Refinitiv Transaction Services Limited

PILLAR 3 DISCLOSURES 2019

1. OVERVIEW

BACKGROUND

The Capital Requirements Directive IV ("CRD IV") is a package of major reforms to the European Union's capital requirements regime for banks and investment firms, which include the directive itself and also the Capital Requirements Regulation ("CRR"). They establish a framework governing the quality and quantity of capital that banks and investment firms must maintain, and which consists of three pillars, namely:

- **Pillar 1** - specifies the minimum capital requirements that firms are required to meet for credit, market and operational risk;
- **Pillar 2** - sets out a supervisory review process that requires a firm to carry out an overall assessment of the capital that is required to meet all of the risks to which the firm is exposed and whether any additional capital is required for risks that are not adequately covered by Pillar 1 (which is undertaken through the Internal Capital Adequacy Assessment Process (ICAAP)); and
- **Pillar 3** - introduces public disclosure of qualitative and quantitative information and is designed to promote market discipline by providing market participants with information on a firm's capital, risk exposures and risk management processes and also requires certain disclosures on remuneration.

Financial & Risk Transaction Services Ireland Limited ("FRTSIL" or the "company") is authorised and regulated in the Republic of Ireland ("Ireland") by the Central Bank of Ireland ("CBI"); and is categorised as a €730k firm.

This document is designed to meet FRTSIL's Pillar 3 disclosure obligations (the Pillar 3 disclosures).

BASIS AND FREQUENCY OF DISCLOSURES

The information contained in the Pillar 3 disclosures:

- Is not subject to audit verification;
- Is reviewed and will be updated and produced on at least an annual basis or more frequently in the event of a material change to the business (for example, in respect of the scale of its operations or the range of its activities);
- Has been produced using information from the company's audited financial accounts for the year ended in 2019; and
- Has been reviewed and approved by the FRTSIL Board of Directors (the Board).

FRTSIL does not form a part of a Regulatory Consolidation Group and has prepared the Pillar 3 disclosures on a standalone basis.

There are no current or foreseen material practical or legal impediments to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries.

LOCATION AND EXCLUSION OF CERTAIN INFORMATION

The Pillar 3 disclosures are published on the Refinitiv website.

FRTSIL is permitted to omit required disclosures if it is believed that the information is immaterial such that the omission would not change or influence the decision of a reader relying on that information to make economic decisions. In addition, FRTSIL is permitted to omit required disclosures where it is believed that the information is regarded as proprietary or confidential. In the view of the company, proprietary information is that which, if it were shared, would undermine its competitive position. Information is considered to be confidential where there are obligations binding it to confidentiality with its customers, suppliers, or counterparties.

The Pillar 3 disclosures will be reviewed and published, on an annual basis. However, it will be published more frequently in the event of a material change to the business (for example, in respect of the scale of its operations or the range of its activities) or if failure to disclose on a more frequent basis would result in a misrepresentation of the risk profile of FRTSIL.

2. GOVERNANCE

The Board holds the ultimate accountability for the successful operation of the company; the directors are subject to a collective and individual duty to exercise due skill and care in conducting and controlling the business of the company as per requirements set in article 435(2)(a) to (e) of the CRR. These duties and accountabilities cover risk management and risk governance as per BCBS and CEBS principles. Whilst it is generally accepted that the Board may delegate its responsibility for risk management to others, delegation does not absolve directors of their duty to supervise or account for the discharge of the delegated function.

FRTSIL has a number of governance arrangements in place, which include assessments of the number of directors, a recruitment policy and ensuring that appropriate information is provided to the Board in respect of risk from both the Risk Committee and from the business, as required. Specifically, FRTSIL considers that it can comply with the requirements set out within CBI's "Fitness and Probity for Regulated Financial Service Providers ".

FRTSIL is subject to the Refinitiv policies on employment and diversity. Specifically, Refinitiv is an Equal Employment Opportunity / Affirmative Action Employer which seeks talented and qualified individuals in all operations around the world. This principle applies to directors as well as employees of Refinitiv. All members of the Board and other CBI approved persons are required to attest to their ongoing compliance with the fitness and probity obligations that apply to CBI approved persons. On an ongoing basis all staff including the Board under-go training on a variety of regulatory topics.

Further details regarding governance arrangements in relation to FRTSIL directors such as, number of directorships, recruitment and diversity procedures and information flow on risk monitoring to the management body can be requested to the Company Secretary, as set out in the contacts section below.

3. RISK MANAGEMENT

COMPANY OVERVIEW

FRTSIL is a Refinitiv company responsible for the sales, installation and maintenance of regulated electronic trading services which provide, amongst other things, electronic broker services and transaction products to clients globally.

