



**Pillar 3 Disclosure  
LINK Asset & Securities Limited**

**31<sup>st</sup> March 2017**



## 1. INTRODUCTION AND SCOPE

The purpose of this report is to meet Pillar 3 requirements laid out by the European Banking Authority (EBA) in Part Eight of the Capital Requirements Regulation (CRR) (No 575/2013).

The Pillar 3 Disclosure complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2), in allowing market participants to assess the capital adequacy of a company through key pieces of information on capital, risk exposure and the risk assessment process.

The scope of this report covers LINK Asset & Securities Limited ('the Company', 'LINK' or 'the business') which is an IFPRU limited activity firm as defined in the FCA Prudential Standards.

The Company was a subsidiary within the ICAP plc Group ('the Group' or 'ICAP'). On the 30 December 2016 the ICAP Global Broking Business (IGBB) was acquired by Tullett Prebon plc. From this date the Company is a subsidiary of TP ICAP plc and has transitioned to the TP ICAP plc risk management framework. Details of TP ICAP plc's risk management framework are set out in the TP ICAP plc Pillar 3 Disclosures 2016 (which can be found on the TP ICAP website [www.tpicap.com](http://www.tpicap.com)). Prior to the transaction, the Company operated within the ICAP governance and risk management framework as detailed in this document.

## 2. DISCLOSURE POLICY

In accordance with Article 433, the Company will publish this disclosure at least annually via the Group's website.

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

## 3. BUSINESS OVERVIEW

LINK operates primarily in the wholesale markets, with the bulk of its business involving the arrangement of block futures and options trades in Exchange Traded (ET) Equity Derivatives products. LINK also undertakes Name Give Up (NGU) business in Equity Derivatives as well as a limited amount of Matched Principal (MP) equity trades.

As a limited activity firm, LINK is required to perform an ICAAP in accordance with the ICAAP rules in IFPRU 2.2.

#### 4. RISK MANAGEMENT GOVERNANCE STRUCTURE

The risk management framework of the Group was set at a group level by the board of ICAP plc (“ICAP plc Board”) to ensure a uniform approach to risk management across the Group. The Group’s risk management governance structure is embedded throughout the business, with the Board having overall responsibility for the management of risk, and the Group’s day-to-day risk exposure then being managed at various levels of the business in accordance with the ‘three lines of defence’ principle whereby business management, risk management oversight and risk assurance roles are undertaken by separate and independent functions.

##### **Risk Committee**

The Risk Committee reported to the board and was responsible for setting the overall risk strategy, risk appetite and risk tolerance for the Group in order to ensure that the risk management function within the Group promotes the success of the Company. The committee was authorised by the board to carry out any activity within its terms of reference. Its principal areas of responsibility included:

- ensuring that the Group’s principal risks (including emerging threats) are properly identified, assessed and mitigated on an ongoing basis;
- regularly reviewing the quality and effectiveness of the Group’s risk management and internal control frameworks; and
- reviewing the internal audit programme as part of integrated assurance.

The Risk Committee members were all independent non-executive directors. The Chairman of the board, the Group Finance Director, the Global Chief Operating Officer, the Group General Counsel, the Chief Risk and Compliance Officer, the Group Head of HR, the Group Head of Internal Audit and the external audit partner regularly attended meetings of the committee. The Chairman of the Risk Committee maintained contact with attendees throughout the year. The Risk Committee met 4 times during the 9 month period ending 30 December 2016. The Risk Committee is also supported by 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 was chaired by the relevant Regional CEO and attended by the Regional CROs.

To support the Risk Committee in the day-to-day risk management of the Group certain responsibilities were delegated to the GOC. The Audit Committee, the Risk Committee and the GOC had terms of reference that required all aspects of the Group’s risk management activities to be regularly reviewed. The Chief Risk and Compliance Officer was a member of the GOC. In addition to the Audit Committee, the Risk Committee and the GOC, internal and external risk events were also monitored and reviewed at a divisional level with divisional committees facilitating discussion and challenge between front office management and the Group risk function.

