

TULLETT PREBON PLC

PILLAR 3 DISCLOSURES - 2015

1. Introduction

1.1 Background

The Capital Requirements Directive (“CRD”), which represented the European Union’s (“EU”) implementation of the Basel II Accord, established a prudential framework governing the type and amount of capital to be held by credit institutions and investment firms.

The CRD was replaced by the Capital Requirements Regulation (CRR) and Capital Requirement Directive IV (CRD IV), with effect from 1 January 2014, following the agreement of the Basel III Accord. The CRR has direct effect within the UK, whilst CRD IV has been implemented into UK law through the FCA Handbook, including through the adoption of the Prudential Sourcebook for Investment Firms (IFPRU).

The revised prudential framework continues to consist of three ‘pillars’:

- Pillar 1 sets out the minimum capital required to meet credit, market and operational risk.
- Pillar 2 requires firms to undertake an Internal Capital Adequacy Assessment Process (“ICAAP”) to assess whether their Pillar I capital is adequate to cover all of the risks to which they are exposed, and if not, to calculate the additional capital required. The ICAAP is then subject to review by the FCA through the Supervisory Review and Evaluation Process.
- Pillar 3 requires firms to disclose specific information concerning their risk management policies and procedures, and to provide a summary of their regulatory capital position.

Articles 431 – 455 of CRD IV set out the specific disclosure requirements and the purpose of this document is to enable Tullett Prebon plc and its subsidiaries (“the Group”) to meet the requirements contained therein.

1.2 Disclosure Policy

In accordance with Article 431(3) of CRD IV the Group has adopted a formal disclosure policy to comply with the disclosure requirements, and has policies for assessing the appropriateness of the disclosures, including their verification and frequency.

Under Article 432(1) of CRD IV, a Group may omit one or more of the required disclosures if the information is not material, that is that the information 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 have been omitted on these grounds.

Under Article 432(2) of CRD IV, 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 have been omitted on these grounds.

In accordance with Article 433 of CRD IV, the Group will publish this disclosure at least annually on the Group’s website.

These disclosures have been approved by the Tullett Prebon plc Board.

2 Scope and Application of the CRR Requirements

2.1 Business Overview

The Group is one of the world's largest interdealer brokers, and acts as an intermediary in the wholesale financial markets, facilitating the trading activity of its clients, in particular commercial and investment banks.

The business covers the following major product groups: Fixed Income Securities and their derivatives, Interest Rate Derivatives, Treasury Products, Equities and Energy. The Group's business is conducted through voice broking, where brokers, supported by proprietary screens displaying historical data, analytics and real-time prices, discover price and liquidity for their clients; and through electronic platforms, which complement and support the voice broking capability.

The Group also has an established data sales business, Tullett Prebon Information, which collects, cleanses, collates and distributes real-time information to data providers, and a Risk Management Services ("RMS") business which provides clients with post-trade, multi-product matching services.

The Group's operating subsidiaries consist mainly of broking subsidiaries, which provide brokerage services on either a Name Passing, Matched Principal or Executing Broker basis. The Group operates its Tullett Prebon Information business through separate subsidiaries. The RMS business is operated through broking subsidiaries in Asia.

All of the Group's broking subsidiaries, subject to certain exceptions, are classified as either Limited Activity Firms or Limited Licence Firms, as defined in Article 96(1) and Article 95(2) of the CRR respectively. Several of the Group's energy broking subsidiaries fall outside the CRR regime by virtue of their commodity broking activity, and are classified as either Limited Activity Firms as defined in Section 1.1.12 of the BIPRU Sourcebook of the FCA Handbook or as Oil Market Participants as described in the OMPS section of the FCA Handbook. The Tullett Prebon Information subsidiaries, along with the service and holding companies within the Group, do not undertake any regulated activities.

2.2 Consolidated Prudential Supervision

On the basis of the Limited Activity / Limited Licence status of its broking subsidiaries (and on the basis that it meets the other requirements set out in Article 15(1) of the CRR), the Group applied for and received a renewal of its waiver from consolidated supervision, which is valid from 25 September 2014 until 24 September 2024. Under the terms of this waiver, the Group is obliged to undertake the 'Financial Holding Company' test for the purposes of calculating the Group's regulatory capital position, as set out in Article 15(2) of the CRR. The calculation of the Capital Resources Requirement under the Financial Holding Company test compares the Capital Resources of Tullett Prebon plc with the Capital Resources Requirement of all its subsidiaries.

2.3 Solo Prudential Supervision

The Group has five broking subsidiaries in the UK that are FCA regulated on an individual 'solo' basis :

- Tullett Prebon (Europe) Limited
- Tullett Prebon (Securities) Limited
- Tullett Prebon (Equities) Limited
- PVM Oil Futures Limited
- PVM Oil Associates Limited

The regulatory capital position of Tullett Prebon (Europe) Limited, Tullett Prebon (Securities) Limited and PVM Oil Futures Limited is set out in Appendices A to C respectively.

Tullett Prebon (Equities) Limited transferred its business to Tullett Prebon (Europe) Limited in 2010 and is in the process of cancelling its regulatory permissions. PVM Oil Associates Limited is regulated as an Oil Market Participant with a requirement to maintain adequate financial resources but no prescribed minimum level of capital resources.

3 Enterprise Risk Management Framework

The Board has adopted an Enterprise Risk Management Framework ('ERMF'), the purpose of which is to enable the Group to understand the risks to which it is exposed, and to manage them in line with the Group's overall business objectives and within its stated risk appetite. The ERMF defines the processes, ownership, responsibilities and the risk governance required to support effective implementation of the framework, and comprises four mutually reinforcing components:

- A risk management philosophy which sets out the Group's underlying attitude to the management of risk and addresses the Group's risk appetite;
- A risk management culture which seeks to foster adoption of appropriate risk management principles and behaviours throughout the Group;
- A risk management governance structure based on three lines of defence that segregate risk management (first line of defence) from risk oversight (second line of defence) and risk assurance (third line of defence); and
- Risk management processes that enable effective identification, assessment, management and reporting of risk exposures.

