Instinet International Limited Group Pillar 3 Disclosure

1. OVERVIEW

1.1 Introduction

The Pillar 3 disclosure is a requirement of the EU's Capital Requirements Directive (CRD), as implemented in the UK by the Financial Conduct Authority (FCA).

Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key information on firms' capital adequacy and risk assessment and control processes.

The Capital Requirements Directive (CRD) was implemented on 1 January 2007.
It comprises three 'pillars':

- Pillar I is the calculation of minimum regulatory capital requirements which firms are required to keep for credit, market and operational risk.
- Pillar II requires an Internal Capital Adequacy Assessment Process (ICAAP) by firms to assess whether additional regulatory capital should be held by the firm in addition to Pillar I based on the risks faced by the firm, the risk management processes and stress testing.
- Pillar III sets disclosure requirements which allow market participants to assess a firm's capital, risk exposures and risk management processes.

On 1 January 2014, CRD IV, the fourth amendment of the CRD came into effect. All disclosures in the document are based upon data as at 31 March 2020 based on the new CRD IV rules.

In accordance with the requirements of Pillar III, this document is intended to disclose information relating to Instinet International Limited (IIL) and its subsidiaries (together the "IIL Group") risk, control framework and capital position. Information is disclosed by IIL under these rules unless it does not apply, or is considered by the Risk and Capital Committee as being proprietary or confidential information (note: no disclosures have been omitted on these grounds).

1.2 Scope and Frequency of Disclosure

The Pillar 3 disclosures are made in respect of all entities that are consolidated in IIL Group as at the documents reference date, 31 March 2020. The same entities also form the UK Consolidation Group which is subject to consolidated supervision by the FCA.

Within the IIL Group, Instinet Europe Limited (IEL / "the Firm") is the only regulated operating entity and is a 730K "limited activity" firm for prudential purposes.

In accordance with the requirements of CRD IV Pillar 3 disclosures will be made at least on an annual basis and published on the Group's corporate website (https://www.instinet.com/legal-regulatory).

2. BUSINESS OVERVIEW

Instinet is a global agency broker offering institutional clients and market counterparties access to multiple global execution venues through its subsidiaries around the world, via high touch trader worked institutional client orders and low touch direct client access to electronic trading and algorithms.

3. GOVERNANCE AND RISK MANAGEMENT FRAMEWORK

3.1 Corporate Governance Overview and Objectives

The IIL Group's day to day business activities expose it to strategic, operational and financial risks. The Board accepts that it cannot place a cap or limit on all of the risks to which the Firm is exposed, however effective risk management ensures that risks, including the risk of failure to achieve objectives and implement strategy and the risk of material financial misstatement or loss, are managed to an acceptable level.

The Board, through the Risk and Capital Committee is ultimately responsible for the implementation of an appropriate risk strategy, defining and communicating the Firm's risk appetite, the establishment and maintenance of effective systems and controls and continued monitoring of adherence to the Firm's policies.

The Board is supported by the Senior Management team and Executive Committee who are responsible for the execution of the Board's risk strategy, including the management of Risk Appetite, and to supervise, monitor and support the various Risk and Control functions.

It is the aim of the Risk and Control functions to co-ordinate management and reporting of the Firms risks ensuring that risk management is fully integrated into the day-to-day activities of the firm. The firms approach to risk management within the business is set out within the Board approved Risk Appetite Statement and Risk Management Framework.

As part of the Risk Management Framework, the business is subject to independent assurance by internal and external audit. The use of independent compliance monitoring reviews and risk reviews provide additional support to this integrated assurance and review programme, and ensures that the Firm is effectively identifying, managing and reporting its risks.

The IIL Group's Risk Management Framework is designed to ensure that risks are identified and managed within the IIL Groups risk appetite and capital resources. Regulatory capital is monitored closely and reported formally to senior management on a daily basis.

3.2 Principal Risks

Credit Risk
Credit risk is the risk of loss should an institutional counterparty fail to meet its financial obligations to the IIL Group. This risk may for example crystallise as a result of cash at bank or on margin not being returned due to bank or institutional counterparty default. The IIL Group uses the standardised method to calculating its Credit Risk Own Funds Requirement, which includes all its on balance sheet assets, except for trading assets.

The IIL Group holds cash at banks and short term investments with a number of top tier institutional counterparties which are approved by the Board based on the ongoing assessment of their the counterparty's external credit rating.

