

Refinitiv Transaction Services Limited

PILLAR 3 DISCLOSURES 2018

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.

Refinitiv Transaction Services Limited (RTSL or the company) is authorised and regulated by the FCA and is categorised as a €730k IFPRU limited licence investment firm.

This document is designed to meet RTSL'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 2018; and
- Has been reviewed and approved by the RTSL Board of Directors (the Board).

RTSL 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.

RTSL 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, RTSL 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 RTSL.

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 the [FCA SYSC Sourcebook](#) and in article 435(2)(a) to (e) of the [CRR](#). These duties and accountabilities cover risk management and risk governance as per ISO 31000, BS 8453, 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.

RTSL 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 RTSL considers that it can comply with the requirements set out within SYSC 4.3A and SYSC 7.

RTSL 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 FCA approved persons are required to attest to their ongoing compliance with the fitness and proprietary obligations that apply to FCA 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 RTSL 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

RTSL 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

RTSL's main business is operating an MTF. 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, RTSL'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 RTSL is considered to be more limited than other IFPRU 730k firms who are dealing on own account or dealing as agent.

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

RISK MANAGEMENT FRAMEWORK

RTSL 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. RTSL 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 RTSL's business, scale and complexity and has been assessed as proportionate and appropriate for RTSL 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.

RTSL overall risk management framework includes the following elements:

- **Business plan:** The RTSL business plan will form part of the overall Refinitiv plan. The RTSL 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 and scenarios:** RTSL 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. RTSL prepares stress testing proportionate to the nature, scale and complexity of the company. RTSL 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 RTSL 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 RTSL 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 RTSL 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;
- **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 RTSL.

Together these tools allow RTSL 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 RTSL 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. RTSL Directors have determined any risks identified as arising from an outsourcing relationship to be considered an operational risk.
- **Reputational risk** is the risk of any actions that can unfavourably impact the company's name (brand) and goodwill.
- **Business Risk** is exposure to a wide range of macro-economic, geopolitical, industry, regulatory and other external risks that might deflect a company from its desired strategy and business plan.
- **Strategic Risk** is any 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.
- **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 RTSL due to the nature of its business; RTSL does not enter into any contractual obligations of credit.
- **Liquidity Risk** is the risk of the company 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 RTSL'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 company 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.
- **Concentration Risk** is a significant exposure to an individual counterparty or group of related counterparties or particular business activities. This risk is not applicable to RTSL due to the nature of its business; RTSL does not have exposure to counterparties.

RISK REGISTER AND RISK MONITORING

Any identified risks are recorded on the RTSL 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 RTSL 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 RTSL;
- 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: RTSL 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)

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

In accordance with CRDIV, RTSL's capital resources consist of Common Equity Tier 1 capital 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 2018 annual accounts RTSL's capital resources are **\$125.6m** as set out below:

\$000s	2018
OWN FUNDS DISCLOSURE	
Capital instruments eligible as CET1 Capital	112,600
<i>Paid up capital instruments</i>	96,600
<i>Share premium</i>	15,999
Retained earnings	19,910
<i>Previous years retained earnings</i>	19,910
Common Equity Tier 1 (CET1) capital before regulatory adjustments	132,510
Common Equity Tier (CET1) Capital: regulatory adjustments	
(-) Other intangible assets	-6,872
<i>(-) Other intangible assets before deduction of deferred tax liabilities</i>	-6,872
Common Equity Tier 1(CET1) Capital	125,638

\$000s	2018
Additional Tier 1 (AT1) Capital	0
Tier 1 capital (T1 = CET1 + AT1)	125.638
Tier 2 Capital	0

RTSL's capital is mostly represented by debtors and deposits with Refinitiv Treasury, which are repayable on demand. This gives the Board assurance that RTSL has a strong liquidity position and will have sufficient cash available when/if necessary. RTSL 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:

RTSL 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	RTSL
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier or private placement)	N/A
3	Governing law(s) of the instrument	UK
<i>Regulatory treatment</i>		
4	Transitional CAR rules	CET1
5	Post-transitional CAR rules	CET1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	\$112.6m
9	Nominal amount of Instrument	60,000,001
9a	Issue price	£1
9b	Redemption price	£1
10	Accounting classification	Shareholders' equity
11	Original date of issuance	
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

Capital Instruments main features template ⁽¹⁾		
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
	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	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If 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	If write-down, permanent or temporary	N/A
34	If 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 RTSL is classified as a limited licence IFPRU €730k firm, its Pillar 1 capital requirement consists of:

- i. A base requirement of €730,000. €/\$ at an exchange rate of 1.1496, the base capital requirement is equal to \$839k.;
- 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. RTSL incurs fixed costs, which include audit, regulatory, advisers' and service fees. RTSL estimates the fixed costs at \$153.1m per year which means that RTSL's FOR is \$38.3m.

