Pillar 3 Disclosures
ICAP Securities Limited

31st March 2014

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1. Introduction and Scope

Pillar 3 Disclosure complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2), in allowing market participants to assess the capital adequacy of a company through key pieces of information on capital, risk exposure and the risk assessment process. The purpose of this report is to meet Pillar 3 requirements laid out by the Financial Conduct Authority (the "FCA") in the prudential standard BIPRU 11.

The scope of this document is to cover the disclosure requirements of the Capital Requirements Directive (CRD IV) for ICAP Securities Limited ("the Company", "ISL" or "the business") which is a BIPRU limited activity firm as defined in the FCA Prudential Standards, and has been granted an investment firm consolidation waiver by the FCA. The Company must therefore comply with the requirements as per BIPRU 11.2.1. The Company is a subsidiary within the ICAP plc Group ("the Group" or "ICAP").

2. Disclosure Policy

Under BIPRU 11.3.5, a company may omit any of the required disclosures if the information is not material i.e. the information would be unlikely to change or influence the decision of a user relying on that information for the purposes of making an economic decision. No disclosures have been omitted on these grounds.

Under BIPRU 11.3.6, a company may omit one or more of the required disclosures if they would require the publication of any information regarded as proprietary or confidential i.e. information which could undermine a competitive position or breach an obligation of confidence between the Company and its customers. No disclosures have been omitted on these grounds.

In accordance with BIPRU 11.3.8 and BIPRU 11.3.10, the Company will publish this disclosure at least annually via the Group's website.

These disclosures have been approved by the Company's Directors.

3. Business Overview

ISL specialises in intermediary broking services for a wide range of financial products. ISL undertakes matched principal (MP), name give-up (NGU) and exchange traded (ET) business. It has branches in both Dubai and Frankfurt. As a limited activity firm, ISL is required to perform an ICAAP in accordance with the ICAAP rules in IFPRU 2.2, the results of which are within this disclosure.

ISL facilitates NGU and ET business, using its broker/client relationships to source liquidity for clients.

ISL does not trade speculatively for clients or intentionally take any Market Risk, as it is prohibited from engaging in proprietary trading which would deliberately expose it to Market Risk under the rules of the regulatory capital regime that applies to it. Any positions arising from out-trades, are liquidated as soon as reasonably practicable.

ISL undertakes activities that may require margin, collateral and/ or external (to the Group) funding requirements, which are managed under a comprehensive liquidity management process.

4. Group Governance

ISL's governance structure is driven via ICAP Group's governance structure and is headed by an appropriately experienced Board of directors which comprises a non-executive Chairman, the Group Chief Executive Officer, the Group Finance Director, the Group Executive Director Americas and four non-executive directors. All ICAP directors have a good understanding of ICAP's markets, the regions and regulatory frameworks in which it operates and its technology.
There are six committees of the Board which are pertinent to ISL – the Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee. All the committee members are independent non-executive directors. The Board satisfies itself that the chairman of the Audit Committee and the Risk Committee, and each committee collectively, has recent and relevant financial experience due to the senior positions they hold or have held in public companies, to enable each committee to function effectively and to discharge its responsibilities.

There are three executive committees – the Global Executive Management Group ("GEMG"), the Global Operating Committee ("GOC") and the Group Risk and Capital Committee ("GRACC"). These executive committees are mandated by and report to the Board. The executive committees operate under terms of reference approved by the Board and minutes of the meetings are circulated to the Board.

ICAP Board of Directors

The Board is responsible for providing leadership of the Group and for ensuring the Group has the appropriate people, financial resources and controls in place to deliver the long-term objectives, commercial strategy and risk management strategy set by the Board.

The roles of Chairman and Group Chief Executive Officer are clearly defined and distinctly separate. The Chairman is responsible for the leadership of the Board and for ensuring effective communication with shareholders, and the Group Chief Executive Officer is responsible for leading and managing the business, within the limits delegated to him by the Board.

The Board specifies policies and delegated authorities to which all members of the Group are required to adhere. Details of the principal matters reserved for the Board include the following:

- to approve the Group's long-term objectives, commercial strategy, budget and significant acquisitions, investments and disposals;
- to determine the Group's risk appetite and risk management strategy;
- to approve changes to capital structure;
- to approve the Group's financial statements and its interim management statements; and
- to approve the interim dividend and make a recommendation for the final dividend.

Board Composition

ICAP is headed by an appropriately experienced Board of eight members, comprising of a non-executive Chairman, three executive directors, (the Group Chief Executive Officer, the Group Executive Director, Americas and the Group Finance Director) and four independent non-executive directors.

The independence of the non-executive directors is reviewed on an annual basis as part of the directors' evaluation process. This takes into account length of tenure, ability to provide objective challenge to management and any relationships that might be considered as a factor when determining independence. The Board has determined that all directors are independent against the criteria stated in the Code. All have shown independence of character and exercised independent judgement. The non-executive directors are members of the principal committees of the Board, these being Audit, Governance, Risk, Nomination and Remuneration. The Nomination Committee makes recommendations for appointments to the Audit and Risk Committees. The Board makes all other committee appointments.