3.1 Risk management philosophy

Effective risk management is essential for the financial strength and resilience of the Group, and for the achievement of its business objectives. The Board has the responsibility to ensure that the Group implements an appropriate risk management culture throughout the Group, underpinned by a robust framework of risk governance and controls, complying with all relevant laws and regulations.

The Group has adopted core principles that set the context for the Group's risk management activities: Risk management should be value enhancing so that current and potential risks are managed to support achievement of the Group's business objectives and strategy; Risk management should address the expectations and requirements of the key stakeholders (shareholders and regulatory authorities); Risk oversight and assurance functions should be sufficiently independent of business decision taking and supported by adequate resources; The Board must clearly define its risk appetite, setting out the type and level of risk the Group is willing to accept in pursuit of its objectives; Risk management should be integrated into business processes of the Group, and both current and emerging risks should be managed as an integral aspect of the business management processes; Risk management should be proportionate and commensurate with the level and complexity of both the business model and the nature of associated risks; The cost of risk management should be proportionate to the value it creates for the Group, while ensuring that regulatory objectives are met; Risk management should be subject to continual review and enhancement to ensure that associated structures, systems and processes remain effective and reflect stakeholder expectations.

3.2 Risk management culture

The Board recognises that embedding a sound risk management culture is fundamental to the effective operation of the Group's risk management framework, and sets the tone and manner in which the Group conducts its business activities through defined values and expected behaviours. The Board recognises that the Group must ensure that the risk management culture is implemented across all businesses and functions, such that all employees are aware of, and act in conformity with, the desired values and behaviours adopted by the Group in their day-to-day activities.

The Group seeks to achieve the implementation of its desired risk management culture through a combination of frameworks, policies and practices, including: the Group cultural framework which puts market integrity at the heart of the business; Risk Appetite Statements that clearly define the type and level of risk the Group is willing to accept in pursuit of its objectives; the adoption of a comprehensive policy framework to ensure that all employees are aware of their risk management responsibilities as they relate to specific risks; the allocation of responsibility for identification, assessment, mitigation and reporting of risks to management across the business (including front office, control function and

executive management); a performance management process that links staff appraisals and remuneration to risk management and conduct criteria; and corporate communications that reinforce awareness and understanding of the Group's desired risk management culture and associated policies.

3.3 Risk management governance structure

The Board

The Board has overall responsibility for the management of risk within the Group. This includes determining the nature and extent of the principal risks it is willing to take in achieving its objectives (i.e. its risk appetite), defining expectations for the Group's risk culture, ensuring that it has an appropriate and effective risk management framework and monitoring performance so that the Group remains within its risk appetite.

The Board has delegated certain risk governance responsibilities to the Risk Committee of the Board ("BRC").

Risk Committees

In 2015, the Group implemented a Risk Committee governance structure to oversee the implementation and operation of the ERMF. This structure comprises the BRC, Group Executive Risk Committee ("GERC") and three Regional Risk Committees (in EMEA, Americas and APAC).

The Regional Risk Committees are responsible for exercising risk management oversight in their respective regions. The Regional Risk Committee of each region is chaired by the relevant Regional CEO and attended by the Regional CROs.

The Regional Risk Committees all report to the GERC, chaired by the Group CEO, which in turn reports to the Board Risk Committee which is a formal committee of the Board, and is chaired by the Group's designated Risk Non-Executive Director ("NED"). Both of these committees are attended by the Group CRO.

First line of defence – risk management

The first line of defence comprises the management of the business units and support functions. The first line of defence has primary responsibility for ensuring that the business operates within risk appetite on a day-to-day basis.

In discharging this responsibility, business management are responsible for identifying, assessing and managing any risks arising from their activities, and for adhering to all relevant risk management policies adopted by the Group. This includes ensuring the effective operation of any controls required to manage risk within appetite, and for ensuring that the employees for whom they are responsible are aware of, and competent to undertake, their role in the risk management process.

Second line of defence – risk oversight

The second line of defence comprises the risk and compliance functions, which are separate from operational management, and are responsible for overseeing and challenging the first line of defence as it undertakes the identification, assessment and management of risks, and for assisting the Board (and its various committees) in discharging its overall risk oversight responsibilities.

The Group's Risk function is responsible for assisting the Board in the development of the Group's risk appetite and framework; monitoring the implementation of the ERMF; and providing robust challenge to the first line in its risk management activities.

The Compliance function is responsible for monitoring compliance with all applicable regulatory requirements, including those relating to conduct of business requirements, market abuse provisions and the prevention of financial crime. The Compliance function is also responsible for monitoring potential changes to the regulatory framework in which the Group operates, to assess their impact on the Group and identify the actions required to meet these new requirements

Third line of defence – independent assurance

Internal Audit provides independent assurance on the design and operational effectiveness of the Group's risk management framework and activity, including the performance of the business units and support and oversight functions which constitute the first and second lines of defence. Internal Audit considers all relevant risk related information in constructing its audit plan, including risk exposure reports, the results of risk and control self-assessments, and specific risk events which have occurred (such as loss events or 'near-misses'). Internal Audit has a direct reporting line to the Audit Committee.

The Audit Committee is a sub-committee of the Board, which discharges a number of risk management responsibilities, including: the review of the effectiveness of the Group's internal control and risk management procedures; the approval of the Group's annual internal audit plan; review of the internal audit function; and the review of all internal audit reports and related management actions. The Audit Committee is comprised of at least three members, all of whom are NEDs.

3.4 Risk management processes

The ERMF sets out the core risk management activities undertaken by the Group to ensure that the Board understands the Group's risk profile and adopts a clearly defined risk appetite, that risk exposures are managed within risk appetite, and that the Group's desired risk culture is embedded throughout the Group.

The business objectives and strategy adopted by the Board determine the nature and scale of the commercial activities undertaken by the Group, and the overall risk appetite of the Group. As such, the business objectives are the key determinant of the Group's risk profile.

The Group periodically identifies the risks to which it is exposed as a result of its business objectives, strategy and operating model, collectively referred to as the 'risk universe'. This exercise also covers any emerging risks, defined as newly developing and changing risks which could have a significant impact on the Group. The risk universe is approved by the Board at least once a year, or more frequently in the event of a significant change to the Group's business activities or external business environment.

