# Cantor Fitzgerald Services LLP (CFS LLP)

## Pillar 3 Disclosures 2020

| Approver | Date |
| --- | --- |
| FCALCO Committee | 12 October 2022 |

# 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)

CFE, a subsidiary of CFS LLP and the operating entity of the Group, is regulated by the Financial Conduct Authority ("FCA") from 20 November 2013 and is authorised to conduct investment business in the UK under the Financial Services and Markets Act 2000 ("FSMA"). On 11 March 2019, the CFE established a Dubai branch regulated by the Dubai Financial Services Authority ("DFSA"). CFE also has a branch office in lsrael. The Group is also 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 unaudited (unless stated otherwise) the financial position as at 31 December 2020.

## 1.3. Nature of business

The Group acts as an investment bank in securities and derivatives operating from the United Kingdom, Israel and Dubai. The Group operates four main business lines: equities, fixed income, prime services and investment banking.

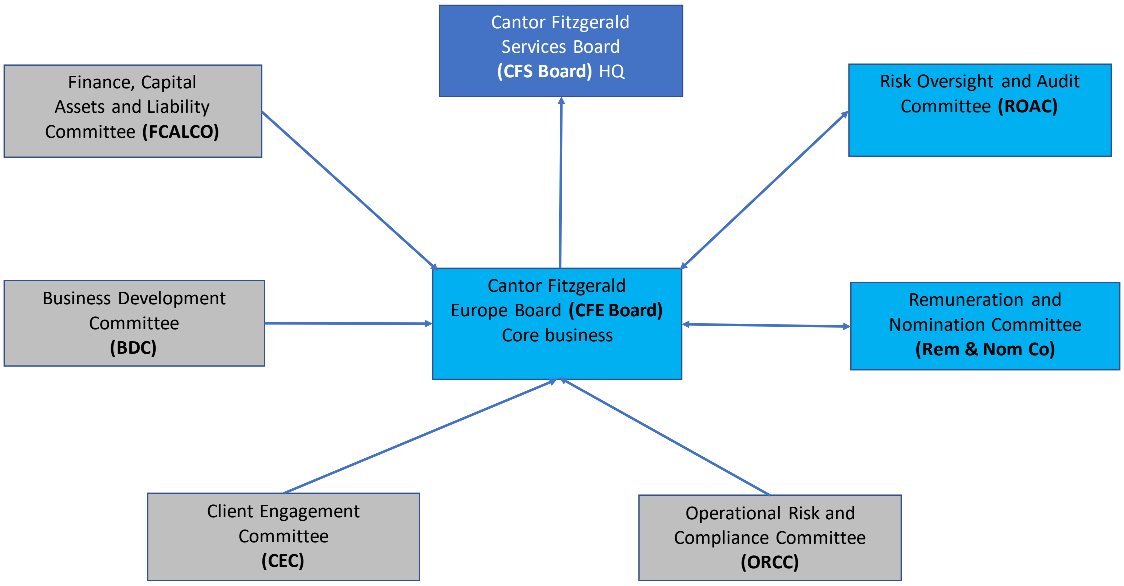
## 1.4. Scope of application

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 Decem.ber 2020 are as follows:

| Entity | Nature of business | Registration |
|---|---|---|
| Cantor Fitzgerald Europe | Investment Banking Advisor / Broker Dealer / Market Maker | England & Wales |

# 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 CFE 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 and CFE Board are 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 to the ROC, which is comprised entirely of Non-Executive Directors (NED). In addition, the Chief Risk Officer (CRO) sits on all governing committees (BDC, FCALCO, CEC and ORCC).

The Internal Audit function provides assurance that the system of internal controls achieves its objectives and highlights gaps and areas where controls can be improved. The Internal Audit function reports directly to the 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 Business Development 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 provide appropriate challenge. This includes additional risks that should be considered.

### 2.4 Coverage of risks

Pillar 3 disclosures in this document cover credit risk (section 5), capital buffers (section 6), market risk (section 7), operational risk (section 8), non-trading book equities (section 9) and interest rate risk (section 10).