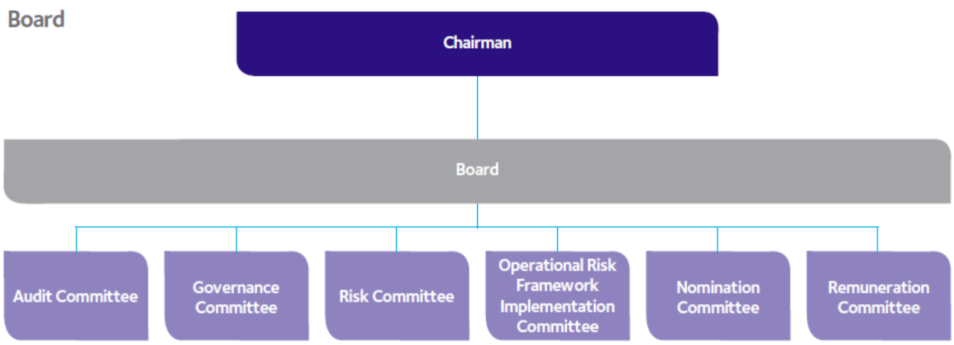
Compliance with the UK Corporate Governance Code

The corporate governance statement sets out how the Company has applied the principles of the Code during the year ended 31 March 2014 and details ICAP's governance framework and its management practices, together with the directors' remuneration report. The Code can be found on the FRC's website at www.frc.org.uk.

Board Committees

There are six principal standing committees of the Board, led by the non-executive directors or the Chairman of the Board: the Audit Committee, the Risk Committee, the Operational Risk Framework Implementation Committee, the Remuneration Committee, the Governance Committee and the Nomination Committee.

ICAP's Board Committees



Audit Committee (AC)

The Audit Committee members are all independent non-executive directors. The Audit Committee is responsible for the effective governance of the Group's financial reporting, including the adequacy of financial disclosures and both the external and internal audit functions. It is authorised by the Board to carry out any activity within its terms of reference, which are available to view on the Company's website at www.icap.com.

Governance Committee (GC)

The Governance Committee membership is made up of the Chairman of the Board, the senior independent director, the Group Chief Executive Officer and the Group Finance Director. The Chairman of the Board is chairman of the committee and the Global Chief Operating Officer and the Group General Counsel are attendees. The committee is responsible for the review of governance arrangements and to offer recommendations and make decisions in relation to all aspects of the governance environment of the Group and its principal subsidiaries and to ensure the Group's governance facilitates efficient, effective management that can deliver shareholders value over the longer term. It is authorised by the Board to carry out any activity within its terms of reference, which are available to view on the Company's website at www.icap.com.

Risk Committee (RC)

The Risk Committee members are independent non-executive directors and the committee is chaired by a Senior independent director. The committee is responsible for setting the overall risk strategy, risk appetite methodology and risk tolerance for the Group to ensure that the risk management function within the Group promotes the success of the Company within this framework. To ensure and reinforce the independence of the risk and compliance functions, the committee is responsible for approving the appointment and dismissal of the Global Chief Risk Officer and the Group Head of Compliance and for making recommendations to the Remuneration Committee regarding their compensation. The Risk Committee is authorised by the Board to carry out any activity within its terms of reference, which are available on the Company's website at www.icap.com.

Operational Risk Framework Implementation Committee

During the year the Board agreed that a committee, reporting to the Board, should be established to provide oversight of the operational risk areas identified as requiring improvement. The purpose of the committee is to ensure the effective implementation of an appropriate operational risk framework globally and to oversee the embedding of risk within the business and as an integral part of ICAP culture. The committee is appointed by the Board from the directors and senior managers of the Company and consists of the Chairman of the Board, a non-executive director, the Group Finance Director, the Group General Counsel, the Group Chief Operating Officer, the Global Head of Risk and the Chief Executive Officer, Global Broking. The chairman of the committee is the Chairman of the Board.

Nomination Committee (NomCom)

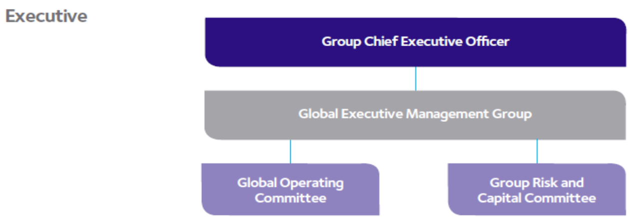
The committee members are appointed by the Board and comprise largely of independent non-executive directors. The Chairman of the Board is the Chairman of the committee. The committee is responsible for reviewing the structure, size and composition of the Board and for identifying and nominating, for the approval of the Board, candidates to fill

Board positions as and when they arise. As well as assessing the balance of skills, knowledge and experience on the Board, the committee gives consideration to succession planning for directors and other senior executives. The Nomination Committee operates within its terms of reference which are available on the Company's website at www.icap.com.