RISK PROFILE

FRTSIL's sole activity is the provision of a multilateral trading facility ("MTF" or "Platform") for Foreign Exchange ("FX") Financial Instruments. It should be noted that during the operation of such MTF, it does not trade on a proprietary basis and does not participate in any of the trades which are conducted on the MTF. Instead, FRTSIL's revenue is derived from the transaction fees that it charges when products are traded on the MTF. Therefore, the market risk and credit risk profile of FRTSIL is considered to be more limited than other €730k firms who are dealing on own account or dealing as agent.

However, FRTSIL is still exposed to certain other risks. These risks have been identified and are monitored through the Risk Management Framework.

RISK MANAGEMENT FRAMEWORK

FRTSIL has in place a risk management framework, which is governed by a Risk Management Framework document that details the Company's risk management policy, objectives, mandate, and commitment. FRTSIL manages its risk framework independently and on an iterative basis, with governance and oversight delegated by the Board to the Risk Committee. The risk framework is tailored specifically to the nature of FRTSIL's business, scale and complexity and has been assessed as proportionate and appropriate for FRTSIL given these factors. The Board and the Risk Committee review the risk management framework as against the company's business model, scale and complexity to ensure that it remains appropriate and proportionate.

FRTSIL overall risk management framework includes the following elements:

- Business plan: The FRTSIL business plan will form part of the overall Refinitiv plan. The FRTSIL business plan is prepared annually by Finance and is reviewed and approved by the Board. The business plan states the company's objectives and defines the main trends for further developments over the next three years considering the market and economic environment, competitors' outlook, regulatory changes, etc. It also includes estimates of capital resources and the capital resource requirement to maintain the company's operations and to achieve its business objectives. The business plan is a key element of capital planning;
- Risk register: described more fully below;
- Internal Capital Adequacy Assessment Process (ICAAP): the ICAAP sets out the processes and procedures to ascertain the risk environment in which the company operates and to determine the measures that are required to mitigate those risks and/or determine capital resources that are necessary to cover such risks in order to ensure that the company can meet its business objectives in the normal course of business as well as through economic and financial downturns. The ICAAP is reviewed and approved by the Board. The risks which the ICAAP assesses are set out below;
- Stress tests scenarios: FRTSIL performs stress and scenario testing to assess how the company could sustain the potential risks if they are realised and determine if it has enough capital to cover these risks and continue its operations. FRTSIL prepares stress testing proportionate to the nature, scale and complexity of the company. FRTSIL also tests the impact of the stress on its financial results for 3 years. The findings are included in the capital planning process. Stress tests are performed at least annually or more often should it be required following a review of the company's risk profile;
- Recovery plan: The processes and procedures to recover from more extreme potential stress situations are included in the FRTSIL recovery plan. It explains the steps the company would undertake to exit the stress position and return to the normal business operations. It also reviews the options available to the company to restore its operations and estimates the capital required to do so. The results of the recovery plan also impact and become part of the capital planning process. The recovery plan is reviewed and approved by the Board as often as required following a risk profile review;
- Reverse stress testing: Reverse stress testing is a tool used by FRTSIL to identify scenarios that could lead to business failure. This enables management to identify mitigating actions and triggers for future action, as well as review and enhance related controls to reduce the risk of failure. Such actions and controls are implemented and become part of FRTSIL standard processes and procedures. If additional capital was required it would be included in the capital planning process and captured via review of reverse stress testing. Reverse stress testing is performed at least annually or more often depending on the company's operations and risk profile review;

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- Wind-Down plan: this plan includes the processes and procedures to close the company down in an orderly manner without disturbing the market. The plan can be enforced if the mitigation policies or recovery plan do not work and the company fails to restore its operations. It can be also used to close the company down following a management decision to exit the market. The costs associated with closing the company down are included in the capital planning process. The winding down plan is reviewed at least annually or more often depending on the latest company financial position and/or market and economic environment; and
- External events are assessed to identify any potential lessons learned for FRTSIL.

Together these tools allow FRTSIL to assess its capital adequacy. Specifically, the ICAAP is utilised to quantify risk and ensure that appropriate capital is held.