CREDIT RISK

Following the implementation of CRD IV, RTSL introduced the Standardised Approach for its credit risk calculations, in accordance with Article 107 of the CRR. RTSL 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 RTSL balance sheet, which is mainly represented by debtors and deposits, RTSL 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 RTSL include: institutions, central governments, multilateral development banks and international organizations and corporates.

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

The basis for RTSL'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
Debtors	CIU;	RTSL Clients globally	0-150%	External credit assessment institution (ECAI)
	Central governments and banks;			
	Institutions;			
	Multilateral development banks; International organizations;			
	Corporates			
Cash	Institutions	Various	20-100%	ECAI
Other assets (direct, indirect tax)	Central governments or banks	UK, Morocco, Russia, South Africa, Canada	0%-100%	ECAI
Prepayments	Central governments or banks	India, Singapore, Russia, China	0%-50%	ECAI
Fixed Assets	Other items		100%	Art 134.1
Investments	Institutions	Local Bank	50%	ECAI
Investments	Corporates	Subsidiaries in Malaysia and Brazil	250%	Art 470.2 & 470.3
Intangible Assets	Other items	AT/RT Contracts	Deducted from the capital	
Intercompany	Corporates	Refinitiv	100%	ECAI

SAIL Position	Corporates	Refinitiv	100%	ECAI
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MARKET RISK

The main market risk for RTSL is foreign exchange risk (FER). RTSL operates worldwide in various currencies and is exposed to currency exchange rate fluctuations. Under the Standardised Approach, RTSL's currency risk capital requirement is calculated as a percentage of RTSL's net open balance sheet position in each currency. The RTSL Loan with Refinitiv Treasury is not interest bearing and other investments earn very small interest given the existing market environment and therefore the interest rate risk for RTSL is immaterial.

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. RTSL market risk is highest at the start of the quarter when billing is issued and lowest at the end. RTSL prefers to adopt a prudent approach in determining the market risk exposure and, thus chooses the highest annual market risk. USD remains RTSL's functional currency. For the purpose of exchange rate difference calculations, RTSL uses the Refinitiv monthly exchange rates.

The maximum exposure from **credit and market risks** is calculated at **\$159.7m**

Based on the above calculations the sum of market and credit exposures of \$159.7m is lower than fixed overhead exposure of \$478.5m (FOR \$38.3m multiplied by 12.5) and therefore the company's **Pillar 1 capital requirement is set at \$38.3m**.

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 RTSL **Pillar 2 capital requirement at \$33.8m**

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 RTSL's structure and operations, as well as per the assumptions made by the RTSL Directors in respect of any winding down scenario, the costs associated with the closing down of the company are estimated as \$53.1m.

RTSL Capital Requirement:

Winding down	-	\$53.1m
Pillar 1	-	\$38.3m
Pillar 2	-	\$33.8m

RTSL 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, RTSL's OFR is \$53.1m.

RTSL CAPITAL ADEQUACY ANALYSIS

Own funds requirement -	\$53.1m
Capital resources -	\$125.6m
Surplus -	\$72.5m

RTSL assessed the capital adequacy for the next three years 2018 – 2020, 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	2018	2019	2020
Capital Resources	125.6	129.3	133.0
Capital requirement	53.1	49.3	48.2
- Pillar 1	38.3	37.2	36.6
- Pillar 2	33.8	33.8	33.8
- Winding Down	53.1	49.3	48.2
Capital ratio	2.4	2.6	2.8

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 RTSL 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 FCA on a quarterly basis.

5. REMUNERATION

RTSL also published its latest FCA Remuneration Code Disclosure on the Refinitiv website.

6. CONTACTS

The Pillar 3 disclosures were prepared by RTSL's Financial Controller and reviewed by RTSL's Prudential Risk Director. Any queries can be addressed to the Company Secretary at the following address:

Refinitiv Transaction Services Limited

30 South Colonnade

Canary Wharf

London

E14 5EP

United Kingdom