Remuneration Committee (RemCom)
The committee members are appointed by the Board and comprise of independent non-executive directors. The chairman of the committee is appointed by the Board. The Remuneration Committee is authorised by the Board to review and approve proposals to ensure that ICAP's global salary and discretionary bonus plans, revenue-based bonus plans, long-term incentive plans, all other rewards and employee benefits support the business strategy of the Group. The committee's responsibility is the oversight of the remuneration strategy for the Group, to ensure that ICAP's approach to remuneration is aligned with the interests of employees and shareholders and to comply with current best practice and regulatory requirements. Full terms of reference can be found on the Company's website at www.icap.com.

Executive Committees
There are three principal executive committees, mandated by and reporting to the Board, the GEMG, the GOC and the GRACC.

ICAP's Executive Committees



Global Executive Management Group (GEMG)
The role of the GEMG is to propose commercial strategy to the Board, to oversee the performance of Group businesses and to set the commercial direction of these businesses. The committee is responsible for ensuring there is clear executive management accountability for all parts of ICAP's businesses, joint ventures and key investments and for generating an annual strategic plan and preparing a Group budget and forecast for recommendation to the Board. Members of the committee are: Group Chief Executive Officer (chairman), Group Executive Director (Americas), Group Finance Director, Chief Executive Officer (Global Broking), Chief Executive Officer (Asia Pacific, Global Broking), Chief Executive Officer (BrokerTec), Chief Executive Officer (EBS and Executive Chairman, Traiana), Managing Director and Chief Executive Officer of ICAP SEF, Group Chief Operating Officer, and Group General Counsel.

Global Operating Committee (GOC)
This executive committee reviews and make recommendations to the Board and the GEMG in relation to all matters affecting the operations of the ICAP Group.

Group Risk & Capital Committee (GRACC)
This executive committee considers all aspects of the control environment, risk profile and capital structure of the Group. The Group has a centralised approach to the provision of contingency funding for its trading entities. Through the GRACC, the Board regularly reviews the liquidity demands of the Group and the financial resources available to meet these demands. The GRACC ensures that the Group, in totality and by subsidiary, has sufficient liquidity available in order to provide constant access, even in periods of market turmoil, to an appropriate level of cash, other forms of marketable securities and committed funding lines to enable it to finance its ongoing operations, proposed acquisitions and other reasonable unanticipated events on cost-effective and attractive terms.

Regional Management
At a regional level the Group has established operating and risk committees which lead the day to day management of the Group's business. These include representatives of the front office management, settlements, legal and compliance

functions and regional finance. These committees are chaired by the Regional Chief Executive Officers, who are members of the GEMG. The operating committees include key members of the Boards of regulated entities.

Internal Audit
Internal Audit is outsourced to KPMG LLP ("KPMG"). KPMG undertake the functions of internal audit, including the monitoring of progress made with regards to audit issue actions; and the regular review of ICAP's internal control system which is designed to manage, rather than eliminate the risk of failure to achieve business objectives.

5. Remuneration Policy

The main principles of ICAP's remuneration policy are:

- ICAP's remuneration arrangements are overseen by the remuneration committee (the committee) whose chair and members are selected from among its non-executive directors, all of whom have the skills and experience to undertake this role. The committee is responsible for reviewing ICAP's remuneration policy and its own terms of reference annually.

  The Global Executive Remuneration Committee (GERC) is responsible for supervising all remuneration arrangements below the level of the main Board, the GEMG, the heads of risk and compliance and all employees with total remuneration ≥ £750,000 and/or a salary of £500,000. The GERC may further delegate certain authorities to divisional committees and/or members of the GEMG.

- ICAP's remuneration arrangements will be operated in accordance with the relevant regulatory codes and guidance in all the jurisdictions in which it operates, particularly that of the FCA, bearing in mind the nature, scale and particular characteristics of ICAP's business.

- ICAP's remuneration arrangements will be consistent with and promote effective risk management, will not encourage risk taking in excess of ICAP's approved risk appetite and will take account of current and future risks in the setting of variable remuneration.

- ICAP's remuneration arrangements will be clear and fully documented, will take into account the interests of shareholders, investors and other stakeholders and be consistent with and support ICAP's business strategy and corporate values. They will also be consistent with ICAP's financial condition and future prospects and need to maintain its capital base.

- ICAP's remuneration arrangements are structured so as to avoid conflicts of interest, both internally and those related to customers' interests.

- ICAP's remuneration arrangements take into account the need for consistency between funding and payment of bonuses and the timing and likelihood of ICAP receiving the revenue on which a bonus is based.

- ICAP's remuneration arrangements will have regard to levels of remuneration in the market and specifically ensure that the remuneration of staff in control functions is sufficient to attract and retain qualified and experienced staff, is in accordance with the achievement of objectives set for those staff, and is determined independently of, and is designed to avoid conflicts of interest with, the businesses they oversee (noting that seeking the views of the businesses they oversee is an appropriate part of the remuneration decision making process).