## 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 2020 are as follows:

`

| $m | Group | CFE |
|---|---|---|
| **Tier One** | | |
| Partners' capital resources | 104.6 | 101.2 |
| Previous years retained earnings | (7.4) | (3.9) |
| Current Year P&L | 17.1 | 1.9 |

| | | |
|---|---|---|
| Prudential filter | (0.4) | (0.4) |
| Intangible assets | - | - |
| Free deliveries | - | - |
| | 113.9 | 98.8 |
| **Tier Two** | | |
| Subordinated loans | - | - |
| *less amortization:* | - | - |
| **Total Capital Resources** | 113.9 | 98.8 |

| **Reconciliation to Financial Statements** | | |
|---|---|---|
| $m | **Group** | **CFE** |
| Members' Interest | 114.3 | 99.2 |
| **Total equity** | 114.3 | 99.2 |
| Tier One adjustment - Retained earnings | | |
| Tier One adjustment - Current Year P&L | | |
| Tier One adjustment - Prudential filter | (0.4) | (0.4) |
| Tier One adjustment - Intangible assets | - | - |
| Tier One adjustment - Free Deliveries | - | - |
| Tier Two adjustment - Subordinated loans | - | - |
| **Total Capital Resources** | 113.9 | 98.8 |

### 3.2 Terms and conditions of capital resource items

CFE and the Group is funded entirely by Tier 1 equity capital with no attached terms or conditions.

### 3.3 Deductions from capital resources

Free deliveries (US$0.0m), losses incurred, and value adjustments 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.

# 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 Firm's 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 (Pillar I + approach).

## 4.2 Minimum capital requirements: Pillar 1

Capital requirements (unaudited) for the Group and for the significant subsidiaries as at 31 December 2020 are as follows:

| $m | Group | CFE |
|---|---|---|
| Credit risk | 6.9 | 5.5 |
| Counterparty risk | 3.5 | 3.6 |
| Market risk | 4.8 | 4.9 |
| Operational risk | 8.7 | 8.6 |
| **Total capital requirements** | 23.9 | 22.6 |
| | | |
| **Total capital resources** | 113.9 | 98.8 |
| **Excess capital resources** | 90.0 | 76.2 |
| **Core Tier 1 Capital ratio** | 38% | 35% |

The firm's capital ratios as at 31 December 2020 are above the minimum ratios per Article 92 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;

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.

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 Risk Management department is responsible for the day-to-day monitoring of credit limits and activity of matched principal transactions. A suite of reports is prepared with varying frequencies (daily, weekly, monthly) to capture credit exposure and are widely distributed. These include, but not limited to, potential exposure, country concentration and stress tests. Summarised report are presented to the FCALCO.

Revenue 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. All outstanding receivables are factored into Credit risk metrics and capital calculations.

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 ROC.

## 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 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 Comprehensive method as prescribed in Article 223 of the CRR. The charge for 31 December 2020 (unaudited) is set out below:

| $m | Cash/Stock Lent | Collateral | Haircut | Currency mismatch | Net Exposure | Risk weighting | Risk weighted exposure | @ 8% |
|---|---|---|---|---|---|---|---|---|
| Total | 146.7 | 144.2 | 27.1 | - | 29.7 | 0.2 | 5.9 | 0.5 |

Credit Risk Exposures

### 5.2.1 Period end exposures

| $m | RWA As at 31 Dec 2020 | Pre -Mitigation | Pre -Mitigation Average | Post - Mitigation | Post - Mitigation Average |
|---|---|---|---|---|---|
| Central governments or central banks | 0.0 | 92.3 | 92.5 | 92.3 | 92.5 |
| Financial Institutions | 34.7 | 306.0 | 181.5 | 171.9 | 116.3 |
| Corporate | 11.6 | 54.8 | 36.9 | 12.6 | 15.5 |
| Past due items | 40.8 | 27.2 | 26.0 | 27.2 | 25.4 |
| Other items | 39.4 | 39.4 | 29.8 | 39.4 | 29.8 |
| **Total credit risk exposures** | 126.5 | 519.7 | 366.7 | 343.4 | 279.5 |

### 5.2.2 Geographic distribution of exposure classes

| $m | United Kingdom | Rest of Europe | Americas | Asia / Oceania | Africa / Middle East | Total |
|---|---|---|---|---|---|---|
| Central governments or central banks | 0.6 | 0.0 | 91.7 | - | - | 92.3 |
| Financial Institutions | 208.0 | 1.0 | 95.5 | 1.4 | 0.1 | 306.0 |
| Corporate | 24.3 | 2.2 | 25.4 | 2.4 | 0.5 | 54.8 |
| Past due items | 9.7 | 15.6 | 0.8 | 0.4 | 0.7 | 27.2 |
| Other items | 39.4 | - | - | - | - | 39.4 |
| **Total credit risk exposures** | 282.0 | 18.8 | 213.4 | 4.2 | 1.3 | 519.7 |

Maturity profile

| $m | < 1 year | 1-5 years | Total |
|---|---|---|---|
| Central governments or central banks | 92.3 | - | 92.3 |
| Financial Institutions | 302.6 | 3.40 | 306.0 |
| Corporate | 13.7 | 41.1 | 54.8 |
| Past due items | 27.2 | - | 27.2 |
| Other items | 36.5 | 2.9 | 39.4 |
| **Total credit risk exposures** | 472.3 | 47.4 | 519.7 |

