ED&F MAN CAPITAL MARKETS LIMITED

Pillar 3 Disclosures

Year ended 30 September 2015

3 London Bridge Street
London SE1 9SG

Authorised and Regulated by the Financial Conduct Authority
Registered in England No 1292851

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1. Scope of Application

E D & F Man Capital Markets Limited ("MCM" or the "Company" or the "Firm") is authorised and regulated in the United Kingdom by the Financial Conduct Authority ("FCA"). The Firm operates branches in Dubai and Hamburg. MCM is a fully owned subsidiary of E D & F Man Holdings Limited, a company incorporated in England and Wales, and which is the ultimate holding company of the E D & F Man Group (the "Group"). Additionally, MCM is a registered Introducing Broker ("IB") under the National Futures Association ("NFA") in the United States of America.

The disclosures contained within this document are for MCM on a standalone basis. MCM is not subject to consolidated supervision by any regulatory body.

These disclosures are laid out in accordance with the requirements of the EU's Capital Requirements Regulation (EU 575/2013) ("CRR") articles 431 to 455 (Disclosures by Institutions).

Disclosures are based on the position of MCM as at 30 September 2015, its financial year-end. They are disclosed in US Dollars, the Company's functional and reporting currency. They are reviewed on at least an annual basis, with the next set of disclosures to be released in relation to the year ended 30 September 2016. These disclosures are not subject to audit except where they are equivalent to those included in the audited annual financial statements of the Company.

Disclosures have not been made where they are not considered to be applicable, or where advantage has been taken of one of the exemptions under Article 432 of the CRR.

The Company complies with the conditions in CRR Article 96(1) and consequently under the rules of the FCA is treated as a Limited Activity Firm.

The information in this document has been approved by the Board and is published on the Company's website: www.edfmancapital.com.

2. Governance

a) Board and Directorships

The MCM Board of Directors ("the Board") comprises two executive and two non-executive directors, with the following number of UK directorships held by each member:

		Directorships	
Name	**Position**	**Executive**	**Non-Executive**
Christopher Smith	Global CEO	2	-
Stephen Hawksworth	CEO - EMEA	1	-
Ross Reason	Non-executive	-	9
Jacqueline Kilgour	Non-executive	1	2

Executive directorships within the Group are counted as one directorship.

b) Board Recruitment and Diversity

The recruitment of new Board members is subject to the approval of the Board including the Chairman and the non-executive directors. Prospective Board members are selected on the basis of their relevant knowledge, skills and previous experience. Prior to a new Board member's appointment being confirmed a full background check is completed which includes but is not limited to the following checks: financial, identity, FCA register, directorships, relevant experience, employment history, highest education, professional qualifications and memberships, criminal records, media, financial sanctions and anti-money laundering. Applications for regulatory approval for prospective members of the Board are managed by the Chief Compliance Officer.

The Company recognises the importance of having a diverse workforce at all levels. When recruiting for Board members, decisions are taken based on relevant knowledge, skills and experience and regardless of any other factor. Within the Group's annual talent management process, the Group's Board reviews succession and development planning for management roles including but not limited to those which are Board level. This review includes factors relating to diversity and associated action planning.

c) Risk Oversight and Committees

Board oversight, management committees, policies, procedures, and defined delegations of authority combine to create MCM's Enterprise Risk Governance system. The Board-approved risk appetite and strategic objectives translate to defined risk tolerances and, subsequently, strictly-enforced delegations of authority and associated controls. The risk management process, via risk identification, assessment, mitigation, monitoring, and reporting, provides senior management and the Board with the necessary oversight tools. Internal Audit supplies independent assurance of the risk management process.

The Company implements a governance framework around risk management that includes formal committees such as the Credit Committee, European Enterprise Risk Committee, European Management Committee and New Business and Transaction Committee, that, in addition to the Board, meet regularly to review and manage the Company's various risks.

3. Risk Management Objectives and Policies

a) Strategy

The business strategy and risk appetite of MCM is established by the Board. The Board and Senior Management promote a risk-adverse culture in which all staff are expected to be proactive in managing the Company's risk.