- ICAP's remuneration arrangements will ensure that variable remuneration is not paid through vehicles or by methods that facilitate the avoidance of any regulatory or other remuneration code which may apply to the firm.

- ICAP's remuneration arrangements will ensure that employees and management who are in receipt of deferred equity-based compensation are not permitted to undertake personal hedging strategies or take out insurance contracts that undermine the risk alignment of their contracts.

- The committee will review and approve periodic submissions of remuneration policy and practice as required by the FCA.

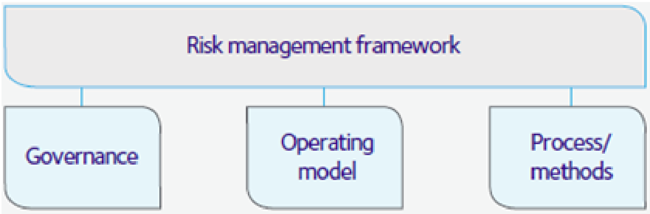
For further information regarding the Group's remuneration policy, see the information provided in the ICAP annual accounts available online here.

6. Risk Framework

ICAP's risk management processes exist so that subsidiary's (ISL) risks are identified, assessed, measured, controlled and, where practical, mitigated across all functional risks the Group faces, both current and emerging. This is done within the Board approved risk appetite in a manner that is suitable for ICAP's business model and structure.

ICAP's risk framework is approved by the ICAP Board and aims to provide a globally consistent approach to the implementation of the Risk Management functional activities and its association to the three lines of defence model.

The risk framework is aggregated into three high level streams as displayed in the model below:

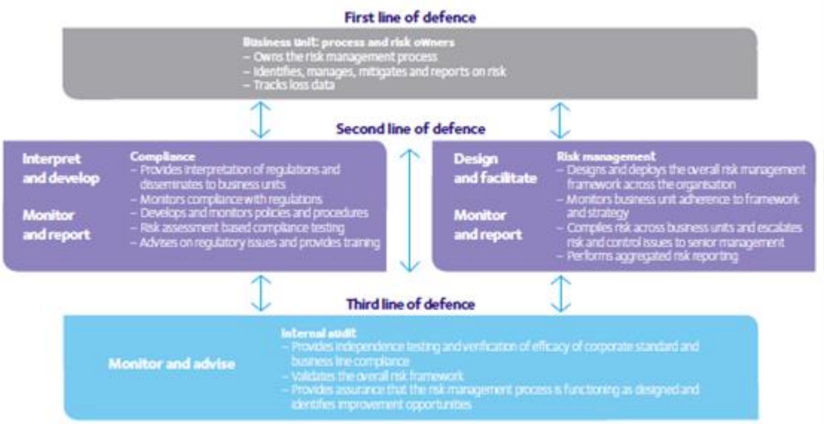


6.1. Governance and Senior Management Involvement

Three Lines of Defence

ICAP employs the Three Lines of Defence model for the risk management and control of its businesses as displayed below:

Risk Control and Management Framework



The Group has created an integrated control framework for the three independent control functions of Risk Management, Compliance and Internal Audit (which is outsourced to KPMG). Under this framework, these three functions will, where appropriate and on a planned basis, combine resources, skills and technical expertise in the conduct of monitoring, oversight and review work in order to provide enhanced assurance as to the effectiveness of the system of internal controls to the Governance Committees and the Board.

A key tenet of the three lines of defence model is that the senior management of the business lines, in particular those with the responsibility for overseeing the front, middle and back office functions, have full accountability for the management of the risks in their businesses. This is done within the limits and the control environment established by the Group. All staff and managers are required to take a prudent approach to risk taking and to review regularly the effectiveness of their control environment.

6.2. Risk and Control Governance and Risk Management Processes

Risk Management is an independent function from the business which operates under a structure approved by the Board. This section is an overview of the structure and framework elements in place for the identification and mitigation of significant risks and control gaps. It also illustrates the separation between Risk Management and the business. The separation ensures independence as well as the direct reporting lines of the GCRO.

6.2.1. Operating model

This subsection details the elements of the Operating Model; including the Organisational Structure, high level mandate, policies and systems in place.