The Risk Committee monitored the Group’s risk management and internal control systems. The significant risks of the Group were continually assessed and managed by operating a three lines of defence model for the risk and control of the businesses. The three lines of defence model is an industry standard concept. A key aspect of the three lines of defence model is that senior management, in particular those with responsibility for front office, support functions and Group functions, have full accountability for the management of the risks in their specific businesses. This was done within the limits and the control environment established by the Group.

All employees and managers were required to take a prudent approach to risk taking and to review regularly the effectiveness of their control environment and compliance with the Group’s risk

appetite. The Group's risk management processes were dynamic, reflecting changes in the Group's strategies and the external risk drivers in the global market in which it operated.

## 5. BOARD NOMINATION

The Nomination Committee was responsible for reviewing the structure, size, composition and succession planning of the board. The principal areas of responsibility were:

- To identify and nominate, for the approval of the board, candidates to fill board positions as and when they arise;
- To balance the skills, knowledge and experience on the board;
- To give full consideration to succession planning for directors and other senior executives; and
- To keep under review the leadership needs of the organisation, both executive and non-executive.

The Nomination Committee operated within its terms of reference. The Nomination Committee ensured that a formal, rigorous and transparent procedure exists for the appointment of new directors. All board appointments were made on merit acknowledging the benefits a diverse range of skills, experience, background and gender can bring to the board's leadership and effectiveness.

## 6. REMUNERATION

An overview of the key remuneration elements in place for directors is set out in the company annual report and financial statements (which can be found on the Companies House website). A summary of the ICAP group remuneration policy is included in the ICAP Annual Report for the year ended 31 March 2016 (which can be found on the NEX Group's website [www.nex.com](http://www.nex.com)).

## 7. RISK FRAMEWORK

The Company, as an entity within ICAP, operated within the Group's risk management framework.

ICAP's risk management framework identified, assessed, monitored, reported and mitigated the risks that could impact the ability to execute our strategy and meet our stakeholders' expectations. To ensure a consistent risk management approach globally, the framework was used across all risk disciplines with the following pillars:

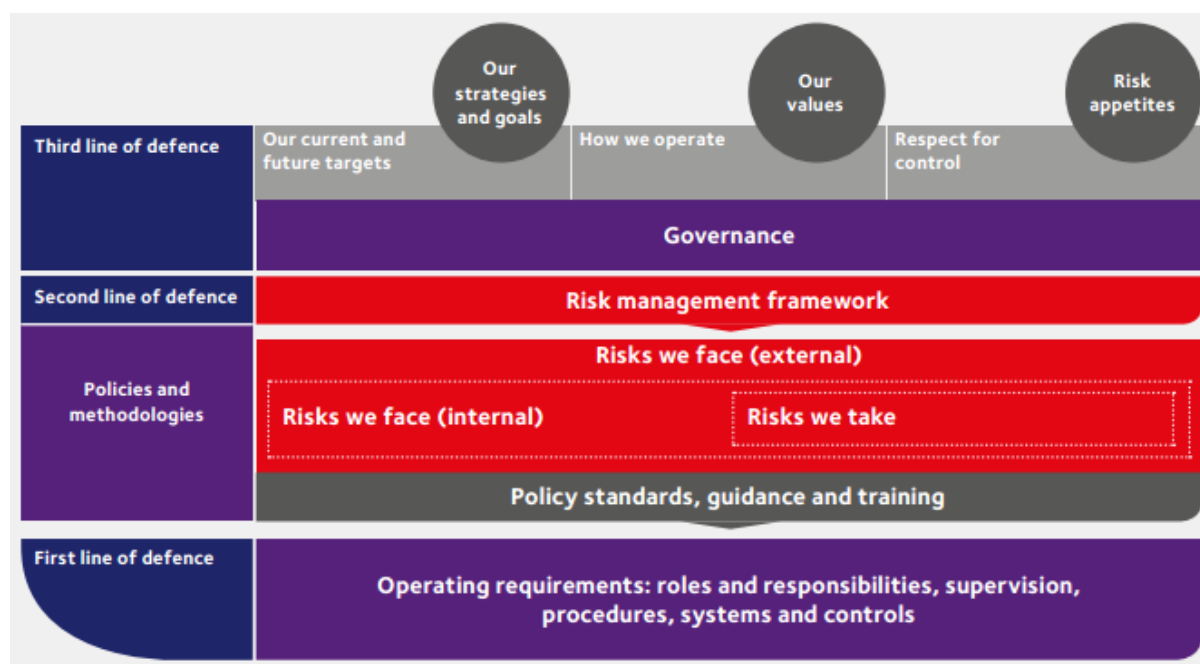
- **Governance:** in addition to appropriate governance at all levels of the Group, this pillar incorporates risk appetite responsibilities, the completeness of our risk taxonomy, roles and responsibilities within three lines of defence and the continued fostering of the corporate risk management culture. The governance model provides the structure for the assessment of the sustainability of the ICAP business model, capital adequacy and the capability of the Group to withstand and react to extreme events.
- **Policy and methodologies:** clear, principle-based policies for our risk types reflecting the board's risk appetite, supported by clear standards for the identification, evaluation and treatment of risk.
- **Operating requirements:** these include the procedural guidance for the effective execution of our risk policies, organisational responsibilities, design and use of our risk management systems and reporting and escalation of risk.