## 5.3 Past due items

### 5.3.1 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 | Counterparty |
|---|---|
| Central governments | - |
| Financial Institutions | 24.5 |
| Corporate | 2.7 |
| **Total** | 27.2 |

| $m | Geography |
|---|---|
| United Kingdom | 9.7 |
| Asia/Oceania | 0.4 |
| Americas | 0.8 |
| Rest of Europe | 15.6 |
| Africa/Middle East | 0.7 |
| **Total** | 27.2 |

### 5.3.2 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 2020.

## 5.4 Pillar 1: Standardised credit risk exposure classes

### 5.4.1 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:

### 5.4.2 Exposures by credit quality step

| 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% |

| $m | Central governments or central banks | Financial Institutions | Corporate | Past due items | Other items | Total |
|---|---|---|---|---|---|---|
| Step 1 | 41.3 | 202.3 | 0.5 | 10.1 | - | 254.2 |
| Step 2 | 0.0 | 9.6 | - | 15.5 | - | 25.1 |
| Step 3 | 51.0 | 94.2 | 54.2 | 1.6 | 39.4 | 240.4 |
| Step 4 | - | - | - | - | - | - |
| Step 5 | - | - | - | - | - | - |
| Step 6 | - | - | - | - | - | - |
| Unrated | - | 0.0 | - | 0.0 | - | 0.0 |
| Total | 92.3 | 306.1 | 54.7 | 27.2 | 39.4 | 519.7 |

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.

### 5.5 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 counterparty 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 Capital Buffers

The Capital Conservation buffer (CCB) was $7.65m, calculated at the rate of 2.5%.

# 7 Market Risk

## 7.1 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, limited holding periods and hedging unwanted 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 adhere 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 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 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 suite of reports are prepared periodically (daily; weekly; monthly) to capture market risk exposure which include, amongst others, VaR, stress testing and ageing. These are widely distributed with a summarised version presented to the FCALCO. The FCALCO review the data and escalate relevant issues to the CFE Board.
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 is circulated to senior management including members of the FCALCO committee. The report highlights daily FX exposure movement, GAAP and economic profit & loss.

### 7.2 Market Risk Charges

The Pillar 1 charges for market risk (unaudited) as at 31 December 2020 are disclosed below:

| $m | Group | CFE |
|---|---|---|
| Equity Risk | 4.4 | 4.4 |
| FX Risk | 0.9 | 0.4 |
| Interest rate risk | 0.1 | 0.1 |
| **Total Market Risk** | 5.4 | 4.9 |

## 8 Operational Risk

### 8.1 Risk management framework

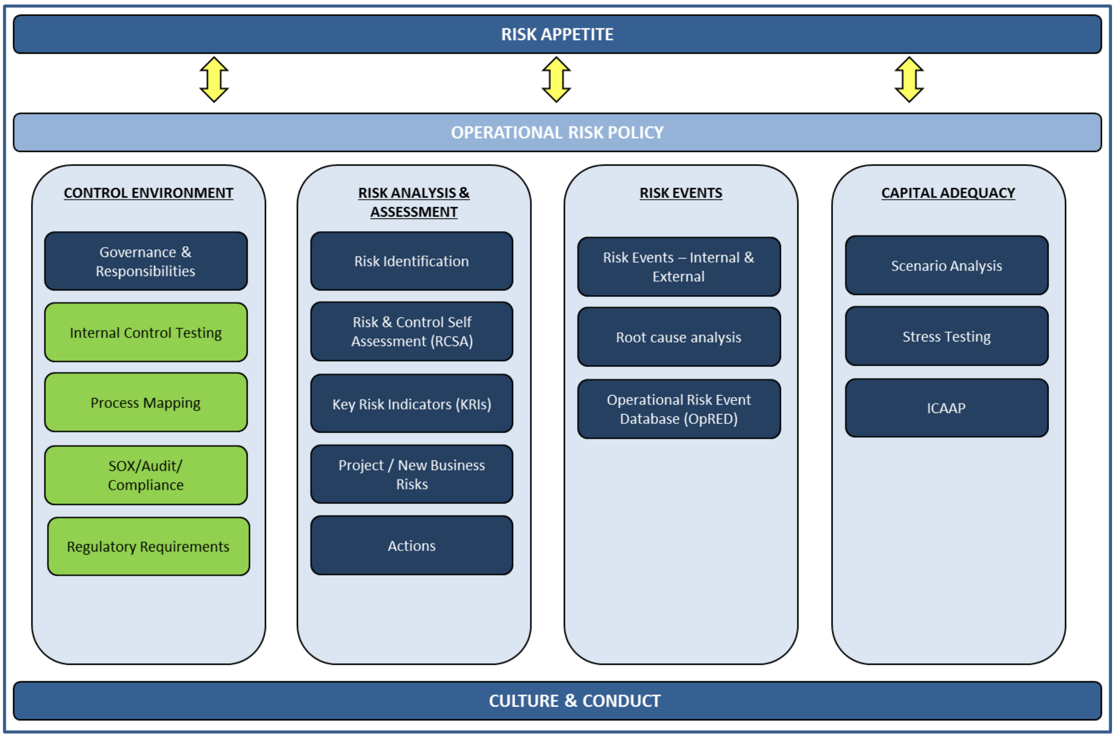
In CFE, operational risk is the risk of loss resulting from inadequate or failed processes, systems, and people or from external events. Operational risk also takes into account other risks such as legal and compliance risk.
Methods adopted in order to identify these risks include analysis of:

- Internal or external past incidents
- ICAAP preparation, review and challenge process
- Internal and external audit processes
- Risk and Controls Self Assessment

All identified Risk are included and categorised via the Control Self Assessments ("RCSAs") and 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. It is the responsibility of each of the functional areas, Committees, and the CFE Board to consistently review and challenge any operational risks and their subsequent controls to ensure all material key risks are understood, monitored and managed. Operational risk events above the reporting threshold are recorded in Op Red and subject to root cause analysis and appropriate remediation steps to reduce the probability of similar future events. Key Risk Indicators are utilised to monitor risks and provide warning of emerging risks. Where residual risks are outside of defined tolerance levels they are escalated via the Risk Management Department and then by the Operational Risk and Compliance Committee ("ORCC"). The firm undergoes scenario analysis testing which allows management to understand a specific risk in sufficient detail to better assess, monitor and manage the risk. It is also used to generate parameters 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 that explore what else could go wrong and how management would respond to these events.

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 below 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.

The diagram  below refer to the key elements of the Framework of Operational Risk ("FOR").




* Note that the boxes in Green indicate processes owned outside of the Enterprise Risk team which act as important inputs into the FOR.

## 8.2 Operational Resilience Framework

Operational Resilience focuses on how CFE can continue to provide Important Business Services to clients and markets on the basis that disruption is inevitable, including from unexpected events.

The key components of operational resilience include defining and understanding the firm's Important Business Services (IBS) and thus calculating the maximum Impact tolerance levels (ITL's) by which an outage may cause intolerable harm to clients, markets or the firm.
Business services have been collated and documented into an inventory from which the firm followed a systematic approach based on FCA requirements to determine its Important Business Services.
The firm has analysed and set impact tolerances for each of its Important Business Services. The impact tolerances have been set by judging (quantitatively where appropriate) the potential impact from severe but plausible disruption scenarios, relevant to each service, from confidentiality breaches, integrity events, or from availability failures, and in the context of all the relevant factors set out in the FCA regulation.
Given that operational resilience regulation is based on the effective delivery of the Important Business Services to the clients, scenario testing includes a focus on these services and the ability to remain within the impact tolerances set by the firm.
Scenario testing considers "severe and plausible" scenarios that stress tests the firm's capability to deliver important business services and to assess its ability to remain within its impact tolerance for each of its IBS's.
The firm carries out scenario testing regularly and when there is a material change to the firm's businesses, IBSs or ITLs.
The firm keeps up to date a written record of their self-assessment of their compliance with FCA requirements. A lessons learned exercise is conducted so the firms can review the experiences of an event, including a project, an incident, a crisis and a scenario test, identifying both the positive experiences, and those areas where improvements can be made.
CFE has in place a communication strategy which has been defined as part of the ongoing Business Continuity Management plan in the EMEA Incident Management Guide (IRG) which includes the Internal & External Communication Process and is being used for operational resilience matters.

Operating Model: Roles and Responsibilities

The Board and governance committees demonstrate their responsibility for directing, evaluating, and monitoring the overall Operational Resilience framework but delegate the BAU role and responsibilities and subsequent processes and controls via the below operating model:

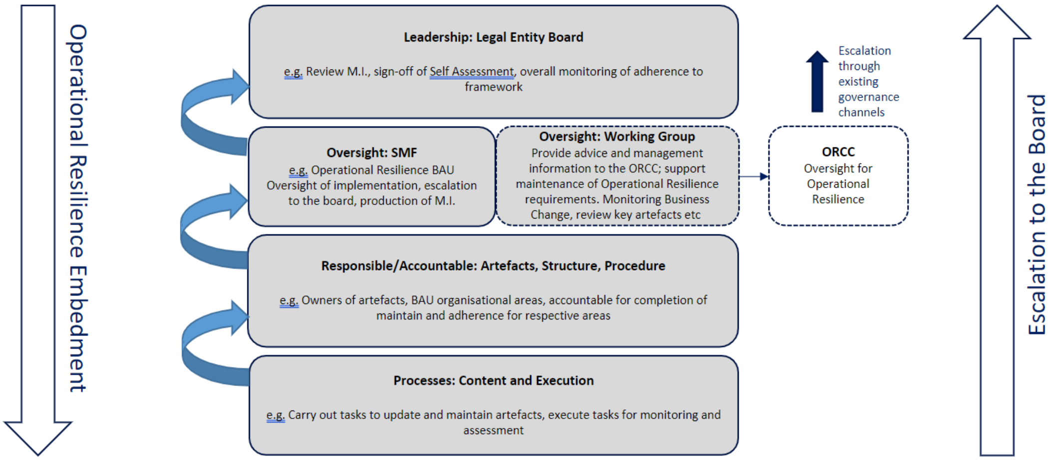



Table 1: *The firms Operational Risk Committeee ("ORCC") is responsible for the oversight and control of the Operational Resilience Framework within the firms, whilst BAU is managed by the firms Operational Resilience Working Group (ORWG). The ORWG meets regularly and provides updates to the Board of Directors*

Operational Resilience is an ongoing assessment of the firm's ability to monitor its IBS and set appropriate ITL's. The firm is committed to re-assess both the IBS & ITL's at least once a year or whenever there is a material change within the business. Furthermore, the firm will continue to invest in the BAU governance, the development of enhanced framework and metrics and ensure alignment to the Operational Risk Management frameworks to achieve target operating model for managing Operations Resilience.

# 9 Non-trading book exposure to equities

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

# 10 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 $51.0m 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 estimates that a 1% hypothetical adverse movement in interest rates, for the 2020 full financial year, would have resulted in a decrease (2019: decrease) in the profit before tax for the year and a decrease (2019: decrease) in equity of $675k (2019: $1,084k).

# 11 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 securities financing transactions and balances with clearing brokers. The below table is based on 31 December 2020 Unaudited 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 | 85.2 | | 471.6 | |
| Loans on demand | - | | - | |
| Equity instruments | 53.8 | 53.8 | 177.2 | 177.2 |
| Debt securities | - | - | 91.7 | 91.7 |
| of which: issued by general governments | - | - | 91.7 | 91.7 |
| Loans and advances other than loans on demand | 28.8 | | 44.6 | |
| Other assets | 2.6 | | 158.1 | |

# 12 Leverage

CRD IV requires firms to calculate a non-risk based Leverage Ratio, to supplement risk-based capital requirements. The leverage ratio measures the relationship between capital resources and total assets. The purpose of monitoring and managing this metric is to enable regulators to constrain the build-up of excessive leverage.

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.

As at 31 December 2020, CFS LLP's leverage ratio (unaudited) was 15.82% and (audited P&L) was 18.60%. The leverage ratio is calculated as an institution's capital divided by its total net exposure and shall be expressed as a percentage.

| | $m |
|---|---|
| Securities financing transactions (SFTs) | 30.6 |
| Derivatives: Market value | 77.8 |
| Derivatives: Add-on Mark-to-Market Method | 10.5 |
| Other assets (Incl. Trading book) | 493.3 |
| Total Exposure | 612.2 |
| | |
| Tier 1 capital | 113.9 |
| | |
| Leverage Ratio | 18.60% |

| Summary reconciliation of accounting assets and leverage ratio exposures | |
|---|---|
| | $m |
| Total assets as per published financial statements | 560.0 |
| Adjustments for derivative financial instruments | 88.2 |
| Adjustment for SFTs | - 64.1 |
| Other adjustments | 28.1 |
| Leverage ratio total exposure measure | 612.2 |

# 13 Remuneration Policies

The following disclosures are made in compliance with Article 450 of the CRR regulations.

## 13.1 Purpose of the Remuneration Policy

The purpose of the Remuneration Policy (“the Policy”) is to ensure that Cantor Fitzgerald Europe (the “Company”)’s remuneration:
• Supports robust governance in line with the Company’s risk appetite;
• Promotes sound and effective risk management;
• Ensures the business is sustainable and that the Company’s financial resources are aligned to principles of safety and soundness; and
• Encourages responsible business conduct, fair treatment of clients as well as avoiding conflicts of interest in the relationships with clients.