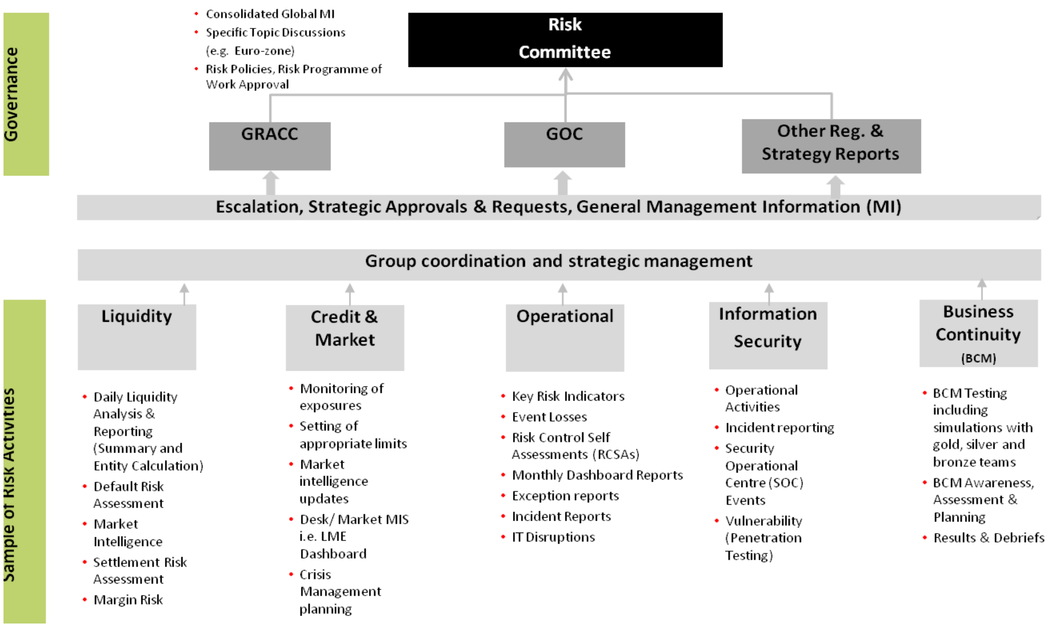
Organisational Structure

Risk Management in ICAP is an independent control function. This gives it the freedom to ensure that the control environment is fit for purpose, identify and oversee the Group's key risks and facilitate mitigation of these risks as appropriate.

Mandate, Responsibilities and Competences

The responsibilities of the Risk Management function are summarised in the diagram below.

ICAP Risk Management Responsibilities



The GCRO is a member of the GRACC and GOC and has overall day-to-day accountability for the independent Group Risk Management function. Reporting to the GCRO, and working in the Group Risk Management function, are risk heads for Operational Risk, Credit and Market Risk, Head of Resilience (covering Business Continuity and Information Security) and Liquidity Risk. Also reporting to the GCRO are regional risk heads for the Americas, EMEA and APAC regions. Along with their teams, these individuals are responsible for establishing a Group-wide risk management framework. The risk-type teams liaise with businesses as part of the monitoring and management processes.

Policies, Procedures and Guidelines

The Group has a framework of policies that dictate the minimum requirements and approach to managing its activities. Risk Management policies form a subset of this policy framework and has a range of Group wide policies and regional policies derived from these to cover the functional risk areas. These policies are reviewed annually and updated as required prior to sign off at the appropriate level.

Specialist Areas

Two discrete specialist areas exist within the Risk Management function; Business Continuity Management and Information Security.

6.2.2. Processes/methods

Critical to the risk and control governance in ICAP, are methods employed in the identification and assessment of risks.

Risk Assessment

Routine assessment of risk exposures is the responsibility of the Group's business heads, in line with the first line of defence. The risk team monitors qualitative and quantitative measures to ensure that the business risks remain within acceptable parameters and that controls are operating effectively.

The Risk Management function provides support to the businesses with a range of tools for the identification and assessment of risks, e.g. credit risk limits based on an internal scoring system, key risk indicators and management information packs are produced monthly.

Risk identification and assessment are key components of ICAP's risk framework, enabling the business to identify the significant risks to the achievement of its objectives. The framework seeks to identify all meaningful risk types, from all sources (people, activities, systems, and external) and the compensating controls across the organisation.

The assessment of the identified risks provides greater understanding of, and complements, risk-based decisions. The framework ensures that risks can be compared within and across categories. The annual Risk Control Self Assessments (RCSA's) form a key part of this process and are described more fully in the Operational Risk section below.

Risk reviews and assessments are also carried out in a combined effort with other assurance providers i.e. Compliance and Internal Audit, under the Integrated Assurance approach.

Integrated Assurance

Integrated Assurance is a component of the Risk Management framework, providing an independent review of the various entities, businesses and infrastructure functions through co-ordination and co-operation between key governance functions (Risk Management, Compliance, and the IA function). These three functions, through the course of their respective assessment and evaluation approaches, define the key risks and requirements for associated coverage to ensure that internal controls are operating effectively. The reviews take a variety of forms – ranging from jointly performed review to coordinated timing of separate reviews, leveraging a specific team's review. Issues arising from these reviews are tracked in the same way as existing Internal Audit issues to ensure timely escalation and resolution.

Stress Testing and Scenario Analysis

Stress testing and scenario analysis are cornerstones of Risk Management processes and are employed across all functional risk areas ranging from automated daily analysis to more discrete stress testing of components of the organisational activities.

Specifically for the ICAAP, the Group's management considers scenario analysis to provide the optimum methodology for assessing the required capital for the Group given the limitations around the applicability of investment bank or commercial bank compatible stress testing logic and processes. This key differentiation necessitates the ICAAP scenario work to be more subjective in its foundations.