Risk appetite represents the type and level of risk which the Group is willing to accept in pursuit of its objectives and is articulated by the Board through the Group's risk appetite statements, at least annually or more often if required. These can be expressed in either quantitative or qualitative terms. The Group implements these risk appetite statements through the adoption of 'risk thresholds' which provide exposure thresholds at individual risk level which the 'first line of defence' must use to manage risk exposure within risk appetite on a day-to-day basis. The Board approves the risk appetite statements at least annually. Risk thresholds are approved by the BRC on an annual basis. In setting its risk appetite, the Group adheres to the overriding principle that the risk profile of the Group should be managed to as low as reasonably practicable.

The Group publishes risk management policies which describe the principal risk management and control requirements that must be implemented to manage the Group's risk exposure within appetite.

The Group conducts a formal assessment of its risk exposure at least once a year to ensure that it is operating within risk appetite. The assessment of risk exposure consists of the risk and controls self-assessment process ('RCSA'); a top-down risk assessment process; and stress testing and scenario analysis. The findings of the RCSA process, top-down risk assessment process and the stress testing and scenario analysis are taken together to determine the Group's overall risk exposure, and then compared with the applicable risk appetite statement to assess whether the Group is operating within risk appetite.

The RCSA is the process by which the Group assesses its exposure to specific risks, including an assessment of the effectiveness of the control framework it has in place. RCSAs are undertaken by the Group's front office, support and control functions with support from the Risk function. Any impact on the Group's capital, liquidity, reputation, regulatory standing or access to capital markets is considered.

The top-down risk assessment process is undertaken by conducting a survey of the Board and Executive Committee to ascertain their view of the Group's key risk exposures. The purpose of this process is to ensure that the overall Group risk assessment process incorporates the input of those members of senior management who have not been involved in the 'bottom-up' RCSA process, and incorporates the Board and Executive's view of the major and strategic risks to which the Group is exposed.

The Group undertakes stress testing and scenario analyses to complement the RCSA process and enhance its understanding of its risk profile and control framework. These include macro-economic scenarios to investigate the impact on the Group of 'severe but plausible' external events which are beyond the control of the Group and reverse stress tests to identify those risks which could render the Group's business model unviable in an extreme scenario, thereby identifying those areas of the Group's control framework which require particular scrutiny.

The ability of the Group to withstand severe risk events is, to a large extent, determined by the level of capital and liquidity resources held by the Group. The Group therefore regularly assesses the adequacy of its capital and liquidity resources to cover the Group's risk profile as established through the RCSA, top-down risk assessment, and stress testing and scenario analysis. The assessment of financial resources is undertaken at a subsidiary level, to ensure that each subsidiary has access to adequate financial resources on a standalone basis.

4 Principal Risks

The Group categorises the risks to which it is exposed into three overarching risk categories: Operational Risk, Financial Risk, and Strategic and Business Risk.

4.1 Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people activities, systems or external events. Operational risk is a significant component of the Group's overall risk profile and arises in a wide range of activities and scenarios.

Whilst operational risk is often seen as a distinct risk category in its own right, in reality it arises in the execution of all activities undertaken by the Group. Therefore, the Group seeks to ensure that it identifies any exposure to loss arising from processes, people activities, systems or external events, in whatever context it may arise.

The Group is exposed to operational risk in nearly every facet of its role as an intermediary in the wholesale financial markets, arising from its dependence on:

- Large numbers of employees (both broking and support staff) undertaking their roles correctly and behaving appropriately;
- Multiple IT platforms (including broking, middle office and support platforms);
- The accurate execution of a large number of processes including those required to execute, clear and settle trades;
- The continued availability of various third party market infrastructure providers (such as clearing and settlement institutions).

The overall objective of the Group's approach to Operational Risk management is not to attempt to avoid all potential risks, but to proactively identify and assess risks in order to manage them in an efficient and informed manner.

The Group manages its operational risk exposure through its policy framework which prescribes the policies and procedures to be followed to ensure the Group's operational risk exposure remains within risk appetite.

Business Process

The risk that the Group suffers a loss as a result of a failure in the broking business process, whether arising from trade execution or from post-trade activities, such as clearing, settlement or trade reporting. Failures in the broking process could include a broker error or failure to match clients' orders precisely, resulting in an incidental position and consequential market risk for the Group – this is discussed under Market Risk below.

The Group could also experience a failure in the non-broking business process, such as in the Information Sales and Risk Management businesses.

Front office and functional heads are responsible for implementing an appropriate control framework and ensuring that all staff are aware of their risk management responsibilities. Senior management are also responsible for monitoring operational risk exposure through the adoption and review of appropriate management information.

Senior management seek to foster a culture of openness and transparency and ensure that brokers and other members of staff are aware of their responsibility to disclose any errors or issues that arise at the earliest opportunity.

Legal and Compliance

The risk that the Group incurs loss as a result of litigation brought against the Group or incurs significant legal costs in conducting litigation to protect the Group's commercial interests. The Group's Legal department manages the Group's legal risk and is responsible for conducting any litigation which may arise.

The Group is also exposed to the risk of loss due to regulatory enforcement action (such as for breaches of conduct of business requirements, failures or inadequacy of systems and controls, or market abuse provisions) and the possible costs and penalties associated with such action.

The Group's lead regulator is the FCA, but the Group is also subject to the requirements imposed by the regulatory frameworks of the other jurisdictions in which the Group operates. The Group's Compliance function is responsible for ensuring that staff are made aware of all applicable regulatory requirements and for monitoring the Group's compliance with the various regulatory regimes to which the Group is subject.

Technology and Infrastructure

The risk that the Group experiences the unavailability or failure of business critical systems or infrastructure undermining the Group's ability to conduct its business. This includes the failure of critical applications, hardware or network components operated by the Group, as well as loss or unavailability of any infrastructure provided by a third party, such as clearing and settlement facilities. It also includes the occurrence of an event which prevents access to premises, telecommunications failure or loss of power supply.

The Group seeks to mitigate this risk by maintaining detailed and comprehensive business continuity plans which can be activated at short notice to minimise business disruption.