Counterparty Risk
Counterparty Credit risk is the risk of loss when an obligator does not meet its financial obligations to the IIL Group. This risk may arise as a result of clients defaulting on an IEL or affiliate executed trade, the IIL Group having to liquidate the resulting position and the market moving against the IIL Group.

In assessing its Pillar 1 and Pillar 2 capital component for counterparty risk, the IIL Group considers both:

- Counterparty Risk against our Margin Collateral and Stock Borrowing Collateral deposits
- Client Counterparty Risk assessed on failed settlements. As an agency broking business Client Counterparty Risk is generally limited to any MTM movement on the failed transaction

Counterparty risk is monitored and measured on a daily basis by the Treasury and Risk Departments.

Market Risk
As an agency broker Instinet does not generally run proprietary market exposures. Therefore, in general and under normal BAU conditions, the IIL Group will be exposed to a fairly limited range of material market risks being:

- FX Positional Risk Requirement (PRR) arising from holding non-Sterling denominated assets and liabilities
- Positional Risk exposure on any warehoused positions
- Incidental equity positions that IEL has due to incomplete orders and/or client fails

Prospective positions for warehousing require prior approval as set out in the firm's internal Policy and are monitored to ensure the gross amount of such positions are within Board approved appetite levels.

Liquidity Risk including Interest Rate Risk
Liquidity risk is the risk that the firm will not be able to meet its current and future cash flow and collateral requirements as they fall due, both expected, and unexpected, without materially effecting its daily operations or overall financial condition or its regulatory capital adequacy.

The IIL Group's liquidity risk is materially limited to margin, collateral requirements, and failed trades driven by our primary business. The IIL Group's Treasury department monitors the defined Liquidity Risk Tolerance measurements to ensure that triggers, reporting and contingency funding actions are in place should any liquidity issues arise.

Operational Risk
Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. Operational risk can never be completely eliminated, however the IIL Group seeks to minimise the probability and impact of operational risk events.

The IIL Group defines its key operational risk categories as:

- Brand and Reputation
- Legal and Regulatory Risk
- Information Security Risk
- Technology Risk
- People Risk
- Business Continuity Risk
- Financial Crime
- Change Management

The IIL Group has implemented a Risk Management Framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner.

- Implementation of the risk management framework across the business including key risk management tools such as: the IIL Group Risk Appetite Statement; Key Risk Indicator (KRI) monitoring; maintenance of Risk Registers by all departments; Risk and Control Self-Assessment programme; Scenario and Stress analysis; and an incident monitoring programme
- Review of our most significant operational and business risks by the Risk and Capital Committee, to ensure that the controls in place are adequate and that the residual post-mitigation risk is within our risk tolerance
- Review of risks and controls as part of the Internal Audit Schedule
- Maintaining ISO 27001 standards in respect of IT and data security

Conduct Risk
Instinet recognises that it has duties to deliver fair outcomes for its clients and maintain the integrity of the markets it operates within.

Instinet expects staff to act with honesty, integrity and appropriate due diligence at all times in order to protect the Firm, its assets, its clients and to support the operational objectives that have been set out by the FCA.

All senior management and employees have a responsibility to uphold the standards set out in Instinet's Code of Conduct policy. Compliance with the policy is monitored and is a term and condition of employment with the Company.

Other Risks
The IIL Group continues to monitor and manage its other risks as defined in its Risk Management Framework, ensuring consistency of assessment, monitoring and reporting. These risks include:

- Concentration Risk
- Strategic Business Risk
- Group Risk

3.3 Risk Management and Appetite

Instinet's Risk Appetite Statement provides stakeholders with guidance on acceptable risk within which the IIL Group will operate, in order to safeguard the financial stability of the firm and client assets, its impact on the integrity of underlying markets and the jobs of its employees.

All risk management policies and procedures issued by the risk management function are required to be consistent with the high-level principles established by this statement.