The scope of the risk management framework includes the following risk categories as relevant to the company:

- **Compliance Risk** is the risk of FRTSIL facing legal or regulatory sanctions, financial loss, or loss of reputation as a result of failure to comply with all applicable laws, regulations, codes of conduct and standards of good practice.
- **Operational Risk** is the risk of direct or indirect loss resulting from inadequate or failed internal processes, from people and systems. The Board has determined any risks identified as arising from an outsourcing relationship to be considered an operational risk.
- **Strategic Risk** is any risk the risk of the long-term strategic decisions and plans being inadequate resulting in slow down of company performance, lost opportunities and possibly adverse financial results.
- **Reputational Risk** is the risk arising from negative perception by stakeholders, whether real or not, resulting in any actions that can unfavourably impact the Firm's name (brand) and goodwill or that of the Group.
- **Business Risk** is the risk arising from any exposure to issues that may negatively impact on the financial or strategic operation of the Firm. Business risk is a broad risk category which covers many aspects, the majority of which are external to the Firm, including macro-economic, industry, geopolitical or regulatory**.**
- **Financial crime risk** is the risk associated with (a) the failure to comply with relevant laws, regulations, rules, directions, other regulatory requirements and/or (b) regulatory sanctions, fines, losses or other restrictions that could result from concerns identified within the relevant programmes maintained at either the entity or group level covering AML/CFT, Client Due Diligence, Sanctions, Fraud and Anti-Bribery and Corruption programmes. Market surveillance risk is considered to be a key element of financial crime risk. Market surveillance as a process detects patterns of behaviour across FRTSIL products that may indicate market abuse, poor market conduct, disorderly markets and unethical trading practices in general.
- **Credit Risk** is the possibility of a loss occurring due to the financial failure to meet contractual debt obligations. This risk is a low risk for FRTSIL due to the nature of its business; FRTSIL does not enter into any contractual obligations of credit.
- **Liquidity Risk** is the risk of the Firm not being able to maintain at all times 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.
- **Market Risk** is the risk of losses because the market value of FRTSIL's assets, liabilities and off-balance sheet items vary with changes in market conditions.
- **Group Risk** is the risk that the financial position of the Firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same Group or by risks which may affect the financial position of the whole Group (e.g., reputational contagion).
- **Conduct Risk** includes all risks to the objective of delivering fair customer outcomes and to market integrity. It encompasses every part of the enterprise framework including the commercial process, governance and culture.
- **Technology Risk** is the risk of loss where the design, build and operation of Information Technology fails to support business strategy and objectives.

- **Information Security Risk** is the risk to earnings and/or risk of litigation, regulatory action or reputational damage arising from unauthorised access, use, disclosure, disruption, modification, or destruction of information or information systems.

From the above categories, FRTSIL defines Compliance, Operational and Strategic Risks as material.

RISK REGISTER AND RISK MONITORING

Any identified risks are recorded on the FRTSIL Risk Register and fed into the ICAAP as described below. Such risks are evaluated using key risk indicators to establish the likelihood of the risk event happening and the impact that this would have on the company and are then assessed against the company's risk appetite and risk tolerance. Risk appetite is defined as the amount of risk that the Board considers acceptable. Risks that fall within this band are either inherently low or have been satisfactorily mitigated, whereas risk tolerance is defined as the amount of risk that FRTSIL is able to tolerate for a limited time, typically while the appropriate mitigation is implemented. This is higher than the stated risk appetite.

The company's risk appetite and risk tolerance are documented in accordance with the Risk Management Framework document and are kept under review by the Risk Committee, the purpose of which is to assist the Board in fulfilling its risk management oversight responsibilities. The Risk Committee meets and reports to the Board at least quarterly.

RISK MITIGATION

The risks that have been identified in accordance with the above categories are monitored and managed by the Risk Committee.

Each risk recorded is flagged for review at a period appropriate to its risk rating.

Any risk that has been identified in accordance with the above process will be evaluated and addressed using the appropriate response:

- Tolerate: the existing level of risk is accepted by FRTSIL;
- Treat: action is taken to reduce likelihood and/or impact (usually through internal controls);
- Transfer: specific insurance, warranties or indemnities to transfer risk to a third party to the extent that this is practicable; and
- Terminate: FRTSIL would stop carrying out the risk activity.

The decision to tolerate, treat, transfer or terminate risk is taken ultimately by the Board or the Risk Committee. The expected action to address the risk is aligned with the stated risk appetite and tolerance.

4. CAPITAL RESOURCES ADEQUACY AND RISK PROFILE

CAPITAL RESOURCES (CR)

FRTSIL must maintain at all times capital resources equal to or in excess of the capital resources requirement.

In accordance with CRDIV, FRTSIL's capital resources consist of Common Equity Tier 1capital and represent the sum of share capital, share premium and retained earnings, reduced by intangible assets which are deducted from the Common Equity Tier 1 capital.