### 7.1. THREE LINES OF DEFENCE

The Group’s governance structure was designed such that the business is the first line of defence, the risk management and compliance departments the second line of defence with internal audit as the third line of defence.

- **First line of defence:** the business is responsible for the identification, control and management of its own risks.
- **Second line of defence:** risk management and compliance ensured that well designed risk and compliance frameworks are in place to facilitate risk management responsibilities and provide independent oversight and challenge of the execution and risk profile of the business.
- **Third line of defence:** internal audit provided independent testing and verification of business line compliance as well as assurance that the risk management process is functioning as designed.

### 7.2. ICAP’S RISK MANAGEMENT FRAMEWORK



### 7.3. POLICIES, PROCEDURES AND GUIDELINES

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

## 8. RISK PROFILE

ICAP recognised nine core risk categories: strategic, operational, liquidity, reputation, credit, legal and regulatory, cross-risk, market and financial. ICAP’s profile of these risks is continually evolving, driven by:

- Changes in the markets within which we operate;

- ICAP's strategies and business objectives; and
- ICAP's business/operating models.

ICAP seeks to generate attractive returns through informed risk taking and robust risk management. As such the effective management and control of both the upside of risk taking and its potential downside is a fundamental core competency of the Group.

The following table summarises the risks of principal importance to ICAP over the financial period, our appetite, their drivers and key mitigating actions. These principal risks were monitored and assessed throughout the organisation and at the Risk Committee, via the Group's risk appetite approach.

Additionally, stress testing of the sustainability of ICAP's business plan is undertaken through the assessment of extreme impact events/tail-risk events to provide an understanding of those risks that have the potential to make the business model unviable.

