

EUROMTS LIMITED

Pillar 3 Disclosures

FOR THE PERIOD ENDED 31 DECEMBER 2020

The ownership structure referred to herein relates to the position as at 31 December 2020. On 29 April 2021, EuroMTS Limited, an indirect subsidiary of Borsa Italiana S.p.A., was sold by London Stock Exchange Group PLC to Euronext N.V.



Introduction

The Capital Requirements Directive IV (CRD IV) establishes a regulatory capital framework for EEA based firms governing the amount and nature of capital investment firms must maintain. CRD IV is made up of the Capital Requirements Regulation (CRR), which is directly applicable to firms across the EU, and CRD IV, which is transposed into national law through UK legislation.

In the United Kingdom, CRD IV has been implemented by the Financial Conduct Authority (FCA) in its regulations through 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
- **Pillar 3** requires disclosure of specified information about the underlying risk management controls and capital position

Articles 431 – 455 of CRR set out the provision for Pillar 3 disclosure.

Regulatory Status of EuroMTS Limited

EuroMTS is authorised and regulated by the FCA with the permission to operate a Multilateral Trading Facility (MTF). EuroMTS is an IFPRU limited licence firm and, following the implementation of CRD IV, since 1 January 2014 must comply with CRR and IFPRU. EuroMTS has the permission to operate the following activities in the United Kingdom:

- i) Operating a MTF;
- ii) Arranging (bringing about) deals in investments;
- iii) Causing dematerialized instructions to be sent;
- iv) Making arrangements with a view to transaction in investments;
- v) Dealing in investments as agent; and
- vi) Agreeing to carry on a regulated activity

We also note that EuroMTS is not considered to be a 'significant firm' for the purposes of the relevant CRD IV and CRR provisions, as it does not meet any of the conditions set out in IFPRU 1.2.3R.

Nature of Disclosures

The Pillar 3 annual disclosure is prepared by EuroMTS management using information from the firm's audited financial accounts for the twelve-month period ended 31 December 2020 and is reviewed and approved by the EuroMTS Board. The above period is the scope of this disclosure.

Risk management objectives and policies

Management have developed a Risk Management Framework designed to identify all material risks to which the business is exposed and to ensure the management of these risks is in accordance with the firm's risk appetite statement.

As an entity ultimately majority owned by the London Stock Exchange Group plc ("LSEG") and reliant upon LSEG for many functions which it has outsourced, EuroMTS operates a system of procedures and policies for risk management in accordance with the guidelines provided by the LSEG Enterprise Risk Management Framework (ERMF). The application of this policy enables the Company to meet requirements as i.e.:

- i. To identify and assess the risks associated with its activities, processes and systems and to determine the level of risk tolerated;
- ii. To formulate the risk assessment process and related metrics;
- iii. To adopt effective tools, processes and mechanisms that make it possible to manage the risks relating to its activities, processes and systems;
- iv. To monitor the adequacy and efficacy of the risk management policies and measures taken to remedy any deficiencies found in policies and processes.

The setting of risks, their assessment, key risk indicators, as well as all the elements that contribute to risk assessment and mitigation, such as incidents, the findings of the audit function, controls, projects and actions are stored in an appropriate risk management and reporting database.

EuroMTS uses risk appetite as a mechanism for articulating and monitoring accepted risk levels. The risk appetite sets out the acceptable risk levels to be taken in achieving EuroMTS's strategy. Reporting of the level of risk assessed against the risk appetite statement is performed on a periodic basis, but no less than quarterly. The level of risk is assessed as within, near or outside of risk appetite. Where a risk is near or outside risk appetite, an action plan is required to bring the risk back within appetite within an acceptable timeframe. In the case of a risk being outside appetite, this timeframe needs to be within six months. In some circumstances, the Board may propose to amend the risk appetite where there is a change in strategy.

Any risks reported as near or outside risk appetite are escalated to the EuroMTS Board and will form part of the LSEG Risk Committee, which aggregates Group risks, and reports to the LSEG Board.

Director information can be found in the Directors report of the firm's audited financial statement for the 12 months ended 31 December 2020.

It is important to highlight that the Company, as part of the Borsa Italiana Group, was sold by the London Stock Exchange Group to Euronext in April 2021. Following the acquisition, the Company will adopt a new framework and risk management model and procedures aligned with those of the new Group. The integration process started in May 2021 and is expected to be completed in the second half of the year. Details and a description of the new methodology will be provided in the next report.

Operational Risk

Operational risk is inherent in any business and is of particular importance to the company as a low margin and technology-reliant business.

The business seeks to identify and use reasonable efforts to mitigate all sources of operational risk by establishing and actively managing a robust Risk Management Framework, supervised by Management and the ARCC, and challenged by the Group Risk Function.

Particular attention is devoted to establishing clear procedures and accountability for critical business processes, change management, governance of outsourced functions, and ensuring business continuity.

Governance arrangements

Considering the disclosure requirements outlined both at art. 435(2) of CRR and at art. 4.3A.11 of the Senior Management Arrangements, Systems and Controls (SYSC) section of the FCA Handbook, please find below information on the firm's governance arrangements.