Recent events in the financial services sector illustrate the serious threat posed by cyber-criminals whose activity can result in the prolonged disruption of technology infrastructure as well as potential loss of critical business or client data. The Group continues to monitor and assess the evolving and increasingly sophisticated cyber-threat landscape to ensure that its control framework is appropriate to address the potential cyber-threats to which it is exposed.

Human Capital

The risk that the Group is unable to attract or retain the staff it requires to operate its business, or is subject to employee litigation. The Group seeks to ensure the retention of staff through an effective

recruitment and performance management process, and to foster appropriate employee behaviour through clearly articulated values and expectations.

Financial Management

This is the risk of loss arising from a failure to manage or safeguard the Group's financial assets or a failure in a financial management process. It includes the risk of loss arising from internal or external fraud or employee error (inaccurate payment or cash transfer). It also includes a failure to ensure the Group holds adequate working capital resulting in an ability to meet obligations as they fall due.

The Group is also exposed to the risk of financial loss or misstatement as a result of non-compliance with regulations relating to direct, indirect or employee taxation.

The Group employs experienced professionals in key jurisdictions to manage the Group's financial position, engaging professional advisers, where required.

Governance

The risk of loss or damage to the Group arising as a result of a failure of management structures or processes. This includes failure to adhere to applicable corporate governance requirements (such as those recommended by the UK Corporate Governance Code), a failure to ensure adequate succession for key management positions, or a failure to exercise effective risk management oversight.

The Group manages this risk through the adoption of appropriate governance arrangements and by maintaining up-to-date succession plans.

4.2 Financial Risk

Market Risk

Market risk is the vulnerability of the Group to movements in the value of financial instruments. The Group does not take trading risk and does not hold proprietary trading positions. Consequently, the Group is exposed to trading-book market risk only in relation to incidental positions in financial instruments arising as a result of the Group's failure to match clients' orders precisely. The Group has limited exposure to non-trading book market risk, specifically to interest rate risk and currency risk.

Residual Balances

The Group incurs occasional residual balances in instruments traded on a Matched Principal or Executing Broker basis. The Group's operational procedures and risk management policies reduce the likelihood of such trade mismatches and, in the event that they arise, the Group's policies requires such balances to be closed-out as soon as practicable.

Interest rate risk

The Group is exposed to interest rate risk on its cash deposits and on any borrowings under bank facilities. The Group's Sterling Notes carry interest at fixed rates. Cash deposits are typically held at maturities of less than three months.

The Group periodically considers its exposure to interest rate volatility.

Currency risk

The Group trades in a number of currencies around the world, but reports its results in Sterling. The Group therefore has translation exposure to foreign currency exchange rate movements in these currencies, principally the US dollar and the Euro, and transaction exposure within individual operations which undertake transactions in one currency and report in another.

Credit Risk

The credit risk faced by the Group consists of counterparty credit risk (as opposed to issuer risk), and principally arises from the following:

- pre-settlement risk arising from Matched Principal broking;
- settlement risk arising from Matched Principal broking;
- cash deposits held at banks and money market instruments; and
- Name Passing brokerage receivables.

In addition to the individual elements of counterparty risk identified above, the Group is also exposed to concentration risk, whereby the Group incurs an excessive exposure to an individual counterparty or to a group of linked counterparties.

Pre-settlement risk

Pre-settlement risk arises in the Matched Principal broking business in which Group subsidiaries interpose themselves as principal between two (or more) contracting parties to a Matched Principal transaction and as a result the Group is at risk of loss should one of the parties to a transaction default on its obligations prior to settlement date. In the event of default, the Group would have to replace the defaulted contract in the market. This is a contingent risk in that the Group will only suffer loss if the market price of the securities has moved adversely to the original trade price.

Counterparty exposures are kept under constant review and are managed against exposure reporting thresholds, and the Group takes steps to reduce counterparty risk where market conditions require. Particular attention is paid to more illiquid markets where the price movement is more volatile, such as broking in GDR, ADR and emerging markets instruments.

The Group is also exposed to short term pre-settlement risk where it acts as an executing broker on an exchange, during the period between the execution of the trade and the client claiming the trade. This exposure is minimal as under the terms of the 'give-up' agreements the Group has in place with its clients, trades must be claimed by the end of trade day. Once the trade has been claimed, the Group's only exposure to the client is for the invoiced receivables.

Settlement risk

Settlement risk is the risk that on settlement date a counterparty defaults on its contractual obligation to make payment for a securities transaction after the corresponding value has been paid away by the Group. Unlike pre-settlement risk, the exposure is to the full principal value of the transaction.

In practice the Group is not exposed to this risk as settlement is almost invariably effected on a delivery-versus-payment basis. Free-of-payment deliveries (where an immediate exposure arises due to the Group settling its side of the transaction without simultaneous receipt of the counter-value) occur very infrequently and only under the application of stringent controls.

Cash deposits

The Group is exposed to counterparty credit risk in respect of cash deposits held with financial institutions. The vast majority of the Group's cash deposits are held with highly rated clearing banks and settlement organisations.

Cash deposit counterparty exposures and limits are kept under review and steps are taken to reduce counterparty risk where market conditions require.

Name Passing brokerage receivables

The majority of revenue generated by the Group is on a Name Passing basis, where the Group acts as agent in arranging the trade and is not a counterparty to the transaction. Whilst the Group does not suffer any exposure in relation to the underlying instrument brokered (given that the Group is not a principal to the trade), it is exposed to the risk that the client fails to pay the brokerage it is charged.

Receivables arising from Name Passing brokerage are closely monitored by senior management.

Concentration risk

The Group manages its concentration risk exposure by continually monitoring its exposures to single counterparties and to concentrations of counterparty exposure, assessed by reference to country groups, credit rating, and counterparty type.

Liquidity Risk

The Group seeks to ensure that it has access to an appropriate level of cash, other forms of marketable securities and liquidity facilities to enable it to finance its ongoing operations on cost effective terms. Cash and cash equivalent balances are held with the primary objective of capital security and availability, with a secondary objective of generating returns. Funding requirements are monitored by the Group's Finance and Treasury functions.