In addition, it is required to have a Remuneration Policy under the Financial Conduct Authority’s (“FCA’s”) Remuneration Code and MiFID II remuneration requirements.
This Policy defines the Company’s remuneration policies, procedures and practices.
Through effective remuneration governance and risk management, the Company will:

• Attract, develop and retain high-performing employees to deliver its business strategy;
• Encourage appropriate conduct and behaviours from employees;
• Ensure that compensation arrangements are designed to balance appropriately risk and financial results in a manner that does not encourage employees to expose the Company to excessive or imprudent risk;
• Avoid remuneration practices that could provide inappropriate incentives to employees or otherwise have the potential to damage the Company’s business, reputation, its relationship with customers or regulators.
• Avoid remuneration practices that conflict with the Company’s duty to act in the best interests of its clients, including the manner in which it assesses the performance of all relevant persons within the firm; and

• Avoid remuneration practices that could provide an incentive to recommend a particular financial instrument to a client when a different financial instrument would better meet that client's needs, especially when retail clients are concerned.

## 13.2 Governance and Responsibilities

### 13.2.1 Responsibility

The principal groups responsible for remuneration approval and decisions are:

#### 13.2.1.1 Cantor Fitzgerald & Co ("CF&Co")

As sole shareholder, CF&Co oversees the remuneration process at CFE and approves the bonus pool and individual bonus proposals.

#### 13.2.1.2 CFE's Board of Directors

The Board of Directors are responsible for considering and overseeing the remuneration philosophy and policy for CFE.

#### 13.2.1.3 Remuneration and Nomination Committee ("Rem & Nom Co")

The Remuneration and Nomination Committee is responsible for assisting the board to exercise independent judgement in considering and overseeing the overall remuneration philosophy and policy for CFE; which includes the determination of Code Staff and the structure of variable remuneration.

#### 13.2.1.4 CFE's Chief Executive Officer

The CEO is responsible for overseeing the operation of the remuneration processes, supported by the HR, Compliance and Risk functions and provides input to the performance management processes as required.

**Remuneration and Nomination Committee ("Rem & Nom Co")** A Rem & Nom Co has been established comprising the NEDs as members and the CEO, Head of HR, CFE's COO and CFE's head of Compliance as representatives. The Rem & Nom Co's terms of reference ensures that it:

(a) Is satisfied that CFE is compliant with the remuneration requirements of the FCA handbook, including whether the:

(i) Remuneration policies are consistent with and promote sound and effective risk management, and do not encourage risk-taking that exceeds the level of tolerated risk within the firm;

(ii) Remuneration policies are in line with the firm's business strategy, objectives, values and long term interests of the Company;

(iii) Remuneration policies of Relevant Persons along with the manner in which their performance is assessed must not be structured in a manner that encourages behaviour that is not in the best interests of our clients. More specifically, the remuneration of Relevant Persons must aim to encourage responsible business conduct, fair treatment of clients as well as avoid conflicts of interest in the relationship with our clients.

(b) Is consulted with by senior management and senior representatives of the Risk, Compliance and HR functions when remuneration proposals are to be made regarding individuals about whom those functions have concerns;

(c) Exercises competent and independent judgement on the Company's remuneration practices and the incentives created for managing risk, capital and liquidity;

(d) Reviews the Company's remuneration policy statement and makes proposals and recommendations regarding changes and enhancements; and

(e) Is aware of the remuneration of the Company's senior officers in the Risk and Compliance functions.

There is crossover between members and attendees of the Rem & Nom Co and other relevant committees such as Risk and Audit committees. This enables the sharing of information.

The Rem & Nom Co has not appointed any remuneration consultants for advice.

## 13.3 Remuneration

Remuneration consists broadly of fixed remuneration (i.e. base salary) and variable remuneration in the form of a performance-related payment, a portion of which may be deferred.

### 13.3.1 Base Salary (fixed remuneration)

Salaries are intended to compensate employees for their skills and experience taking into account local market practice.

### 13.3.2 Performance-based Remuneration (variable remuneration) for Relevant Persons

Variable remuneration (or bonuses) are split into two categories: (i) commission arrangements for Equity, Equity Derivatives and DCM sales and trading staff (‘Commission Arrangements’), and (ii) discretionary bonus arrangements for all other staff.

#### 13.3.2.1 Commission Arrangements

Twenty-six staff participate in CFE’s Commission Arrangements. The arrangements are designed to incentivise the generation of revenue through the activities of the sales and trading staff. The commission payments are subject to compliance with applicable regulations, the fair treatment of clients and the quality of services provided to clients as well as all applicable internal policies and procedures.

These arrangements are structured as individual payments settled monthly, quarterly, semi-annually or annually and based on individual commission revenue received figures less directly attributable costs.