The table below outlines management's view on the advantages of using a scenario analysis.

Management's View on the Advantages of Using Scenario Analysis

Advantage
• Direct linkage of capital to risk management process
• Promoting dialogue and challenge between Business and Risk
• Ownership of results by Business
• Create full transparency
• Enable predictions and better decision making

6.3 Recent improvements to the risk management framework

ICAP began the Operational Risk Framework Implementation Programme (ORFIP) in 2013 to improve ICAP's ability to identify, assess, monitor and manage its operational risk.

During 2013 advances were being made in across a range of operational risk management areas, in particular Governance, RCSA's and Key Risk Indicators (KRI's). In addition, target states, interim milestones and associated 2014 roadmaps were agreed with, and owned by business areas, in particular:

- Advances made in Governance – all businesses hold regular Risk Committees
- Advances in RCSA production and KRI assembly

7. Capital Resources

The Company's capital resources as at 31st March 2014 are summarised below:

	£000
Tier 1 Capital	**95,847**
Tier 2 Capital	-
Tier 3 Capital	-
Deductions from Tier 1 and Tier 2 Capital	-
Total Capital after deductions	**95,847**

8. Capital Adequacy

As at 31st March 2014, ISL's capital requirement was £55.96 million detailed below:

Capital requirement	2014 (£000)	2013 (£000)
Total Pillar 1 (includes Fixed Overhead Requirement (FOR))	**26,450**	**26,380**
Total Pillar 2 (includes capital for set aside for risks identified)	**55,961**	**41,790**
Wind-down Cost	**19,325**	**22,400**
Capital Requirement (Greater of Pillar 1, 2 or Wind-down Cost)	**55,961**	**41,790**
Capital Resources	**95,847**	**87,660**
Current Surplus	**39,886**	**45,870**

8.1 The Internal Capital Adequacy Assessment Process (ICAAP)

The ICAAP document was developed by a team led by the COO for EMEA Broking working in conjunction with Group Risk, and has been subject to preliminary review by ISL management and final sign off by its Board of Directors. Comments raised during this review process have been incorporated into the document.

The ICAAP document represents the firm's best efforts to describe the current state as well as the planned developments in the quantification of risks for the purpose of capital adequacy. Our approach is evolving as new information is gathered and new tools implemented.

The key structural elements of the ICAAP determined the high level process that was followed to produce the ICAAP document. The following diagram shows the four key structural elements and each of the main sub-sections and steps taken:

ICAAP – Key Structural Elements and Processes

1

BAU analysis – *Overview of the Group*

- Business model and strategy
- Risk profile and risk framework & appetite
- Operating environment
- Impact of current and proposed regulation
- Current and projected financial position

2

Stress Testing – *Is the entity adequately capitalised today & will it remain adequately capitalised over a 3 year period under stress scenarios?*

- Bottom-up scenario planning generates – Capital requirements for current / actuals
- Top-down stress testing – Capital forecasting for 3 years

3

Reverse stress testing – Identifies *the origins of failure and what the entity would do in order to avoid*

- Defines and quantifies points of failure pre and post management actions
- Analysis of opportunities to improve control

4

Wind Down Analysis – *In the event of impending failure, how to close the business in an orderly manner*

- Focus on Group/UKRE orderly wind down plans and required capital needs in such an event

9. *Risk Management*

Applying the eight overarching risk categories, the extent of inherent risk arising from the business activities of ISL can be summarised in the following table:

	Liquidity	Operational	Legal and Compliance	Credit	Strategic	Market	Financial	Reputational
ISL	✓	✓	✓	✓	✓	✓	✓	✓

✓ Inherent risk exists ✗ No inherent risk for this category

9.1 Risk Profile

Details of how the key risks manifest themselves in ISL, the impact of them and how the risks are mitigated are described below:

9.1.1 Liquidity Risk

How Liquidity Risk materialises in the business

Liquidity risk in ISL materialises through its matched principal and exchange traded businesses. As a result of providing services to its customers in MP transactions and execution (and some limited instances of clearing) in exchange traded products, ISL can be required to place collateral and margin at clearing houses of which it is a direct member and at third party clearing providers who act on ISL's behalf. Liquidity risk is reported and discussed at the ERCC.

Mitigate & Control

Liquidity demands created by ISL through its broking activity or through having an unexpected cash outflow above and beyond its own resources will be managed in line with the EMEA-GROUP Contingency Funding Plan.

The Group currently does not allocate the cost of short-term funding back to the individual entities and therefore, under the current business model, there are no capital implications (i.e. cost of funding) from changes to the liquidity supply vs. demand profile.

Consequently, we assess that no capital is required to be held by ISL for Liquidity Risk.

9.1.2 Operational Risk

How Operational Risk materialises in the business

- **Transaction/Order Origination, Arrangement & Execution Risk:** The nature of ISL's operating model and business structure means that operational risk is inherent within its day to day activities.
  Errors are primarily caused by miscommunication, input errors or missed prices. Execution risk exists in direct market execution trades as these errors can create a position which exposes ISL to market risk and potential losses.