As per audited 2019 annual accounts FRTSIL's capital resources are **€15.4m** as set out below:

€000s	**2019**
OWN FUNDS DISCLOSURE	
Capital instruments eligible as CET1 Capital	**15,406**
Paid up capital instruments	19,725
Share premium	19,725
Retained earnings	**0**
Previous years retained earnings	0
Common Equity Tier 1 (CET1) capital before regulatory adjustments	**19,725**
Common Equity Tier (CET1) Capital: regulatory adjustments	
Accumulated other comprehensive income	**-2**
(-) Other intangible assets	**-4,316**
(-) Other intangible assets before deduction of deferred tax liabilities	-4,316
Common Equity Tier 1(CET1) Capital	**15,406**
Additional Tier 1 (AT1) Capital	0
Tier 1 capital (T1 = CET1 + AT1)	**15.406**
Tier 2 Capital	0

FRTSIL's capital is mostly represented by debtors and deposits with Refinitiv Treasury, which are repayable on demand. This gives the Board assurance that FRTSIL has a strong liquidity position and will have sufficient cash available when/if necessary. FRTSIL does not hold any AT1 Capital or Tier 2 capital, and as such this is represented by a 0 figure within the Own Funds Disclosure.

FEATURES OF THE INSTRUMENTS

In accordance with Article 437(1) of CRR, the main features of the CET1 instruments which have been issued have been disclosed below:

FRTSIL has issued permanent ordinary share capital. The shares shall rank *pari passu* in respect of dividend rights and rights upon a distribution of assets by the Company upon its liquidation and winding up (or of any other return of capital).

Capital Instruments main features template[(1)]		
1	Issuer	FRTSIL
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier or private placement)	N/A
3	Governing law(s) of the instrument	UK
Regulatory treatment		
4	Transitional CAR rules	CET1
5	Post-transitional CAR rules	CET1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo

Capital Instruments main features template[1]		
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in thousands, as of most recent reporting date)	€19,725
9	Nominal amount of Instrument	3
9a	Issue price	€1
9b	Redemption price	€1
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
Coupons / dividends		
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related Index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (In terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (In terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Non-cumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	It convertible, conversion rate	N/A
27	If convertible. mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible	N/A
29	It convertible, specify issuer of Instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	It write-down. permanent or temporary	N/A

Capital Instruments main features template[1]		
34	It temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify Instrument type Immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A

CAPITAL ADEQUACY: OWN FUNDS REQUIREMENT (OFR)

PILLAR 1

As FRTSIL is classified as €730k firm, its Pillar 1 capital requirement consists of:

i. A base requirement of €730,000. €/$ at an exchange rate of 0.8473 (average $/€ exchange rate for 2019), the base capital requirement is equal to $894k.;

ii. Sum of: (i) the credit risk capital requirement; and (ii) the market risk capital requirement (the calculation of which is set out below); and

iii. Fixed overhead requirement (FOR). The FOR is 25% of annual fixed costs. FRTSIL incurs fixed costs, which include audit, regulatory, advisers' and service fees. FRTSIL estimates the fixed costs at $42.2.1m per year which means that FRTSIL's FOR is $10.6m.

CREDIT RISK

Following the implementation of CRD IV, FRTSIL introduced the Standardised Approach for its credit risk calculations, in accordance with Article 107 of the CRR. FRTSIL follows the guidelines described in articles 112 to 134 of the CRR in proportion of the size and the nature of the company's operations.

Based on the FRTSIL balance sheet, which is mainly represented by debtors and deposits, FRTSIL does not apply any additional credit risk adjustments other than those based on the applicable accounting standards (for example, in respect of bad debt provision).

The exposure classes that have been identified by FRTSIL include: institutions, central governments, multilateral development banks and international organizations and corporates.

FRTSIL uses Standard & Poors as the external credit assessment institution for determining risk rating for calculating the credit risk capital requirement.

The basis for FRTSIL's credit risk exposure is its respective balance sheet which follows the accounting standards. All adjustments are in accordance with the CRR. It has been deemed that the disclosures which are required under Article 442 are not material / proprietary or confidential and as such have not been provided within this document.

Balance sheet item	Exposure class	Counterparty/country	Credit	Basis (CRR)
Accrued Revenue	Other items		100%	Art 134.2 of CRR
Debtors	CIU; Central governments and banks; Institutions;	FRTSIL Clients globally	100%	External credit assessment institution (ECAI)

	Multilateral development banks; International organizations;			
	Corporates			
Cash	Institutions	Citibank	50%	ECAI
Prepayments	Central governments or banks	Australia, Hong Kong, Singapore, India, Switzerland and Canada	0%-50%	ECAI
Amounts owed by Group undertakings	Corporates	Refinitiv	100%	ECAI

The credit risk exposure and risk is calculated at $39.0m.