The EuroMTS Board of Directors composition reflects the appropriate balance of skills, experience, independence and knowledge of the company to enable the Board members to discharge their respective duties and responsibilities effectively.

As at 31 December 2020, the EuroMTS Board is composed by one Non-Executive Director, three Executive Directors and three Independent Directors, one of whom is also the Chairman.

Ad hoc procedures are in place for the appointment of new Directors to the Board and for the identification and the possible management of conflicts of interest.

The EuroMTS Board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. In this regard, as previously mentioned, the EuroMTS Board maintain sound risk management and internal control systems.

The Board annually reviews the external directorships, if any, and is asked to approve them. All external directorships are within the limits introduced by MiFID II.

Composition of Own Funds Capital Resources

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Common Equity Tier 1 capital: instruments and reserves	
Capital instruments and the related share premium accounts	4,907,745
Retained earnings	2,855,725
Other reserves	-
Common Equity Tier 1 (CET1) capital before regulatory adjustments	7,763,470
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-
Common Equity Tier 1 (CET1) Capital	7,763,470

Source: Based on audited Financial Statements for the year ended 31 December 2020 (Profit for fiscal year 2020 and dividend 2020 payment is included)

Assessment of Capital Adequacy

As an IFPRU limited licence firm, EuroMTS's Pillar 1 capital requirement is determined by the higher of:

- €730,000, or
- The sum of credit and market risk, or
- The fixed overhead requirement

EuroMTS undertakes the Internal Capital Adequacy Assessment Process (ICAAP) annually, and on a quarterly basis reviews its cost & revenue forecasts to ensure it will maintain adequate capital under any foreseeable market conditions.

Countercyclical Capital Buffer (CCyB)

EuroMTS, as a limited licence firm is exempted from holding a CCyB on the basis of article 10.1.1 of IFPRU. Notwithstanding this EuroMTS does not feel the CCyB is appropriate given all risks are extensively considered as part of the ICAAP, with appropriate capital held.

Credit Risk

Credit risk originates from credit exposures with member firms as well as on cash, cash equivalent balances and deposits with treasury counterparties. EuroMTS does not act in a principal capacity to any transactions. Accordingly, with respect to dealing with member firms and customers, credit risk arises only in the context of a potential failure to pay fees.

The Credit Risk Capital Requirement for EuroMTS is determined using the Standardised Approach as per *IFPRU 4.2 (CRR Article 92(3))* and detailed further in *CRR Article 111-141* guidance. This multiplies the debtor balance with the risk weighting (after assessing type of exposure, geographical location and External Credit Assessment Institutions (ECAIs) ratings) and then with the Credit Risk Capital Component Requirement (currently 8%).

For information regarding “past due” and “impaired” debtors please refer to the firm’s audited financial statement for the 12 months ended 31 December 2020.

Exposure class, maturity and geographic location based on December 2020 COREP return were as follows:

Exposure Class	
Institution	16.75%
Corporate	79.38%
Sovereign	3.86%

Maturity	
> 90 days	6.09%
< 90 days	93.91%

Geographic location	
UK	73.44%
Europe	22.72%
USA	3.72%
Other	0.11%

The Credit Risk Capital Requirement, based on December 2020 COREP return, was €412k

Credit Risk Mitigation

Credit risk is controlled through policies and procedures developed by EuroMTS and its ultimate parent, London Stock Exchange Group plc (LSEG).

Credit quality of member firms is assessed, based on financial position, historical performance and other factors. Trade receivables, net of impairment, are concentrated in the financial sector, and are managed as one class of receivables. There are no material concentrations of credit risk with respect to trade receivables as EuroMTS has a low historic incidence of defaults. Given this and the recurring nature of billing and largely automated collection arrangements, management assesses the credit quality of EuroMTS's members as high. EuroMTS does not use on-balance sheet netting nor does it have collateral or guarantees.

Market Risk

Market risk is the risk of loss from adverse movements in the level or volatility of market prices of assets. Since EuroMTS is not the counterparty to the settlement contracts resulting from trades conducted through its services, it is not directly exposed to market risk from the settlement process. EuroMTS holds the majority of its capital in Euros but maintains a small balance in a GBP current account. The transfers to this account are made as and when they are required, in order to cover GBP payments such as salaries, expenses, pensions, Pay-As-You-Earn/National Insurance, and supplier payments. The GBP account is managed by transfers from the Euro account, and as a result, EuroMTS is exposed to a low level of foreign exchange risk between Sterling and the Euro.

- The Market Risk Capital Requirement, based on audited December 2020 COREP returns, is €50k.

Interest Rate Risk

EuroMTS is not debt financed and is not exposed to any interest rate risk as a borrower or lender. EuroMTS does have cash deposits and hence interest income will vary with interest rates, but this income is not material.

Securitisation

EuroMTS does not have any exposures to securitised positions.

Asset Encumbrance

EuroMTS does not currently have any encumbered assets, however this position is regularly monitored with the "COR005 Asset Encumbrance" COREP return submitted by the firm on a quarterly basis.

Remuneration

The latest remuneration policy for EuroMTS is outlined in the "FCA Remuneration Code Disclosure" document and can be found [here](#).



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