Mitigate & Control

Consequently, controls are in place to mitigate this risk, though the specific details of these controls vary by desk and trade type. Controls to mitigate this risk are; trade recaps, confirmations and system enforced limits such as maximum trade size and price deviation

For the ET businesses the exchanges also have controls and limits in place which reduce exposure.

- **Transaction/Order Capture, Processing & Settlement Risk:** With the volume of transactions processed by ISL, transaction/order capture, processing and settlement was identified as a significant potential risk.

Mitigate & Control

Controls in place to mitigate this risk include but are not restricted to the following; trade confirmations, clearing reconciliations, trade matching alignment monitoring, trade pre-matching, monitoring of funding requirements, trade proofing, system trade validation, front/ back office system reconciliation and trade date amendments & cancellation review.

- **Technology & Infrastructure Risk:** errors and losses caused by a system not performing as expected. Trade execution controls, and additionally exception report monitoring and client interaction should capture any issues with the system in this regard, but these types of errors tend to be caught after the event.

Mitigate & Control

Controls in place to mitigate this risk include but are not restricted to the following; employment of a fully resourced IT team with an appropriate mix of skill and experience situated in various offices to provide appropriate coverage and support, system monitoring, performance and capacity management, DR capabilities, secondary review of code changes, system environment segregation, pre-release testing, patch management and alternative voice carriers.

- **Outsourced Activity Risk:** The failure of third parties to provide requisite services (e.g. trading platform technology providers such as TT multibroker) could result in loss of revenue for the period of outage.

Mitigate & Control

The key controls in place to reduce the likelihood and impact of this risk occurring are formal contracts in place with vendors which are managed through the ICAP Vendor Management team, monitoring of vendor performance and incident management processes.

- **Information Risk:** The manner in which confidential client information, such as trade details or payment terms, is handled by ISL poses a potential risk to the business.

Mitigate & Control

Controls are in place to prevent any information issues and ensure this is dealt with securely, for example automated confirmations and folder/system access restrictions, and significant investment in information security with a dedicated global and regional Information Security and IT Security team.

- **Business Disruption Risk:** This type of event would affect all ISL businesses and even if Disaster Recovery (DR) were invoked there may still be reduced capacity.

Mitigate & Control

Business Continuity plans are in place and are tested regularly, and there is a dedicated business recovery site for EMEA voice businesses. It is anticipated that relocation to the recovery site would impact ISL's ability to execute client orders and therefore would experience foregone revenue during the period of disruption.

- **Human Resource Risk:** The nature of voice broking means that there are key staff impacting revenue. Key staff have been identified across the business to enable this risk to be controlled.

Mitigate & Control

Staggered contracts, remuneration reviews and succession planning are all in place in order to mitigate/ reduce the impact of this risk.

- **Fraud/Unauthorised Activity Risk:** While ISL is not exposed to the same level of fraud risk as a bank, there is still the potential for fraud or unauthorised activity to occur. The risk manifests itself differently according to business type:

    - For **NGU** trades, ISL are not principal to any trades and this means that any fraud or unauthorised activity is likely to be restricted to potential collusion, market abuse or inflation of brokerage.
    - For **MP** and **ET** trades, there is potential for rogue trading by attempting to take positions on a proprietary basis.

Mitigate & Control

To mitigate fraud risks associated to **NGU**, controls include trades being completed on recorded lines, compliance monitoring and broker training, brokerage rates set up in the system by an independent team with an exception report for any amended brokerage rates and automated invoicing.
Fraud risks associated to **MP** and **ET** is mitigated due to the controls around positions such as intraday and overnight position monitoring and independent monitoring by middle office, settlement and credit risk.

9.1.3 Legal & Compliance Risk

How Legal & Compliance Risk materialises in the business

Legal Risk
ISL is subject to legal obligations in providing services for its clients, ISL has agreements in place with external entities that it provides services for e.g. clearing and settlement.

Compliance Risk

The ISL principal regulator is the FCA, and is permitted to conduct several regulated activities. These permissions are limited to clients designated as ECP (Eligible Counterparty) and Professional:

Mitigate & Control

The management and mitigation of legal and compliance risk is the responsibility of business management who are supported by the Legal and Compliance functions. To further mitigate risk, ISL is subject to the Compliance Risk Management Framework and associated risk assessments; desk based reviews and automated surveillance practices adopted within the business.

9.1.4 Credit Risk

How Credit Risk materialises in the business

Credit Risk for ISL is the risk of the non-performance or failure of its counterparties in either of the MP or ET business lines. It also includes the risk of non-payment of invoices and receivables in its NGU business.

Mitigate & Control

For each business type i.e. MP, ET and NGU, all ISL counterparts are pre-approved by both the Credit Risk and Compliance departments. Counterparts are reviewed at least annually to ensure they remain acceptable trading counterparts with relevant individual trade exposures for ISL.