As a normal part of its operations, the Group faces liquidity risk through the risk of being required to fund transactions that fail to settle on the due date. From a risk perspective, the most problematic scenario concerns 'fail to deliver' transactions, where the business has received a security from the selling counterparty (and has paid cash in settlement of the same) but is unable to effect onward delivery of the security to the buying counterparty. Such settlement 'fails' give rise to a funding requirement, reflecting the value of the security which the Group has 'failed to deliver' until such time as the delivery leg is finally settled and the business has received the associated cash.

The Group has addressed this funding risk by arranging overdraft facilities to cover 'failed to deliver' trades, either with the relevant settlement agent/depository or with a clearing bank. Under such arrangements, the facility provider will fund the value of any 'failed to deliver' trades until delivery of the security is effected. Certain facility providers require collateral (such as a cash deposit or parent company guarantee) to protect them from any adverse mark-to-market movement and some also charge a funding fee for providing the facility.

The Group is also exposed to potential margin calls from clearing houses and correspondent clearers, both in the UK and the United States.

In the event of a liquidity issue arising, the firm has recourse to existing global cash resources, after which it could draw down on its £250m committed revolving credit facility as additional contingency funding. This facility remained undrawn throughout 2015.

Specific liquidity risk exposures

In addition to its general liquidity risk exposure, the Group is exposed to two additional types of funding risk.

The Group is exposed to the risk that it is required, in the short and medium term, to fund a deficit in the Group's defined benefit pension scheme. The scheme currently has a substantial funding surplus, and the Group closely monitors developments in its funding position.

The Group is also exposed to the risk that it is unable to refinance its outstanding debt. The Group seeks to mitigate this risk by maintaining a strong credit rating and an ongoing dialogue with its lenders and investors, and by ensuring that it complies with all of its current debt covenants.

4.3 Strategic and Business Risk

The Group operates in an environment characterised by intense competition, rapid technological change and a continually evolving regulatory framework. Failure to adapt to changing market dynamics, customer requirements or the way OTC markets and their participants are regulated constitutes a significant risk. The Group has identified three principal categories of Strategic and Business Risk:

- regulatory environment;
- commercial environment; and
- strategic management.

Regulatory Environment

The Group is exposed to the risk of new regulations imposing a fundamental change to the structure or activity of financial markets, resulting in a reduced role for IDBs. Specific issues could include an inability of the business to provide electronic platforms or market facilities which are compliant with new regulations, or the obligation to hold punitive levels of regulatory capital.

The Group is also exposed to the risk of a fundamental change to the commercial environment due to the impact on clients of changes to their regulatory environment causing significantly reduced trade volumes. This could include increased execution and clearing costs, onerous collateral requirements, increases in regulatory capital requirements, or a prohibition on certain types of trading activity.

The Group closely monitors regulatory developments in its markets and is actively involved in consultation and rule setting processes so as to ensure an informed debate of all regulatory issues potentially affecting the IDB markets, both on an individual firm basis and through trade associations.

Commercial Environment

The Group's performance would be adversely affected by a sustained and prolonged period of suppressed market activity leading to reduced revenues. This could arise as a result of adverse macro-economic conditions, reduced levels of general banking activity, market uncertainty or lack of volatility.

The Group is also exposed to the risk of significant or fundamental changes to the commercial or competitive environment. The markets in which the Group competes are characterised by rapidly changing technology and evolving customer requirements, including the demand for electronic broking solutions. Competitors offering new or enhanced services may gain first-mover advantage to which the Group may not be able to respond in a timely manner. Consolidation within the industry or integration with adjacent sectors may provide competing firms or platforms with advantages of scale, access to wider pools of liquidity, or service capability that may put the Group at a competitive disadvantage.

The Group also competes with other interdealer brokers for staff. The costs of employing front office broking staff is currently the largest cost faced by the Group. The effect of the competition for broking staff can result in an increase in staff costs, or if staff leave the Group, can result in the loss of capability, customer relationships and expertise.

The Group seeks to manage and mitigate its commercial risk through geographic and product diversification and strong client relationship management. The Group also continues to develop and enhance its electronic broking capability, to ensure that it can offer a competitive solution for all major asset classes.

Strategy Management

This is the risk that the Group suffers a reduction in its profitability or its competitive position due to a failure to adopt or implement an effective business strategy, or as a result of inadequate management of the business, potentially undermining the viability of the business. It also includes the risk that the Group fails to integrate a business acquisition, resulting in a material loss of value.

The Group manages this risk by adopting a strategy defined by the Board, which clearly articulates the Group's business objectives. This is subject to ongoing review by the Board to ensure it remains effective and appropriate in the context of any changes to the commercial and regulatory environment in which the Group operates.

5 Capital Resources

Under the terms of the Financial Holding Company calculation, the calculation of the Group's Capital Resources is based on the balance sheet of Tullett Prebon plc, the holding company for the Group (as per Article 15(1)(d) of the CRR).

The table below sets out the Group's Capital Resources as at 31 December 2015 and 31 December 2014, reflecting the regulatory capital return submitted for these dates:

£m	31 Dec 2015	31 Dec 2014
Audited Shareholders' Funds	982.1	882.5
Issue of Ordinary Shares (and associated costs)	-	63.5
Credit Arising on Share Based Awards	12.0	1.2
Less Dividends paid	(41.0)	(36.7)
Capital Resources	953.1	910.5

6 Capital Resources Requirement

6.1 Introduction

The Group's Capital Resources Requirement is the aggregate of the notional Pillar 1 requirement for each Group company. For companies that would be classified as a Limited Activity Firm for FCA purposes, the notional requirement is calculated as *the aggregate* of the:

1. Credit Risk Capital Requirement;
2. Market Risk Capital Requirement; and
3. Fixed Overhead Charge.

In contrast, for companies that would be classified as a Limited Licence Firm for FCA purposes, the notional requirement is *the higher* of:

1. The Credit Risk Capital Requirement and Market Risk Capital Requirement; and
2. Fixed Overhead Charge.

Intra-group exposures are not permitted to be netted under the FHC Test.