Principal Risk Type	Importance to ICAP	Key Drivers	Mitigation
<b>Strategic</b>			
The risk arising from inappropriate strategic decisions that fail to reflect the full business operating environment, and/or full impacts on execution, or fail to adequately or timely identify changes to the business model.	To ensure ICAP remains competitive in its chosen strategic markets, identifying and optimising commercial opportunities requires ICAP to assess the risks, rewards and costs associated with each.  Strategic risks generally manifest over a medium time frame allowing corrective proactive management.  <b>Appetite:</b> ICAP will innovate and grow through considered initiatives and acquisitions that are scalable, experience positive switching/network effects or show a competitive advantage	Regulatory landscape impacting our business or our customers' businesses.  Commercial/market conditions.  Internal business/operating model.	Business case and risk assessment of significant business initiatives.  Defined product, country and customer strategies.  Surveillance of market, regulatory landscape and customer demand.  Risk scenario contingency planning.
<b>Operational Risk</b>			
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.	While ICAP's reputation is built on strong execution of service, ICAP actively identifies, monitors and controls the risk that its people, processes or systems fail leading to a reduction in the quality of service to our customers and an increase in our operating costs.  Operational risks could manifest themselves across any time frame.  <b>Appetite:</b> ICAP will take measures to identify and proportionally manage operational risk to a desired level through mitigating systems, processes and controls, but recognises operational risk is inherent in its business activities.	Internal business/operating model.  External threats.  Market conditions.	The Group maintains an operational risk framework, with independent risk function oversight.  Timely escalation and mitigation of risk events.  Provision of training and guidance.  Information security breach monitoring.  Cyber security programme, including penetration testing.  Critical technology monitoring.  Risk scenario contingency planning.

Principal Risk Type	Importance to ICAP	Key Drivers	Mitigation
<b>Liquidity Risk</b>			
<p>Liquidity risk is the risk that the Group or any of its entities do not have sufficient liquid resources or are unable to deploy such resources to meet their actual or potential obligations in a timely manner as they fall due.</p>	<p>ICAP has short-term liquidity requirements arising from settlement and clearing arrangements, in the form of collateral and margin requirements for clearing houses or financial institutions providing clearing access. It is possible large liquidity demands may arise on the same or next day, due to reasons beyond ICAP's direct control. The Group ensures adequate liquidity resources are maintained to meet these requirements in support of its trading activities.</p> <p>Longer-term requirements arise in relation to the timing of the Group's operating cash inflows against outflows, principally for capital expenditure and dividends. The Group maintains a diversified funding base with sufficient committed headroom to forecast requirements.</p> <p><b>Appetite:</b> ICAP will have sufficient financial resources to ensure there is no significant risk that it is unable to access and utilise these resources to meet financial obligations as they fall due.</p>	<p>Operational risk.</p> <p>Credit risk (events).</p> <p>Operating/ business model.</p>	<p>Periodic reviews including going concern assessments.</p> <p>Use of financial institutions for clearing access.</p> <p>\$250 million of committed liquidity held centrally for same and next day utilisation.</p> <p>Contingency funding arrangements and procedures in place.</p>
<b>Reputational Risk</b>			
<p>The risk that the Group fails to meet expectations of stakeholders, is unable to build or sustain relationships with customers, incurs regulatory censure or experiences more costly access to funding sources.</p>	<p>ICAP remains focused on maintaining and constantly strengthening relationships with shareholders, customers, regulators, lenders, clearing and settlement providers, market infrastructure providers and employees.</p> <p>Reputation risk can manifest over the near term with long-term impacts.</p> <p><b>Appetite:</b> ICAP will adhere to its core values and fulfil its corporate responsibilities by ensuring it acts responsibly, ethically and with integrity</p>	<p>Operational risk.</p> <p>Regulatory risk – conduct risk.</p> <p>Strategic risk.</p>	<p>Active assessment via investor relationship surveys, media surveys and employee statistics.</p> <p>Culture and conduct initiatives.</p>
<b>Credit Risk</b>			
<p>The risk of a financial loss due to the failure of a customer to meet its obligation to settle outstanding amounts.</p>	<p>While ICAP enters into transactions only when executing on behalf of customers, providing customer access to clearing, or provides additional fee-based services to customers, there does exist short-term credit exposure prior to clearing and settlement, and outstanding receivables risk that ICAP manages.</p> <p><b>Appetite:</b> ICAP will only engage in activities which it believes will not result in loss due to significant credit risk.</p>	<p>Market conditions.</p> <p>Counterparty credit worthiness.</p>	<p>Counterparty due diligence.</p> <p>Credit assessments and limits.</p> <p>Risk scenario and stress contingency planning.</p>