The Company adopts a conservative approach to risk and through enterprise-wide risk identification and management, its Risk Management Framework is designed to meet the needs of businesses, customers, and shareholders, as well as the prudential standards expected by the Company's regulators.

A strong governance structure, clearly documented policies and defined methodologies for risk identification, measurement, control and mitigation facilitate strategic and operational decisions that enable the Company to achieve its business objectives while optimising risk-adjusted returns.

b) Risk Management Function

The Risk Management Function ("RMF" or "Risk Department") monitors and identifies risks against corresponding appetites, tolerances, and limits. If an appetite, tolerance, or limit breach occurs, the RMF reviews and reports on the breach in accordance with documented escalation procedures. In addition, the Risk Department devises appropriate methodologies for the quantification and management of the Company's risk exposures.

MCM's Risk Department comprises specific teams who assess and help control the identified risk types inherent within the business strategy. Collectively the Risk Department reports on the size of the type of risk exposure to which MCM is exposed against the Board's risk appetite. The Chief Risk Officer ("CRO") oversees the Company's risk matters and exercises control over MCM's risk framework. Within the risk framework, the CRO has primary authority, delegated by the Board, for market, credit and operational risk oversight as well as input into liquidity and balance sheet risk. The CRO also has responsibility for providing the Board with comfort that MCM has identified, assessed, measured, monitored, and controlled and / or mitigated all of the Company's risks. The CRO reports to MCM's Chief Executive Officer ("CEO") and presents risk reports to the Board on a quarterly basis. Furthermore, the CRO has direct access to the Board, at any time, should circumstances require such access.

c) Risk Reporting and Measurement

MCM assesses all risks faced by the Company on an ongoing basis, as set out in its Internal Capital Adequacy Assessment Process ("ICAAP"). The key risks are the following:

- Credit Risk (including Counterparty Credit Risk)
- Operational Risk
- Liquidity Risk
- Capital Risk
- Market Risk

d) Risk Assurance

The Board considers the Firm's risk management arrangements, including its risk management systems, which are in place to be adequate with regard to the Firm's profile and strategy.

e) Risk Statement

The Board approves its own risk appetite statement aligned with exposures related to the Firm's business strategy. The Board formally approves the Firm's risk governance framework at least annually, which lays out the appetite for risk-taking, the thresholds for each risk type and the appointed key individuals responsible for controlling, monitoring and reporting of the Firm's risk exposures.

4. Own Funds

a) Reconciliation

The Own Funds of the Company as at 30 September 2015 and the reconciliation of these to the financial statements were as follows:

Own Funds	Amount $000
Common Equity Tier 1 Capital	
Paid up capital instruments	88,001
Retained earnings	29,249
Total Own Funds	**117,250**
Audited movements in reserves for the year ended 30 September 2015	1,735
Shareholders' funds per financial statements	**118,985**

b) Capital Instruments

MCM's Own Funds are fully comprised of Common Equity Tier 1 items within the meaning of Article 26 of the CRR. The Tier 1 Capital comprises issued and fully paid ordinary shares, all of which rank pari passu, and retained earnings. There are no deductions from capital and no capital ratios are used which are not in line with applicable regulations. There are no restrictions on Own Funds.

c) Capital Buffers

At 30 September 2015, the Firm held the applicable buffers as calculated in accordance with Article 130 of the Capital Requirements Directive ("CRD").

The geographical distribution of the credit exposures relevant for the calculation of the Counter-Cyclical Buffer ("CCB") was as follows:

CCB Credit Exposures	Risk-Weighted Exposures $000
Europe and Middle East	406,537
Americas	187,381
Asia Pacific	39,812
Total CCB Credit Exposures	**633,730**

5. Capital Requirements

a) Application of Pillar 1

MCM follows the standardised approach to credit and market risk and, as an FCA Limited Activity Firm, calculates the Fixed Overhead Requirement in accordance with Article 97 of the CRR.

