.

The CFE Board sets the market risk appetite and oversees the application of market risk policies. Changes to the Market Risk Policy will be recommended by the FCALCO for consideration and approval by the CFE Board. The Board has delegated to the FCALCO the following responsibilities:

- Review any market risk related issues brought to the Committee's attention; and
- Review and approve proposed market risk limits to be booked in CFE to ensure they meet the market risk policy and appetite.

Transactions that expose CFE to market risk must be approved according to the Market and Credit Risk Management Policy. The CFE Board is responsible for assessing and approving proposed changes to market risk limits. In determining whether or not to approve proposed limits, the Board will take into consideration the CFE risk appetite, capital and funding considerations.

Most positions are subject to limited holding periods. The purpose of these holding periods includes three aspects:

- The need to demonstrate active trading portfolios;
- To ensure that trading positions are regularly turned over. This will minimise the accumulation of illiquid or stale positions that may lead to adverse profit and loss or valuation consequences as a result of changing market or credit circumstances;
- Enforce balance sheet discipline.

The Risk limit system is structured to measure risk against CFE's risk appetite and with the adequacy of its capital position. Individual measures are designed to:

- Monitor actual risk-taking against predetermined tolerances;
- Permit management to control exposures; and
- Initiate discussion about opportunities and risks.

The Risk Management department is responsible for the day to day monitoring of market risk limits. A daily market risk report is prepared by the Risk Management department for CFE which is circulated widely and includes members of the FCALCO on the distribution list.

A monthly report is prepared for the FCALCO. This report contains management information on market risk exposures, VaR exposure, market risk limit breaches and related matters. The FCALCO review the data and escalate relevant issues to the CFE Board. On a daily basis the Risk Management Department are responsible for checking utilisation of limits. Where a market risk limit breach has occurred, the Risk Management Department will issue a limit breach notification which will be emailed to the relevant desk and business representative. A summary of all such limit breaches is included in the monthly risk pack to the FCALCO. Repeat violations of limits may result in suspension of limits or other disciplinary actions.

The Finance department is responsible for day-to-day monitoring of foreign exchange exposure and reporting on the resultant profit and loss impact on CFE. Each day, the Finance department is responsible for distributing an updated report covering estimated FX exposure of CFE at the end of each day which is then reviewed and used to reduce CFE's currency exposures by exercising FX hedges throughout the month. This report which is circulated widely, and includes members of the FCALCO on the distribution list shows the daily FX exposure movement, the GAAP FX revaluation profit and loss and the estimated economic profit and loss FX impact as the exchange rates move during the month.

6.2 Market Risk Charges

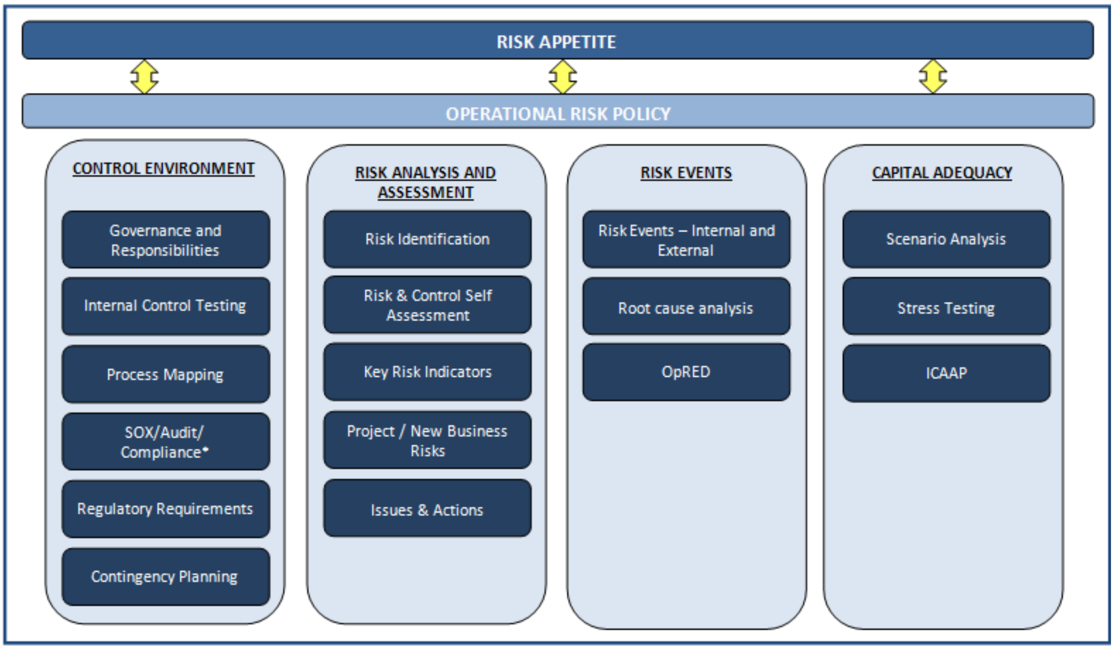
The Pillar 1 charges for market risk (unaudited) as at 31 December 2015 are disclosed below:

$m	Group	CFE
Equity Risk	3.8	3.8
FX Risk	0.8	0.8
Interest rate risk	0.1	0.1
Total Market Risk	4.7	4.7

7 Operational Risk

7.1 Risk management framework

In CFE, operational risk is the risk of loss resulting from inadequate or failed processes, systems, and people or from external events. Operational risk also takes into account other risks such as legal and compliance risk. It is recognised and accepted by the CFS LLP Board that operational risk is inherent in the business that CFE undertakes, but that it is critical that this is managed appropriately according to the CFS LLP Board's risk appetite, through a programme of sound operational risk management. The diagram and subsections below refer to the key elements of the Framework of Operational Risk ("FORC").



The key elements of the Risk Management Department's role are to:

- Oversee and challenge the business with respect to its management of operational risk; and

- Lead the embedding of the FORC across CFE by facilitating appropriate training and risk awareness sessions.

Internal Audit aims to provide independent assurance to the CFS LLP Board and Senior Management of the effectiveness of the key elements of the operational risk management framework detailed above by reviewing and challenging CFE's risk management controls, processes and systems.

The Risk Appetite Statement articulates the Boards view on the amount of operational risk that the Group is prepared to accept, tolerate or be exposed to. This will be cascaded through the Group's entities and used as a basis for decision making.

It is the responsibility of each of the functional areas, Committees, the CFE Board and the Board to consistently review and challenge any operational risks and their subsequent controls to ensure all material key risks are understood, monitored and managed.

Risk and Control Self Assessments ("RCSAs") are carried out by each of the Group's functional areas and business lines with support from the Risk Management department. It is expected that each RCSA should be undertaken on at least an annual basis with a half yearly review or where there is a significant change in business circumstances. This might be when Key Risk Indicator ("KRI") values indicate an increase in inherent risk, or control weaknesses are identified (e.g. through Internal Audit reports or External Audit points) that enables a more accurate assessment of the strength of mitigating controls. The RCAs are subject to review and challenge in the first instance by the Risk Management department and then by the Operational Risk and Compliance Committee ("ORCC").

KRIs must be in place for risks considered key by the ORCC or by the business as a result of the RCSA process and risk event experiences. KRIs have defined thresholds as per the operational risk appetite and when KRIs breach these thresholds the need for management action is defined within the risk appetite statement.

Operational risk incidents that are over the reporting threshold are recorded using the Operational Risk Event Database system ("OpRED"). Where possible, significant indirect incidents are also captured in the database. An indirect incident is an operational risk event where prospective income that would have been earned is lost e.g. IT staff time is lost (in excess of that considered normal support) or business time is lost (actual lost productivity). Incidents which show the effect on a market or credit risk but are caused by an operational risk event will be collected and categorised as operational risk losses.

External loss events are analysed, at a minimum, on a quarterly basis. External events are analysed to determine their relevance with regards to the Group's businesses. If relevance is confirmed then further actions are required:

- to identify if the event could occur within the Group;
- record the impact of the risk event to illustrate potential magnitude; and
- check internal events for similar incidents.

Scenario analysis allows management to understand a specific risk in sufficient detail so management can better assess, monitor and manage the risk and it is also used to generate frequency and severity data points to assist in capital requirement calculations. The scenario analysis focuses on the key risks identified via RCSAs or any other risk identification source (external data, business expertise etc.). Once the key risks are identified, workshops are conducted to build scenarios which explore what else could go wrong and how management would respond to these events.

8 Non trading book exposure to equities

CFS LLP does not have any material non-trading book exposure to equities.

9 Non trading book exposure to interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest rate risk for the Group arises from cash at bank, subordinated and unsecured loans payable and other financial assets or liabilities.

The Group holds an investment in US Treasury Bills of $41.0m for liquidity management purposes to ensure CFS LLP satisfies the FCA liquidity requirements. These securities are classified in the Group's financial statements as current asset investments and are valued at fair value through profit and loss. The US Treasury Bills have a maturity of no more than three months.

The Group is financed by loans from its parent entity see section 3.2. The total value of loans outstanding is $64.1m repayable on 30 September 2021. Interest is payable at 450bps + 3 months LIBOR.