Principal Risk Type	Importance to ICAP	Key Drivers	Mitigation
<b>Legal and Regulatory</b>			
<p>Legal risk can arise from defective transactions, failing to take appropriate measures to protect assets, changes in law and/or breach of law or acceptable practice, and claims, resulting in a liability or loss to a company(ies) within the Group.</p> <p>Regulatory risk is the risk of material loss, regulatory sanction, or reputational damage arising from the failure to comply with relevant regulatory requirements.</p>	<p>ICAP operates in multiple jurisdictions and remains focused on ensuring it recognises and respects the rules and laws to which it is held. ICAP also recognises that the conduct of the Group and its employees is of paramount importance to its strategic aims and reputation.</p> <p>Legal and regulatory risk can manifest over the near term and long term.</p> <p><b>Appetite:</b> ICAP will have in place processes, controls and frameworks to comply with legal and regulatory requirements and will use appropriate external legal advisors for contentious matters and litigation. For the avoidance of doubt, ICAP has no appetite for material legal or regulatory breaches.</p>	<p>Multiple and dynamic regulatory regimes.</p> <p>Regulatory risks – conduct risk.</p>	<p>ICAP has internal legal and compliance departments which act as independent advisory and investigation functions to enable and defend the Group’s strategic aims. Both legal policies and compliance risk management frameworks strengthen this defence.</p> <p>Advice is taken regularly from appropriately qualified external advisors and professionals.</p> <p>Training is provided to staff on an ongoing basis.</p> <p>Culture and conduct initiatives.</p>
<b>Cross Risk</b>			
<p>The risk that the Group and its divisions fail to maintain its commercial targets due to either internal or external factors.</p>	<p>In support of achieving its commercial targets, ICAP works diligently with all stakeholders to identify threats and opportunities.</p> <p><b>Appetite:</b> ICAP will monitor its internal and external environment in order to maintain stable and robust financial performance over the long term.</p>	<p>ICAP’s credit worthiness.</p> <p>Market competition.</p>	<p>Predictability of earnings – discipline is applied to existing financial performance and new business proposals.</p> <p>Maintenance of ICAP’s external credit rating.</p>
<b>Market Risk</b>			
<p>The risk of losses in on and off-balance sheet positions arising from adverse movements in market prices.</p>	<p>ICAP does not actively take market risk. Where it does arise this is due to failures in our expected business processes, systems or human error. As such it is identified and treated as operational risk.</p> <p><b>Appetite:</b> ICAP will not engage in proprietary trading or actively seek market exposure and will actively reduce any incidental market exposure resulting from its activities as soon as reasonably practicable.</p>	<p>Volume and complexity of trade booking.</p> <p>Market movements/liquidity.</p>	<p>Monitoring and timely mitigation of unmatched positions.</p> <p>Exposure modelling.</p>
<b>Financial Risk</b>			
<p>The risk that the Group is exposed to significant losses due to adverse movements in interest and exchange rates.</p>	<p>Interest rate risk from the Group’s exposure to rate fluctuations on cash balances and borrowings.</p> <p>Currency translation risk arising from the conversion of foreign currency results to pound sterling for the preparation of ICAP plc’s consolidated financial statements.</p> <p>Currency risk for the Group’s entities arising from transactions, assets or liabilities denominated in a foreign currency for an individual entity.</p> <p><b>Appetite:</b> ICAP will manage its financial risks in accordance with approved policies for the Group.</p>	<p>Market rates.</p> <p>Trading volume.</p> <p>Geographic profile.</p> <p>Regulatory and working capital requirements.</p>	<p>Established Group policies for the management of interest rate and currency exposures.</p> <p>Long-term debt raised with fixed rates with the option to swap to variable rates.</p> <p>Quarterly review of currency exposures and hedging levels.</p>



## 9. RISK ASSESSMENT AND MANAGEMENT TOOLS

ICAP took measures to identify and proportionally manage its risk profile to a desired level through mitigating systems, processes and controls, but recognises risk is inherent in its business activities.