Under these rules, the exposures and capital requirements as at 30 September 2015 were as follows:

Risk Weighted Exposures and Capital Requirements	**Exposure $000**	**Capital Requirement $000**
Risk weighted exposure amounts for credit, counterparty credit and dilution risks and free deliveries	640,824	51,266
Total risk exposure amount for position, foreign exchange and commodities risks	60,742	4,859
Additional risk exposure amount due to fixed overheads	92,006	7,360
Total risk exposure amount for credit valuation adjustment	12,496	1,000
Total risk exposure amount	**806,068**	**64,485**

The resulting capital ratios at this same date were as follows:

Capital Ratios	**As per COREP**	**Update as per financial statements**
CET1 Capital Ratio	14.55%	14.76%
Surplus/(Deficit) of CET1 Capital	80,977	82,712
T1 Capital Ratio	14.55%	14.76%
Surplus/(Deficit) of T1 Capital	68,886	70,621
Total Capital Ratio	14.55%	14.76%
Surplus/(Deficit) of Total Capital	52,765	54,500

The Firm assesses its required internal capital through its ICAAP.

b) Credit Risk

The credit risk faced by MCM comprises counterparty credit risk (clients and institutions) and Balance Sheet non-trading book credit risk.

MCM maintains counterparty credit risk limits for all credit relationships which are categorised into two types:

Counterparty Relationships - The term "counterparties" covers all major institutional counterparties, including banks, government and non-government agencies, local authorities and multi-national entities, exchanges and clearing houses with whom an MCM entity contracts for the provision of services. It is acknowledged that in some instances the provision of services might be a reciprocal arrangement in which case these institutions will be described as a counterparty.

Client Relationships - The term "client" generally refers to individuals or corporate entities that contract with an MCM entity for the provision of services.

For the purposes of this section, "counterparty" includes both types of categories referred to above.

i) External Credit Assessment Institutions

In line with Articles 135-141 of the CRR, MCM uses an External Credit Assessment Institution ("ECAI"), Standard & Poor's, in order to calculate the risk weighted exposures for the following exposure classes:

- Exposures to central governments or central banks
- Exposures to institutions
- Exposures to corporates
- Equity exposures
- Other items

Where ratings are not available for certain counterparties from the selected ECAI, the unrated approach (100% weighting) for credit risk has been used.

ii) Credit Risk

Non-trading book assets are included in the credit calculation at 8% of the risk weighted exposure amounts under the standardised approach as per Part 3, Title 2, Chapter 2 of the CRR. Included within these is an equity exposure. This represents an investment in the London Metal Exchange which is required in order for the Firm to operate as a ring-dealing member. The exposures to interest rate risk on non-trading book exposures are not considered to be material to the Firm.

iii) Counterparty Credit Risk

Counterparty risk, addressing the trading book element of credit risk, is calculated using the mark to market approach as per Article 274 of the CRR.

It covers the possibility of loss arising from the failure of clients, counterparties or any other parties to meet or perform their obligations to MCM and for which MCM may become liable as a result of the failure.

The credit risk capital requirements at the reporting date, split by exposure class and by geographical region, were as follows:

Credit Risk Capital Requirements (by exposure class)	Non-Trading Book $000	Trading Book $000	Credit Risk Capital Requirement $000
Central governments or central banks	0	0	0
Institutions	664	11,928	12,592
Corporates	0	36,691	36,691
Equity	266	0	266
Other items	1,150	0	1,150
Risk exposure amounts for contributions to the default fund of a CCP	567	0	567
Total Credit Risk Capital Requirements	**2,647**	**48,619**	**51,266**

Credit Risk Capital Requirements (by geographical region)	Non-Trading Book $000	Trading Book $000	Credit Risk Capital Requirement $000
Europe and Middle East	1,983	31,108	33,091
Americas	664	14,326	14,990
Asia Pacific	0	3,185	3,185
Total Credit Risk Capital Requirements	**2,647**	**48,619**	**51,266**

Counterparty limits

MCM's Risk Department monitors credit risk to counterparties on a near real time basis using established intraday risk monitoring infrastructure which automatically highlights exposures over and above credit limits and which may fall outside MCM's Risk Appetite.