6.2 Credit Risk Capital Requirement

The Credit Risk Capital Requirement ("CRCR") consists of two elements and is calculated as follows:

6.2.1 Credit Risk Capital Component ("CRCC")

The Group has adopted the standardised approach to calculating risk weights in accordance with Chapter 2 of Title II of the CRR. In accordance with this rule, a capital charge is taken to support the Group's exposure to outstanding Name Passing brokerage and cash deposits. In addition, the Group also includes within its CRCC calculation, any 'other items' falling within Article 134 of the CRR. These include:

- Clearing and settlement guarantees
- Tangible and intangible assets;
- Other receivables, prepayments and accrued income.

6.2.2 Counterparty Risk Capital Component (CPCC)

The Group's Matched Principal activity gives rise to pre-settlement risk. Capital to support this pre-settlement risk is calculated as a given percentage of any negative replacement cost on trades remaining unsettled for five or more days after the due settlement date, in accordance with Article 378 of the CRR.

Number of working days after due settlement date	Capital Required (%)
5 — 15	8
16 — 30	50
31 — 45	75
46 or more	100

Consequently, for DvP transactions, with a normal settlement lag, no capital charge is imposed before the settlement date.

6.2.3 Total CRCR

Applying the above rules, the CRCR for 31 December 2015 and 31 December 2014 was:

£m	31 Dec 2015	31 Dec 2014
CRCC	65.7	62.2
CPCC	0.5	2.0
Total CRCR	66.2	64.2
Risk Weighted Assets (RWA)	827.7	802.5

6.3 Market Risk Capital Requirement

The Group's 'trading book' arises only where one of the Group's Limited Activity subsidiaries (which broker trades on a Matched Principal basis) has failed to match clients' orders precisely. Such positions are marked-to-market on a daily basis and a Position Risk Requirement ("PRR") calculated in accordance with Part 3 Title IV of the CRR. The Group also calculates a PRR on its 'non-trading book' exposures, as required under Part 3 Title V of the CRR.

The Group's total Market Risk Capital Requirement ("MRCR"), consisting of both the 'trading book' and 'non-trading book' PRRs, for 31 December 2015 and 31 December 2014 was:

£m	31 Dec 2015	31 Dec 2014
Trading Book PRR	2.9	2.9
Non-Trading Book PRR	8.3	12.7
Total MRCR	11.2	15.6
RWA	139.7	194.6

6.4 Fixed Overhead Requirement

Given the classification of the Group's broking subsidiaries as either Limited Activity or Limited Licence, the Group is exempted from the requirement to calculate an Operational Risk Capital Requirement under Title III of the CRR. Instead, it is required to calculate a Fixed Overhead Requirement ("FOH") in accordance with Article 97 of the CRR.

The Group's Fixed Overhead Requirement as at 31 December 2015 and 31 December 2014 was:

£m	31 Dec 2015	31 Dec 2014
FOH	129.3	134.8
Notional RWA	1,616.7	1,685.0

6.5 Large Exposure Requirement

In accordance with Article 388, the Group is not subject to the Large Exposure Regime, due to the fact that the Group only comprises Limited Activity and Limited Licence Firms (within Articles 96(1) and 95(1) of the CRR respectively).

6.6 Pillar 2

The Group has been granted an Investment Firm Consolidation Waiver, in accordance with which the Group is not subject to consolidated capital adequacy requirements. As a result, the Group is not required to prepare an ICAAP submission for the Group as a whole but must instead provide the FCA with an ICAAP submission for each of its UK regulated entities on a solo basis.

Notwithstanding the strict regulatory position, the Group continues to undertake an assessment of the Group's capital adequacy for internal risk management purposes, which is approved by the Board.

7 Capital Adequacy

The table below demonstrates that the Group meets the required capital ratio of 8% of Risk Weighted Assets, under the Financial Holding Company Test and held a surplus of £760.8m and £715.4m as at 31 December 2015 and 31 December 2014 respectively:

£m	31 Dec 2015	31 Dec 2014
CRCR	66.2	64.2
MRCR	11.2	15.6
FOH	129.3	134.8
Limited Licence Firm - Deduction	(14.4)	(19.5)
Total Pillar 1 Requirement	192.3	195.1
Capital Resources	953.1	910.5
Excess Capital Resources	760.8	715.4
Total RWA	2,403.8	2,439.1
Capital Ratio	39.6%	37.3%

8 Non-Applicable Disclosures

The following disclosures specified in CRD IV are not applicable to the Group:

- Article 440 – The Group is not currently required to hold any countercyclical capital buffer;
- Article 441 – The Group has not been designated an institution of global systemic importance;.
- Article 447 – The Group does not have a non-trading book exposure to equities;
- Article 449 – The Group does not securitise its assets
- Article 450 – The Group’s Remuneration Disclosure Statement for 2015 is published on the Group’s website:
- Article 451 - The Group is not currently required to comply with the leverage ratio requirements;
- Article 452 – The Group is subject to the standardised approach to credit risk, not the IRB approach;
- Article 454 – The Group has not adopted the AMA approach for calculating its operational risk exposure (as it is not subject to a Pillar 1 operational risk charge).
- Article 455 – The Group does not use an internal model to calculate its market risk exposure.

APPENDIX A

TULLETT PREBON (EUROPE) LIMITED

1 Capital Resources

The Capital Resources of Tullett Prebon (Europe) Limited (“TPEL”) are determined in accordance with Part II of the CRR.

The table below sets out the Capital Resources of TPEL as at 31 December 2015 and 31 December 2014, reflecting the regulatory capital return submitted for these dates:

£m	31 Dec 2015	31 Dec 2014
Share Capital and Reserves	94.7	94.3
Core Tier One Capital	94.7	94.3
Tier One Deductions:		
Intangible Assets	(0.2)	(0.4)
Tier One Capital After Deductions	94.5	93.9
Tier Two Capital	-	-
Total Capital	94.5	93.9
Deductions from Total Capital:	-	-
Capital Resources	94.5	93.9

2 Capital Resources Requirement

2.1 Introduction

Given TPEL’s classification as a Limited Activity Firm, its capital resources requirement is taken to be *the aggregate* of the applicable:

1. Credit Risk Capital Requirement;
2. Market Risk Capital Requirement; and
3. Fixed Overhead Charge.

2.2 Credit Risk Capital Requirement

The Credit Risk Capital Requirement (“CRCR”) consists of two elements and is calculated as follows:

2.2.1 Credit Risk Capital Component (“CRCC”)

TPEL has adopted the standardised approach to calculating risk weights in accordance with Chapter 2 of Title II of the CRR.