Below are the core tools to assist the assessment and management of risk.

**Credit limit setting** is the process followed by the Risk Management department to determine the maximum financial limit that the Company will accept the counterparty to be exposed to, with the business conducted through them. Every counterparty is provided with a limit during the on-boarding process, and reviews of each counterparty are conducted periodically and during time of expected change. During the reviews, where appropriate, amendments to limits are made to reflect any changes to a counterparty's financial stability or changes to the market conditions.

**Risk and Control Self-Assessment (RCSA)** is a process used to identify potential risks and to provide a quantification methodology for assessing risks and controls in each area. RCSAs are forward looking and subjective. RCSAs are living documents and require continuous review and updating to ensure that they reflect the current risk profile of the business. RCSA outputs are collated and analysed by the Risk Management department and matters requiring escalation are reported to the relevant Risk Committee for decision making and/or action.

ICAP business areas, the owners of risk, conducted RCSAs. The RCSA mechanism drives the identification, review and evaluation of inherent and residual risks in light of the supporting control environment. In addition, it offers the risk owner an opportunity to consider areas where further focus and/or attention may be needed. This is supplemented by a risk based approach to execution, seeking to leverage the Group's risk taxonomy and key risk scenarios in facilitating discussion, consideration and the determination of applicable risks. Internal risk event data and external risk event data were used to validate and challenge businesses assessment.

ICAP's RCSA methodology separately identified inherent risk as a factor of the likelihood and impact (financial and non-financial) of any risk crystallising. The RCSA process involved the use of quantitative and qualitative measures and judgements of the business and the Risk Management department. These measures are aimed to ensure transparency, challenge and consistency to the process and have been developed in partnership with the business.

**Key Risk Indicators (KRIs)** provide a monitoring tool to report on the performance of the risk and control environment, changes in levels of risk and trends. KRIs are directly linked to the RCSA and Scenario Analysis processes as KRIs may emanate from both of these processes. Thresholds within KRIs, through internal reporting, provide management with early warning of potential breaches, and the opportunity to make timely and well informed risk management decisions.

**Risk Events (REs)** at ICAP are any circumstance that causes the actual outcome of ICAP's business or infrastructure process to differ from the reasonably expected outcome. Risk events can result in financial and/or non-financial impacts to ICAP. Risk events are broken up into internal and external events.

- **Internal Risk Events (IREs)** are events that occur within the company and which meet the above definition. IREs are used to assist with the identification, assessment, control and mitigation of risks. Lessons learned from loss events are applied throughout the framework and mitigating actions are tracked by the Risk Management department and the business management to assist with future risk mitigation. IRE data is also used to help identify and validate risk scenarios and stress testing parameters.

- **External Risk Events (EREs)** are those that occur outside the company. EREs provide an input into the RCSA, Scenario Analysis, culture and awareness and reporting elements of the framework. Various sources are used to identify external events, including commercially available databases, news articles, and internet searches.

**Scenario Analysis (ScA)** serve to identify severe yet plausible events in an attempt to estimate the potential financial impact and frequency should such events occur. The output from the ScA process is a key requirement for internal capital assessments and stress testing.

**Stress Testing** is the assessment that allows management to understand how the Company would respond and manage severe yet plausible scenarios that are generally outside of their control. The scenarios are used to directly shock the financial forecast and business plan. The results and any recommended actions are communicated to the relevant committee for oversight, review, challenge and approval. The results are also used to evidence potential capital and liquidity movement over the stressed period.

## 10. INTEGRATED ASSURANCE

Integrated assurance is a component of the Risk Management framework which provides an independent review of the various entities, businesses and infrastructure functions.