Commission payments are made in arrears which ensures that they are based on received revenues and after any irregularities in a transaction on which commission is payable has been detected by finance or business management.

A proportion of total compensation for these staff consists of a contingent non-cash grant in units of CFLP, which are subject to the terms of the grant documents including vesting (usually over 4 years), cancellation and restrictive covenant provisions.

The percentage rates used to calculate the amount of commission reflects the fact that these arrangements cover sales activities that do not create market risk / trading positions for CFE. The Company can vary the rates.

Notwithstanding that a numeric formula is used to calculate the commission payment, there are express contractual provisions that state that payment is subject to continued compliance with the Compliance Manual and other compliance related rules and procedures of CFE from time to time in force, other rules or policies of any regulatory authority of competent jurisdiction (such as the FCA), and the policies and procedures contained in the Employee Handbook.

Before any commission payment is proposed by the CEO of CFE to be approved by the CF Group CEO, the CEO will consult with Compliance, Risk and HR to ensure that there is no failure to comply with these requirements or any conduct risk issue has been identified and/or if the recipient is subject to any formal disciplinary procedure. If such failures are discovered, CFE reserves the right to withdraw, or reduce the amount of any commission payment.

#### 13.3.2.2 Discretionary bonus

Those employees who are not part of the commission arrangements are paid a fixed salary and are eligible to be considered for an annual discretionary bonus. There are sixty-six staff eligible for a discretionary bonus. The amount and form of the discretionary bonus is proposed by the CEO of CFE following consultation with Compliance, Risk and HR as above, and subject to a final review / sign off by the CEO of the Cantor Fitzgerald Group and the Managing General Partner of CFLP. The CFE Remuneration Committee will also review the general form and structure of payments.

CFE retains an overriding discretion over whether and how much to pay by way of discretionary bonus. One aspect of CFE management exercising its discretion is an assessment of an employee’s conduct and compliance with applicable regulations, the fair treatment of clients and the quality of services provided to clients as well as all applicable internal policies and procedures.

Discretionary bonuses may be paid in the form of:

- Cash;
- Non-cash grants of Partnership in CFLP;
- Deferred cash; and
- Forgivable loans

Partnership units in CFLP are subject to compliance with applicable regulations, the fair treatment of clients and the quality of services provided to clients as well as all applicable internal policies and procedures. Forgivable loans, which are forgiven after a number of years,

are immediately repayable in specific circumstances including in the event of a breach of FCA rules and regulations or exit from the company before a certain date.
With regards to the form of discretionary bonuses awarded, these may be paid in the form of loans which are forgiven after a number of years. Such loans are immediately repayable in specific circumstances including in the event of a breach of FCA rules and regulations or exit from the company before a certain date.

#### 13.3.2.3 Determination of bonus pools

Determination of the overall final approved bonus pool amount is based on annual performance of the regulated business and attributed to teams / individuals by senior management of CFE and Cantor Group based on individual performance, team performance, and behaviour in relation to Risk, Compliance, and Policies & Procedures.
Individuals may be rewarded for both prior year revenue performance and their efforts to build the Cantor brand / franchise, win and retain clients, develop the future pipeline and assist senior management in building a sustainable and successful business.
Bonus is provided for on a top down basis at product / sector level throughout the year and then a bottom up approach taken for the final proposed bonus by team / individual.
The accrual is based on a methodology laid out by the CEO and CFO taking into account the views of the Rem & Nom Co, the capital deployed to support the respective business and other underlying costs the business creates. If a business places the capital at risk, the firm will retain more of the revenue generated than one that does not. This will be reviewed from time to time for appropriateness.
In situations where material losses are incurred, the bonus pool can be reduced to zero. In some circumstances, limited bonus will need to be paid in order to protect the business and ensure that key individuals on whom the future success of the business depends are not lost to other firms. This is a judgement exercised by the CEO of CFE in conjunction with the CEO of the CF Group and the Managing General Partner of CFLP.

#### 13.3.2.4 Independent Non-executive directors (“NEDs”)

NEDs are remunerated based on a fixed annual fee and are not eligible for any bonus.

#### 13.3.2.5 Guaranteed Bonus Payments

Guaranteed variable remuneration is only paid on an exceptional basis and the focus of such payments is on sign-ons that are usually to buy-out bonus due from previous employers. Any proposal to pay a guaranteed bonus to any front/back office employee is examined for FCA compliance by the Legal department before being agreed with candidates and before being paid. The majority of sign-off payments are conditional on meeting performance targets.
The number and nature of guaranteed bonuses are monitored on a monthly basis by HR.
All reasonable steps are taken to ensure that any sign-on bonus is proportionate to the employee’s previous remuneration terms (e.g. deferral and/or retention periods). The employee may be required to provide written confirmation that any guarantee offered is not more generous than their previous remuneration package. A provision to this effect is included in the recruit’s employment contract and provides for (i) specific consent to allow the relevant trading entity to contact a previous employer for verification, and (ii) a requirement to repay and/or voiding provision if such representation is subsequently found to be incorrect or untrue.
Guaranteed bonuses may only be offered in exceptional circumstances as a one year guarantee to a new hire in the first year of joining and where the firm has a sound and strong capital base.