In accordance with this rule, a capital charge is taken to support TPEL’s exposure to outstanding Name Passing brokerage and cash deposits. In addition, TPEL also includes within its CRCC calculation, any ‘other items’ falling within Article 134 of the CRR. These include:

- Tangible and intangible assets;
- Other receivables, prepayments and accrued income.

2.2.2 Counterparty Risk Capital Component (CPCC”)

TPEL’s Matched Principal activity gives rise to pre-settlement risk. Capital to support this pre-settlement risk is calculated as a given percentage of any negative replacement cost on trades remaining unsettled for five or more days after the due settlement date, in accordance with Article 378 of the CRR. Consequently, for DvP transactions, with a normal settlement lag, no capital charge is imposed before the settlement date.

2.2.3 Total CRCC

Applying the above rules, the CRCC as at 31 December 2015 and 31 December 2014 was:

£m	31 Dec 2015	31 Dec 2014
CRCC	5.7	5.6
CPCC	-	-
Total CRCC	5.7	5.6
RWA	71.6	70.4

2.3 Market Risk Capital Requirement

TPEL’s ‘trading book’ arises only where TPEL, when broking a trade on a Matched Principal basis, has failed to match clients’ orders precisely. Such positions are marked-to-market on a daily basis and a Position Risk Requirement (“PRR”) calculated in accordance with Part 3 Title IV of the CRR. TPEL also calculates a PRR on its ‘non-trading book’ exposures, as required under Part 3 Title V of the CRR.

TPEL’s total Market Risk Capital Requirement (“MRCR”), consisting of both the ‘trading book’ and ‘non-trading book’ PRRs, for 31 December 2015 and 31 December 2014 was:

£m	31 Dec 2015	31 Dec 2014
Trading Book PRR	-	-
Non-Trading Book PRR	2.3	2.4
Total MRCR	2.3	2.4
RWA	28.3	30.5

2.4 Fixed Overhead Requirement

Given TPEL's classification as a Limited Activity Firm, it is exempted from the requirement to calculate an Operational Risk Capital Requirement under Title III of the CRR. Instead, it is required to calculate a Fixed Overhead Requirement ("FOH") in accordance with Article 97 of the CRR

TPEL's Fixed Overhead Requirement as at 31 December 2015 and 31 December 2014 was:

£m	31 Dec 2015	31 Dec 2014
FOH	33.0	34.6
Notional RWA	412.4	432.3

2.5 Large Exposure Requirement

In accordance with Article 388, the Group is not subject to the Large Exposure Regime, due to the fact that TPEL is a Limited Activity Firm (under Article 96(1) of the CRR).

2.6 Pillar 2

As an FCA regulated firm, TPEL is obliged to ensure that it maintains overall financial resources, including both capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due ("the Overall Financial Adequacy Rule").

It is also required to have in place sound, effective and complete processes, strategies and systems to assess and maintain, on an ongoing basis, the amounts, types and distribution of financial resources that it considers adequate to: (i) comply with the Overall Financial Adequacy Rule; (ii) provide sufficient cover for the risks to which it is or might be exposed; and (iii) meet its future Capital Resources Requirements.

The TPEL Board periodically assesses the adequacy of TPEL's financial resources, including through the Internal Capital Adequacy Assessment Process ("ICAAP").

3 Capital Adequacy

The table below demonstrates that TPEL meets the required capital ratio of 8% of Risk Weighted Assets, and held excess capital resources for 31 December 2015 and 31 December 2014 of £53.5m and £51.3m respectively:

£m	31 Dec 2015	31 Dec 2014
CRCR	5.7	5.6
MRCR	2.3	2.4
FOH	33.0	34.6
Total Pillar 1 Requirement	41.0	42.6
Capital Resources	94.5	93.9
Excess Capital Resources	53.5	51.3
Total RWA	512.3	533.2
Capital Ratio	18.5%	17.6%

APPENDIX B

TULLETT PREBON (SECURITIES) LIMITED

1 Capital Resources

The Capital Resources of Tullett Prebon (Securities) Limited (“TPSL”) are determined in accordance with Part II of the CRR.

The table below sets out the Capital Resources of TPSL as at 31 December 2015 and 31 December 2014, reflecting the regulatory capital return submitted for these dates:

£m	31 Dec 2015	31 Dec 2014
Share Capital and Reserves	44.2	50.1
Core Tier One Capital	44.2	50.1
Tier One Deductions:		
Intangible Assets	-	-
Tier One Capital After Deductions	44.2	50.1
Tier Two Capital	-	-
Total Capital	44.2	50.1
Deductions from Total Capital:	-	-
Capital Resources	44.2	50.1

2 Capital Resources Requirement

2.1 Introduction

Given TPSL’s classification as a Limited Activity Firm, its capital resources requirement is taken to be *the aggregate* of the applicable:

1. Credit Risk Capital Requirement;
2. Market Risk Capital Requirement; and
3. Fixed Overhead Charge.

2.2 Credit Risk Capital Requirement

The Credit Risk Capital Requirement (“CRCR”) consists of two elements and is calculated as follows:

2.2.1 Credit Risk Capital Component (“CRCC”)

TPSL has adopted the standardised approach to calculating risk weights in accordance with Chapter 2 of Title II of the CRR.

In accordance with this rule, a capital charge is taken to support TPSL’s exposure to outstanding Name

Passing brokerage and cash deposits. In addition, TPSL also includes within its CRCC calculation, any ‘other items’ falling within Article 134 of the CRR. These include:

- Tangible and intangible assets;
- Other receivables, prepayments and accrued income.

2.2.2 Counterparty Risk Capital Component (CPCC”)

TPSL’s Matched Principal activity gives rise to pre-settlement risk. Capital to support this pre-settlement risk is calculated as a given percentage of any negative replacement cost on trades remaining unsettled for five or more days after the due settlement date, in accordance with Article 378 of the CRR. Consequently, for DvP transactions, with a normal settlement lag, no capital charge is imposed before the settlement date.