MARKET RISK

The main market risk for FRTSIL is foreign exchange risk (FER). FRTSIL operates worldwide in various currencies and is exposed to currency exchange rate fluctuations. Under the Standardised Approach, FRTSIL's currency risk capital requirement is calculated as a percentage of FRTSIL's net open balance sheet position in each currency. The market risk exposure and risk is calculated at $4.9m.

The calculation of market risk takes into account the fact that recurring revenue, which is in non-USD currencies, is billed quarterly in advance and the cash collection per month within a quarter also includes the impact of Bad debt. The transfer pricing fees are settled the same month they are raised. FRTSIL market risk is highest at the start of the quarter when billing is issued and lowest at the end. FRTSIL prefers to adopt a prudent approach in determining the market risk exposure and, thus chooses the highest annual market risk. USD remains FRTSIL's functional currency. For the purpose of exchange rate difference calculations, FRTSIL uses the Refinitiv monthly exchange rates.

The maximum exposure from **credit and market risks** is calculated at **$43.9m**

Based on the above calculations the sum of market and credit exposures of $43.9.0m is lower than fixed overhead exposure of $132.0m (FOR $10.6m multiplied by 12.5) and therefore the company's **Pillar 1 capital requirement is set at $10.6m**.

PILLAR 2

Pillar 2 capital requirement is the internal risk capital assessment prepared by the company based on its business operations, risk profile and risk management systems and controls and through the ICAAP.

Following the risk management framework described above, Risk Committee reviews each individual risk and suggests appropriate capital allocation or/and explains the required mitigation policies.

The Board estimates FRTSIL **Pillar 2 capital requirement at $11.7m**

WINDING DOWN COSTS

The Board has agreed that the company must hold at any time capital necessary to smoothly wind the company down in case of necessity without creating disruption and without causing structural damage to the market.

Based on the Refinitiv group structure and FRTSIL's structure and operations, as well as per the assumptions made by the FRTSIL Directors in respect of any winding down scenario, the costs associated with the closing down of the company are estimated as $10.8m.

FRTSIL Capital Requirement:

Pillar 1 - $10.6m

Pillar 2 - $11.7m

Winding down - $10.8m

FRTSIL takes a prudent approach to its prudential risk management and therefore chooses the highest of the above as OFR to ensure that it has sufficient capital to meet Pillar 1 and Pillar 2 capital requirements in the normal course of business, but also has adequate capital to close the company down in an orderly manner, without impacting and disturbing the market.

Consequently, FRTSIL's OFR is $11.7m.

FRTSIL CAPITAL ADEQUACY ANALYSIS

Own funds requirement - $11.7m

Capital resources - $18.0m

Surplus - $ 6.3m

FRTSIL assessed the capital adequacy for the next three years 2019 – 2021, based on the latest available forecasts and concluded that will have adequate capital to cover for its risks and support business as usual operations:

$m	2019	2020	2021
Capital Resources	**18.0**	**19.1**	**20.2**
Capital requirement	**11.7**	**11.7**	**11.8**
- Pillar 1	10.6	11.2	11.8
- Pillar 2	11.7	11.7	11.7
- Winding Down	10.8	11.2	11.6
Capital ratio	**1.5**	**1.6**	**1.7**

Based on the above capital estimates, the Board believes that the company has sufficient and adequate capital to support the business under normal conditions.

NOTE

All documentation prepared by FRTSIL as part of capital planning (ICAAP, stress and scenario testing, recovery plan, reverse stress testing, winding down plan) is updated accordingly, or more often in line with the review of business developments and risk profile, as set out above.

Capital resources, capital ratio and liquidity position are monitored and reported to the Risk Committee on a monthly basis to ensure the timely identification of any deviations from the recovery plan and indicators of financial stress.

COREP reports covering the capital adequacy position are submitted to the CBI on a quarterly basis.

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5. REMUNERATION

FRTSIL also published its latest Remuneration Disclosure on the Refinitiv website.

6. CONTACTS

The Pillar 3 disclosures were prepared by FRTSIL's Prudential Risk Director and reviewed by FRTSIL's Chief Financial Officer, Chief Risk Officer and Compliance Director, with subsequent approval by the Board. Any queries can be addressed to the Company Secretary at the following address:

Financial & Risk Transaction Services Ireland Limited

12/13 Exchange Place

F.S.C.

Dublin 1

Ireland