#### 13.3.2.6 Bonus Eligibility

All employees are eligible to participate in the bonus programme for the prior performance year subject to the below:

- New hires and Employees on Probation. Provided a new hire joins prior to October he or she may be eligible to be considered for a discretionary bonus. Any bonus award may be pro-rated for the period during which the employee has been employed during the performance period.
- Transfers between business units. If an employee transfers internally or is a shared resource across two or more businesses, the individual’s bonus will be determined by reference to proportionate input from the respective business unit.
- Leavers. Employees are not eligible to receive any bonus if they have given or received notice of termination before the payment date.

- Absence. Employees who are absent for a significant period throughout the year may have any bonus award pro-rated or based on the extent of contribution made during the year.
- Disciplinary proceedings. Eligibility may also be affected by disciplinary proceedings whether ongoing or concluding as described above.

### 13.3.2.7 Code staff aggregate remuneration information

Code staff is defined as employees whose professional activities have a material impact on the firm's risk profile. The table below provides aggregate quantitative information on Code staff remuneration.

| CODE STAFF REMUNERATION FOR 2020 | | | | |
|---|---|---|---|---|
| | Senior management | | Other code staff | |
| | No. of recipients | $000 | No. of recipients | $000 |
| | | | | |
| Fixed remuneration during 2020 | 8 | 1,925 | 40 | 8,702 |
| | | | | |
| Variable remuneration awarded for 2020 performance: | | | | |
| Cash | 3 | 785 | 35 | 8,840 |
| Equity | 2 | 335 | 13 | 3,207 |
| Total | 5 | 1,120 | 48 | 12,047 |
| | | | | |
| Outstanding deferred remuneration change during the year: | | | | |
| Awarded | 2 | 335 | 13 | 3,207 |
| Lapsed due to performance outcomes or adjustments | | | | |
| Lapsed due to leaving service | | | | |
| Paid out | | | | |
| Outstanding unvested as at 31 December 2020 | 2 | 3,332 | 12 | 7,430 |
| | | | | |
| Sign-on payments or awards | | | | |
| Severance payments | | | | |
| Highest individual severance payment | | | | |

| CODE STAFF REMUNERATION OF EUR 1M OR MORE FOR 2020 | |
|---|---|
| Remuneration bands (euros) | No. of recipients |
| 1,000,000 to 1,500,000 | 5 |
| 1,500,001 to 2,000,000 | 2 |
| 2,000,001 to 2,500,000 | 1 |
| 2,500,001 to 3,000,000 | |
| Above 6 million | |

## 14 CRR Part 8 Title II Disclosures Matrix

| ARTICLE | DETAIL | DISCLOSED | PAGE(S) |
|---|---|---|---|
| 435 | Risk management objectives and policies | Yes | 5 - 7 |
| 436 | Scope of application | Yes | 5 |
| 437 | Capital resources – Own funds | Yes | 7 - 8 |
| 438 | Compliance with CRR Article 92 and CRD Article 73 | Yes | 8 |
| 439 | Exposure to counterparty credit risk | Yes | 8 - 11 |
| 440 | Capital buffers | Yes | 12 |
| 441 | Indicators of global systemic importance | No – Firm not classified as G-SII | N/A |
| 442 | Credit risk adjustments | Yes | 10 - 12 |
| 443 | Unencumbered assets | Yes | 15 - 13 |
| 444 | Use of ECAIs | Yes | 11 |
| 445 | Exposure to Market risk | Yes | 11 -12 |
| 446 | Operational risk | Yes | 13 - 14 |
| 447 | Non-trading book exposures in equities | Yes | 15 |
| 448 | Exposures to interest rate risk in the non-trading book | Yes | 15 |
| 449 | Securitisation | No – No assets are securitised | N/A |
| 450 | Remuneration | Yes | 17 - 21 |
| 451 | Leverage | Yes | 16 |
| 452 | Use of the IRB Approach to credit risk | No | N/A |
| 453 | Use of credit risk mitigation techniques | Yes | 9 |
| 454 | Use of the Advanced Measurement Approaches to operational risk | No | N/A |
| 455 | Use of Internal Market Risk Models | No | N/A |