Assurance is conducted through coordination and cooperation between the key governance functions (Risk Management, Compliance, and the IA function). These three functions, through the course of their respective assessment and evaluation approaches, define the key risks and requirements for associated coverage to ensure that internal controls are operating effectively. The reviews take a variety of forms – ranging from a jointly performed review, to coordinated timing of separate reviews (whilst leveraging information where possible). Issues arising from these reviews are tracked to ensure timely escalation and resolution.

## 11. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

The purpose of the ICAAP is to inform the Company's Board of Directors and its senior management of the ongoing assessment of the Company's risks, how the Company intends to mitigate those risks, and how much current and future capital is necessary to withstand severe yet plausible risk events. This includes an assessment of capital for the current year, an estimate of the capital required over a three-year period (under both 'normal' and 'stressed' conditions) and the calculation of wind down costs.

The scope of this ICAAP document covers the Company, which is a UK entity regulated by the FCA.

The Company's ICAAP is owned by their Board of Directors. It is prepared by the Group Risk function and involves input from all key areas of the business.

## 12. CAPITAL STRATEGY

Capital strategy was maintained and managed by the Group. The entity was managed in line with the Group's capital strategy. The Group's capital strategy was to maintain a strong and efficient capital base that maximises the return to its shareholders, while also maintaining flexibility and ensuring compliance with supervisory regulatory requirements. To maintain the cost-efficiency of the capital strategy, the Group sought to ensure capital strength commensurate with an investment grade credit rating.

In developing and reviewing the capital strategy, the Group starts by considering its business strategy, which covers all entities. This is done on a prospective basis, with due consideration given to market dynamics and regulatory changes. In addition, it involves an assessment of the capital required to support existing businesses as well as the capital required to support new ventures.

The entity's capital adequacy was periodically assessed under both business-as-usual and stressed conditions to ensure that adequate capital levels are maintained to protect the Group against unforeseen events which could prohibit it from achieving its capital strategy.

### 13. CAPITAL RESOURCES AND REQUIREMENTS

There is no difference between the Company's shareholders' funds and total regulatory capital of £40,120,000 at 31 March 2017. All regulatory capital qualifies as Common Equity Tier One.

Common Equity Tier One capital comprises the following elements:

- Fully paid up ordinary share capital
- Retained earnings
- Distributable capital contribution reserve

#### Risk weighted exposures by risk type

	Risk Weighted Exposures (£'000)	Capital Requirements (£'000)
Credit risk	16,351	1,308
Market risk - Foreign exchange risk	4,189	335
Fixed overhead requirement	28,438	2,275
	<b>48,978</b>	<b>3,918</b>

**Total capital ratio:** 81.91%

#### Credit risk exposure by exposure class

(£ '000)	Exposure Value	Average Exposure Value	Risk Weighted Exposures	Capital Requirements
Institution	32,669	33,237	6,534	523
Corporate	9,755	10,269	9,755	780
Other	25	133	25	2
Central government and central banks	15	16	37	3
	<b>42,464</b>	<b>43,655</b>	<b>16,351</b>	<b>1,308</b>

Credit risk is calculated using the standardised approach in accordance with Chapter 2 of Title II of the CRR. The nominated External Credit Assessment Institution (ECAI) is Fitch, whose ratings are used in the determination of risk weights for the following exposure classes;

- Institutions
- Corporates
- Central governments and central banks

The majority of credit risk exposures are with external, highly rated institutions or with unrated corporate entities within the TP ICAP Group. No exposures are deemed to be impaired.

#### Credit risk exposure by geographic distribution and residual maturity

(£ '000)	Exposure Value
United Kingdom	38,404
Rest of Europe	3,681
Other	379
	<b>42,464</b>

(£ '000)	Exposure Value
Less than one year	42,424
Undated	40
	<b>42,464</b>

Undated items include deferred tax assets.

#### Capital buffers

At 31 March 2017, the Company had no exposures to countries which had set a Countercyclical Capital Buffer (CCyB) rate above 0%.

The Capital Conservation Buffer (CCB), introduced on 1 January 2016, was £612,000 calculated at the transitional rate.