4. SUMMARY OF CAPITAL RESOURCES AND RESOURCE REQUIREMENTS

4.1 Capital Resources Summary

Under the requirements of CRD IV, the IIL Group is required to at all times satisfy the following own funds requirements:

- Common Equity Tier 1 capital ratio of 4.5%
- Tier 1 capital ratio of 6%
- Total capital ratio of 8%

The IIL Group's capital resources as at 31 March 2020 are summarised below:

	March 2019	**March 2020**
	£'m	**£'m**
Tier 1	167.7	174.4
Tier 2	0.0	0.0
Tier 3	0.0	0.0
Total Capital Resources	**167.7**	**174.4**

As at 31 March 2020, the IIL Group's total risk exposures were as follows:

£'m	**March 2019**	**March 2020**
	£'m	**£'m**
Credit Risk	25.8	31.9
Counterparty Credit Risk	54.4	129.7
Market Risk	97.2	20.6
Fixed Overheads Requirement	139.3	139.3
Total Risk Exposure Amount (TREA)	**316.6**	**321.5**

Based on the analysis provided, the IIL Group's Common Equity Tier 1, Tier 1 and Total Capital Ratios at 31 March 2020 were 54.2% (Total Capital Resources/Total Risk Exposures), significantly in excess of the CRD IV requirements shown above.

4.2 Internal Capital Adequacy Assessment Process (ICAAP)

The IIL Group's Internal Capital Adequacy Assessment Process (ICAAP), prepared under the requirements of the Financial Conduct Authority (FCA) and the Capital Requirements Directive (CRD), describes the risk processes and controls in place to assess the IIL Group's capital risks on an on-going basis.

In addition, the ICAAP describes how the IIL Group mitigates these risks and analyses how much current and future regulatory capital is required, having considered all risk mitigating factors.

The Group's ICAAP is formally reviewed and approved by the Board at least annually. If significant business changes occur between these review dates, then the ICAAP is amended and resubmitted for review and approval.

5. REMUNERATION DISCLOSURE

During the Financial Period to 31 March 2020, Instinet Europe has been classified by the FCA as a Level 3 firm for the purposes of the remuneration proportionality framework and as such is not subject to the full scope of the FCA's rules on remuneration.

5.1 Remuneration Policy and Process

For the period 31 March 2020, the Board of Instinet Europe had a Remuneration Committee. The committee is comprised of the Global Head of Human Resources, the Non-Executive Chairman and two Non-Executive Directors. The duties as documented in the Terms of Reference of the Remuneration Committee (the "Committee") are set out below:

- The Committee shall determine and agree with the Board the framework or broad policy for the remuneration of the company's employees (the "Remuneration Policy"). No director or manager shall be involved in any decisions as regards to their own remuneration.
- In determining the Remuneration Policy, the Committee shall take into account all factors which it deems necessary, including, but without limitation, its regulatory obligations as an entity regulated by the Financial Conduct Authority ("FCA") and appropriate incentives to encourage enhanced performance.
- The Committee shall review the ongoing appropriateness and relevance of the Remuneration Policy.
- The Committee shall:
  a. review and note annually the remuneration trends across the company;
  b. oversee any major changes in employee benefit structures throughout the company.
- The Committee shall obtain reliable, up to date market information about remuneration. The Committee shall have full authority to commission any reports or surveys which it deems necessary to help it fulfil its obligations.
- The Committee shall consider such other matters as may be requested by the Board.

5.2 Code Staff

The definition of remuneration code staff is set out in SYSC 19A. 3.4 of the FCA's handbook defines "remuneration code staff" as:

"an employee of an IFPRU investment firm whose professional activities have a material impact on the firm's risk profile, including any employee who is deemed to have a material impact on the firm's risk profile in accordance with Regulation (EU) 604/2014 of 4 March 2014 (Regulatory Technical Standards to identify staff who are Material Risk Takers)" (the "RTS")."

The RTS identifies material risk takers on a qualitative and quantitative basis.

5.3 Link Between Pay and Performance for Code Staff

Remuneration for employees is made up of fixed pay (i.e. salary and benefits) and performance-related pay based on individual and Group performance. The variable bonus pool is set by the Firm's immediate parent company in consultation with its ultimate parent company.

Instinet Europe's senior management team proposes individual allocation based on, inter alia, appraisals. The appraisal takes into account consideration of regulatory compliance and risk behaviour. Proposals are then submitted to the Committee for approval. Bonuses are completely discretionary, so the structure of the remuneration package is such that the Firm can operate a truly flexible bonus policy.

5.4 Remuneration Disclosure

For the Performance Period to 31 March 2020, the aggregate total compensation paid to Instinet's 17 Code Staff (including one who left in the period) was £5,323,300. This was split between fixed and variable compensation as follows: £2,695,000 (fixed) and £2,628,300 (variable).

CONTACT INFORMATION

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