2.2.3 Total CRCR

Applying the above rules, the CRCR as at 31 December 2015 and 31 December 2014 was:

£m	31 Dec 2015	31 Dec 2014
CRCC	1.9	1.9
CPCC	0.2	0.2
Total CRCR	2.1	2.1
RWA	26.6	26.6

2.3 Market Risk Capital Requirement

TPSL’s ‘trading book’ arises only where TPSL, when broking a trade on a Matched Principal basis, has failed to match clients’ orders precisely. Such positions are marked-to-market on a daily basis and a Position Risk Requirement (“PRR”) calculated in accordance with Part 3 Title IV of the CRR. TPSL also calculates a PRR on its ‘non-trading book’ exposures, as required under Part 3 Title V of the CRR.

TPSL’s total Market Risk Capital Requirement (“MRCR”), consisting of both the ‘trading book’ and ‘non-trading book’ PRRs, for 31 December 2015 and 31 December 2014 was:

£m	31 Dec 2015	31 Dec 2014
Trading Book PRR	-	-
Non-Trading Book PRR	0.6	0.5
Total MRCR	0.6	0.5
RWA	7.0	5.8

2.4 Fixed Overhead Requirement

Given TPSL's classification as a Limited Activity Firm, it is exempted from the requirement to calculate an Operational Risk Capital Requirement under Title III of the CRR. Instead, it is required to calculate a Fixed Overhead Requirement ("FOH") in accordance with Article 97 of the CRR.

TPSL's Fixed Overhead Requirement as at 31 December 2015 and 31 December 2014 was:

£m	31 Dec 2015	31 Dec 2014
FOH	14.0	15.5
Notional RWA	174.7	194.2

2.5 Large Exposure Requirement

In accordance with Article 388, TPSL is not subject to the Large Exposure Regime, due to the fact that TPSL is a Limited Activity Firm (under Article 96(1) of the CRR).

2.6 Pillar 2

As an FCA regulated firm, TPSL is obliged to ensure that it maintains overall financial resources, including both capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due ("the Overall Financial Adequacy Rule").

It is also required to have in place sound, effective and complete processes, strategies and systems to assess and maintain, on an ongoing basis, the amounts, types and distribution of financial resources that it considers adequate to: (i) comply with the Overall Financial Adequacy Rule; (ii) provide sufficient cover for the risks to which it is or might be exposed; and (iii) meet its future Capital Resources Requirements.

The TPSL Board periodically assesses the adequacy of TPSL's financial resources, including through the Internal Capital Adequacy Assessment Process ("ICAAP").

3 Capital Adequacy

The table below demonstrates that TPSL meets the required capital ratio of 8% of Risk Weighted Assets, and held excess capital resources for 31 December 2015 and 31 December 2014 of £27.5m and £32.0m respectively:

£m	31 Dec 2015	31 Dec 2014
CRCR	2.1	2.1
MRCR	0.6	0.5
FOH	14.0	15.5
Total Pillar 1 Requirement	16.7	18.1
Capital Resources	44.2	50.1
Excess Capital Resources	27.5	32.0
Total RWA	208.3	226.6
Capital Ratio	21.2%	22.1%

APPENDIX C

PVM OIL FUTURES LIMITED

1 Capital Resources

The Capital Resources of PVM Oil Futures Limited (“PVMOFL”) are determined in accordance with GENPRU 2 Annex 6.

The table below sets out the Capital Resources of PVMOFL as at 31 December 2015 and 31 December 2014, reflecting the regulatory capital return submitted for these dates:

£m	31 Dec 2015	31 Dec 2014
Share Capital and Reserves	2.3	2.4
Core Tier One Capital	2.3	2.4
Tier One Deductions:		
Intangible Assets	-	-
Tier One Capital After Deductions	2.3	2.4
Tier Two Capital	-	-
Total Capital	2.3	2.4
Deductions from Total Capital:	-	-
Capital Resources	2.3	2.4

2 Capital Resources Requirement

2.1 Introduction

Given PVMOFL’s classification as a Limited Licence Firm, its capital resources requirement is taken to be *the higher* of:

1. The Credit Risk Capital Requirement (“CRCR”) and Market Risk Capital Requirement (“MRCR”); and
2. Fixed Overhead Charge (“FOH”).

PVMOFL’s capital resources requirement during 2014 and 2015 consisted of its FOH charge, as this exceeded the aggregate of the CRCR and MRCR applicable throughout this period.

2.2 Fixed Overhead Requirement

PVMOFL calculates its FOH in accordance with GENPRU 2.1.53. PVMOFL’s FOH as at 31 December 2015 and 31 December 2014 was:

£m	31 Dec 2015	31 Dec 2014
FOH	1.1	1.0
Notional RWA	13.8	12.5

2.3 Pillar 2

As an FCA regulated firm, PVMOFL is obliged to ensure that it maintains overall financial resources, including both capital resources and liquidity resources, which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due (as per GENPRU 1.2.26R – “the Overall Financial Adequacy Rule”).

It is also required to have in place sound, effective and complete processes, strategies and systems to assess and maintain, on an ongoing basis, the amounts, types and distribution of financial resources that it considers adequate to: (i) comply with the Overall Financial Adequacy Rule; (ii) provide sufficient cover for the risks to which it is or might be exposed; and (iii) meet its future Capital Resources Requirements (GENPRU 1.2.30 – “the Overall Pillar 2 Rule”).

The PVMOFL Board periodically assesses the adequacy of PVMOFL’s financial resources.

3 Capital Adequacy

The table below demonstrates that TPSL meets the required capital ratio of 8% of Risk Weighted Assets, and held excess capital resources for 31 December 2015 and 31 December 2014 of £1.2m and £1.4m respectively:

£m	31 Dec 2015	31 Dec 2014
FOH	1.1	1.0
Total Pillar 1 Requirement	1.1	1.0
Capital Resources	2.3	2.4
Excess Capital Resources	1.2	1.4
Total RWA	13.8	12.5
Capital Ratio	16.7%	19.2%