



## PILLAR 3 DISCLOSURES

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## 1. Introduction

The Capital Requirements Directive IV (CRD IV<sup>1</sup>) is an EU legislative package establishing a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the CRD IV has been implemented by the Financial Conduct Authority (FCA) in its regulations through the General Prudential Sourcebook ('GENPRU'), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU') and the Prudential sourcebook for Investment Firms ('IFPRU').

The FCA Framework consists of three 'Pillars':

- **Pillar 1** sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- **Pillar 2** requires the firm to assess whether its Pillar 1 capital is adequate to meet its risk and is subject to annual review by the FCA;
- **Pillar 3** requires disclosure of specified information about the underlying risk management controls and capital position.

This document has been produced by Cboe Chi-X Europe Limited ("Chi-X") to meet its Pillar 3 obligations.

Chi-X is authorised and regulated by the FCA as a standalone IFPRU €50k limited licence firm with the regulatory permissions to operate as a broker/dealer. Chi-X uses these permissions to route orders which are not executed on its order books, to other venues.

## 2. Risk Management

Chi-X is committed to managing applicable risks to the business and maintaining an effective internal control structure, which includes robust monitoring and regular reporting of such risks. Chi-X places a high priority on risk management through its functional structure, governance processes, monitoring and reporting activities and its emphasis on integrity and values.

Via its parent company Cboe Europe Limited ("Cboe"), there is a dedicated Risk Manager who has the responsibility of identifying, managing and reporting specific and business-wide risks. Risk governance processes involve regular reviews by senior management and the Board to identify and monitor key risks, in addition to independent oversight and challenge by the Audit, Risk and Compliance Committee of Cboe. Consideration is given to the level and types of risk that the Board regards as appropriate for it to accept in order to fulfil the firm's business objectives and operate within the scope of its regulatory permissions.

In April 2013, Chi-X adopted a new Risk Policy, Risk Framework and Risk Appetite Statement. Governance of risk management within Chi-X is based on a 'three lines of defence' model, as follows:

1. First line of defence (business management and staff) – responsible for identifying and assessing the risks faced in the business and ensuring that appropriate controls are established and maintained.
2. Second line of defence (Risk Management Department) – responsible for establishing an effective policy framework for risk management to support the business.
3. Third line of defence (Internal and External audit) – provides independent and objective assurance on the effectiveness of risk management, control and governance processes.

Chi-X has, in line with its service offering, a low level of risk appetite. Chi-X's exposure to credit and market risk is limited; it does not provide financial advice, fund management or hold client monies and has minimal credit exposure. Chi-X does not, therefore, take any credit or market risk. Market risk is limited to Chi-X's exposure to any cash amounts held by Chi-X in a foreign currency. All foreign currency is converted to GBP on a regular basis.

Operational risk occurs as a consequence of undertaking its core business activities and Chi-X seeks to minimise these risks by putting in place robust internal risk and business controls. Chi-X uses its Risk Management Department and internal audit function to reinforce and oversee the operation of these controls. Chi-X also aims to minimise operational risk at all times through a strong and well-resourced control and operational structure.

### 3. Capital Resources

Capital Resources	£000's
Tier 1 Capital	352
Deductions	-
Tier 2 Capital	
Deductions	-
Capital Resources (as at 31 Dec 2015)	352
Tier 3 Capital	-
Deductions	-
Total Capital	352

Tier 1 Capital comprises: ordinary share capital and profit and loss reserves.

### 4. Capital Adequacy ('ICAAP')

As part of IFPRU requirements under Pillar 2, Chi-X undertakes the Internal Capital Adequacy Assessment Process ('ICAAP') at least annually, and this is submitted to the Board for review.

## 5. Disclosures

The Board of Chi-X regards information as material if its omission or misstatement could change or influence the decision of a user relying on the information for the purpose of making economic decisions. All disclosures are reviewed and approved by the Board of Chi-X.

## 6. Remuneration Policy

Chi-X currently does not directly employ any staff. The operation of the Company is managed by staff of its Parent Company, Cboe.

Cboe utilises a remuneration committee, comprising of at least three non-executive directors of the Cboe Board.

Total remuneration consists of basic salary, bonuses and stock based compensation. Basic salary is governed by employment contracts, and is subject to a yearly review for appropriate increases, which are subject to approval by the Remuneration Committee. Bonuses are paid in accordance with defined business targets (both at the department and company-wide level) which are set at the beginning of the financial year. These targets are a mixture of profitability, new initiatives and operational effectiveness measures. As these targets are met during the year, a standard formula is used to convert this into a monetary amount which is paid quarterly. The targets are approved by the Remuneration Committee at the beginning of the year. Occasionally discretionary payments can be made over and above the standard bonus amount. These are usually recommended once a year by the Remuneration Committee of Cboe Global Markets, Inc. ('CGM') – the Ultimate Parent Company. These are in turn subject to authorisation by Cboe's Remuneration Committee.

Many staff also participate in a stock option program and restricted stock program administered by BGM. Both options and restricted stock are issued at market value and vest 25% per year over a period of four years. Details of this plan and outstanding stock are contained in the disclosures to Cboe's annual financial statements.

Aggregate remuneration data for all staff of Cboe for 2016 is as follows:

	<u>2016</u>
	£000
Wages and salaries	8,178
Bonuses	2,942
Share-based payments	1,400
Social security costs	1,772
Other pension costs	<u>356</u>
	<u><u>14,648</u></u>

Aggregate remuneration data for the management of Cboe for 2016 is as follows:

	<u>2016</u>
	£000
Wages and salaries	1,927
Bonuses	1,484
Share-based payments	1,375
Social security costs	671
Other pension costs	<u>48</u>
	<u><u>5,505</u></u>