The Group estimates that a 1% hypothetical adverse movement in interest rates, for the 2015 full financial year, would have resulted in a decrease (2014: decrease) in the profit before tax for the year and a decrease (2014: decrease) in equity of $347k (2014: $185k).

10 Unencumbered Assets

The Group holds certain assets that meet the definition of encumbered. The majority of these assets are held by CFE and consist of the investment in US Treasury Bills of $41.0m for liquidity management purposes as mentioned in section 9. The below table is based on unaudited 31 December 2015 figures.

USD $m	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of non-encumbered assets	Fair value of non-encumbered assets
Assets of the reporting institution	86.2	-	1,146.6	-
Loans on demand	-	-	0.2	-
Equity instruments	20.0	20.0	63.6	63.6
Debt securities	41.0	41.0	1.2	1.2
of which: issued by general governments	41.0	41.0	1.2	1.2
Loans and advances other than loans on demand	25.4	-	58.8	-
Other assets	-	-	1,022.8	-

11 Leverage

As at 31 December 2015 CFS LLP's leverage ratio (unaudited) was 18%. The leverage ratio is calculated as an institution's capital divided by its total net exposure and shall be expressed as a percentage. Per Article 499 of the

CRR, institutions must calculate the leverage ratio based on both the fully phased in definition of tier 1 capital and the transitional definition. For CFS LLP, this figure is the same. CFS LLP has also take advantage of the derogation from Article 429 (2) allowing the Group to disclose its leverage ratio based on the end-of-quarter instead of the arithmetic mean of the monthly leverage ratio.

The Group seeks to ensure the risk of excessive leverage is effectively managed through robust procedures. The Group is not looking to obtain any further external funding in the near future.

$m	$m
Repo/Stock Borrow	12.6
Derivatives: Market value	4.9
Derivatives: Add-on Mark-to-Market Method	6.7
Other assets	142.2
Total Net Exposure	166.4
Tier 1 capital - fully phased-in definition	30.6
Tier 1 capital - transitional definition	30.6
Leverage Ratio - using a fully phased-in definition of Tier 1	18%
Leverage Ratio - using a transitional definition of Tier 1	18%

12 Remuneration Code

The following disclosures are made in accordance with Article 450 of the CRR Disclosure.

12.1 Remuneration Policy

The Group adopts a remuneration policy that applies to both executives and employees of the Group. It is the Group’s intention that the total remuneration of its executives and employees recognises the conduct, performance and contribution made by each to the long-term success of the Group.

12.2 Remuneration Governance

The Remuneration Committee consists of the Non-Executive Directors of the Group, the Chief Financial Officer and the Head of Human Resources. The committee is responsible for ensuring that the Remuneration Policy is aligned to the interests of the Group and the regulatory framework the Group operates, within.

The policy is drafted by the Head of Human Resources, reviewed and when appropriate recommended to the Board for approval, where further review and challenge occur until approval of the policy is appropriate.

12.3 Remuneration Framework

CFE's variable remuneration seeks to reward team and individual performance with reference to results, conduct, operational efficiency and appropriate management of risks.

Variable compensation is generally paid in one of two ways:

(1) a commission payment expressly linked to a numeric formula paid predominantly quarterly in arrears; or

(2) a discretionary bonus usually paid annually in arrears.

CFE retains an overriding discretion over whether and how much to pay by way of discretionary bonus notwithstanding that a contractual formula applies to payments under (1) above.

A proportion of remuneration may consist of cash and/or a non-cash grant of partnership units in CFLP, subject to the terms of the grant documents under which such non-cash compensation is awarded, including any vesting, cancellation provisions and restrictive covenants.

12.4 Remuneration of Senior Management and Employees whose actions have a material impact on the risk profile of the Group

In accordance with Article 450 of the CRR, the remuneration of senior management and employees whose actions have a material impact on the risk profile of the Group must be disclosed. The table below sets out that information.

CODE STAFF REMUNERATION FOR 2015				
	Senior management		Other code staff	
	No. of recipients	$000	No. of recipients	$000
Fixed remuneration during 2015	5	1,108	-	-
Variable remuneration awarded for 2015 performance:				
Cash	3	741		
Equity	4	745		
Total		1,486	-	-
Outstanding deferred remuneration change during the year:				
Awarded	2	192	-	-
Lapsed due to performance outcomes or adjustments	-	-	-	-
Lapsed due to leaving service	-	-	-	-
Paid out	2	116	-	-

Outstanding unvested as at 31 December 2015	-	76	-	-
Sign-on payments or awards	-	-	-	-
Severance payments	-	-	-	-
Highest individual severance payment	-	-	-	-

There were no individual code staff whose remuneration was EUR 1m or greater.