Individual risk weighted limits and cash limits are assigned to broking desks at a legal entity, trading counterparty level. All approved counterparts are linked to their ultimate parent, thus creating counterparty groups allowing CRM to monitor trading relationships at a desk level, which in turn allows control of the products being traded. This is an essential requirement for not only monitoring of the overall risk exposures but also in respect of the global risk crisis management plan.

The CRM team continually ensures that both these limits, cash and risk weighted, are in line with the current volatilities seen for the underlying instruments. Limits are frequently reviewed to ensure they remain in line with the Credit Risk Matrix.

9.1.5 Strategic Risk

How Strategic Risk materialises in the business

ISL management identified the following two potential areas of focus in terms of strategic risk:

- The business could fail to respond to market changes in terms of customer requirements or preferences
- The market environment could change e.g. regulatory change or increased competition, making the ISL offering(s) less competitive or obsolete

Mitigate & Control

ISL's strategy is reviewed annually, while any significant changes intra-year and SBIs (Significant Business Initiatives) go through a defined assessment process, where Risk is one of the categories for consideration. This is designed to ensure that there is full governance around the strategic risk which ISL may decide to take on.

9.1.6 Market Risk

How Market Risk materialises in the business

ISL does not take active market risk in the pursuit of any of its businesses. However, as a result of providing its clients with matched principal and exchange products brokerage services, as a second order event ICAP may become exposed to market risks. This risk does not arise in the Outstanding Receivables business.

Mitigate & Control

The CRM team continually review cash limits are in line with the Credit Risk Matrix and current volatilities seen for the underlying instruments and middle office independently monitor overnight positions held through unavoidable circumstances. All unexpected market positions are liquidated as soon a practicably possible to control unintended market exposure.

9.1.7 Financial Risk

How Financial Risk materialises in the business

ICAP plc manages Financial Risk at Group level as per the below summary:

Interest Rate Risk

The Group external debt financing includes both fixed and floating rate interest rates. The Group holds significant holdings of cash, held for various commercial requirements, which may earn interest income at fixed or floating rates.

Movements in interest rates can increase or reduce the Group's interest cost and similarly reduce or increase interest income. The risk of a reduction in the interest income earned on cash balances is not considered a risk of loss.

Currency Risk

The Group presents its consolidated financial statements in GBP and conducts business in a number of other currencies, principally, in US dollar and the Euro. This can give rise to the risk of loss through exposure to movements in currency exchange rates in a variety of ways.

Risk arising from items of income or expense arising in a currency other than a Group entity's local reporting currency is a transactional exposure. Risks arising from profits arising in currencies other than sterling or from assets or liabilities denominated in currencies other than sterling are translational risks.

Mitigate & Control

Group manages its interest rate exposure through a combination of sterling and US dollar debt drawn on fixed and floating rate terms. The Group's objective is to minimise interest costs and the impact of interest volatility on the Group's consolidated income statement. In addition to debt, the Group's treasury policies also permit the use of derivatives including interest rate swaps, interest rate options, forward rate agreements and cross currency swaps to meet these objectives.

In order to mitigate currency risk, the Group's policy is to hedge transactional but not translational income statement currency risk. Subsidiaries are required to hedge material transactional exposures into their functional currency. In practice this means that the Group's principal UK subsidiaries, with sterling functional currency, hedge net US dollar and Euro income into sterling. The level of hedging and the adherence to the policy is monitored as a standing agenda item at every meeting of the GRACC.

9.1.8 Reputational Risk

How Reputational Risk materialises in the business

As the leading broker in various markets, ISL's reputation is key to its success, and is recognised as a key contributing factor to future success.

Mitigate & Control

Reputational risk is a second order risk, resulting from the other risk types, and is therefore not scenario tested. The key potential risks to ISL are broker errors, fraud and regulatory issues.

10. Non-Applicable Disclosure Requirements

The following disclosures specified under BIPRU 11.5 are not applicable to the Group:

BIPRU 11.5.5 – ICAP does not engage with retail clients as per the FCA's definition.

BIPRU 11.5.6 – ICAP does not have a principal trading book.

BIPRU 11.5.10 – ICAP uses the simplified method of calculating risk weights.

BIPRU 11.5.11 – The Group uses the simplified method of calculating risk weights, not the IRB approach.

BIPRU 11.5.13 – The Group does not use a VaR model to calculate its Market Risk Capital.

BIPRU 11.5.14 – Not applicable to ICAP as requirement has been deleted.

BIPRU 11.5.15 – The Group does not have a non-trading book exposure to equities.

BIPRU 11.5.17 – ICAP does not securitise its assets.

BIPRU 11.5.18 – The Group's Remuneration Disclosure Statement is included in the annual report and is published on the ICAP website here.

BIPRU 11.5.19 – This item represents guidance and is not a disclosure requirement.

BIPRU 11.5.21 – This item represents guidance and is not a disclosure requirement.

BIPRU 11.6.1 – 11.6.6 concerning IRB is not applicable to the Group.