Limit types are defined under the terms of MCM's Delegations of Authority ("DoA") and are applied on the basis of an internal credit rating which is calculated using a scorecard approach.

Credit limits and thresholds within MCM's DoA are presented by the Risk Department to a formalised Credit Committee for approval held at least monthly.

The facilitation of trading activity in different regions requires MCM to use various institutions to clear and settle its trading and to provide access to different exchanges. In order to control and oversee the credit risk against counterparties, two types of limits are used: actual risk and potential risk.

These actual and potential risk limits are assessed and set on a number of criteria including internal and external ratings, net worth, financial performance, market capitalisation, credit default swap pricing (where available) as well as any local regulatory requirement and this is supported by monitoring as well as limit utilisation.

New counterparties are presented to the CRO for approval with a recommendation from the Risk Department. Each new counterparty will be reviewed which includes an assessment of the following:

- The adopted internal rating
- Business rationale
- Type of legal documentation governing the relationship
- Background
- Key strengths and weaknesses
- Financial profile

MCM may not in all cases be transacting with an externally rated entity of an institutional group. Where MCM is dealing with a wholly-owned and consolidated subsidiary of the institution, the external rating and financial strength of the parent holding company may be adopted for the subsidiary where MCM considers it to be of systemic importance to the institution and that there is a high likelihood of the parent company supporting the subsidiary in case of it running into financial difficulties.

The full list of all counterparties with updated financial information and external ratings are presented to Credit Committee at least annually for information and review.

Policies for securing collateral and establishing credit reserves

The Initial Margin Requirement ("IMR") is set by the relevant derivatives exchange or clearing house for products where MCM acts as agent for the client. In certain instances such as increased market volatility or external events MCM may increase the level of IMR over that set by the relevant exchange. House margin is a requirement set by MCM on its clients where we are acting as principal in the case of OTC instruments (primarily FOREX and CFD). In both cases the total margin requirement is computed at least daily for each client portfolio and is designed to protect the Firm with a high confidence level from a daily move in the portfolio's value. Reports outlining the list of clients whose accounts do not have sufficient value to cover their margin requirements are distributed and clients asked to address the exposure by 10am each morning. Where significant exposures arise during the day as a result of market moves or position increases then action may be taken prior to this point.

In some circumstances IMR may not always be considered adequate to cover the stressed risk of a position, particularly where a portfolio is concentrated or contains high volatility or illiquid instruments. For this reason independent stressed risk exposures are generated in addition to the total margin requirement. Stress risk differs from IMR because it uses a higher confidence interval based on observed market movements over a longer time frame. The amount of stressed risk by which a portfolio exceeds the NLV is described as uncovered stress risk. Where necessary the client will be asked to take action to cover this additional exposure. Additionally, a client is required to meet any specific clearing house-levied initial margin uplift as a result of concentrated positions.

Wrong-way risk exposures

As a firm offering brokerage services, MCM is not materially exposed to wrong-way risk exposures. Where this kind of risk profile is identified within a counterparty's trading, MCM mitigates this by charging increased margin rates to provide a greater collateral coverage. In addition, counterparties trading their own equity may have maximum size position limit restrictions applied to their trading.

Fair value of contracts

This information is disclosed in note 15 of the financial statements and is prepared in accordance with the accounting policies set out in that document.

Credit Derivatives

The Firm enters into credit derivative transactions for clients to hedge their exposure risk arising from purchased securities.

Credit Risk Adjustments

The carrying values of assets are reviewed for impairment if events or changes in circumstance indicate the carrying amount may not be recoverable, and the Firm has no other applicable credit risk adjustments.

Credit Risk Mitigation

As per Article 223 of the CRR, the Firm utilises the Financial Collateral Comprehensive Approach for credit risk mitigation.

MCM may enter into master netting agreements or similar arrangements with counterparties in order to reduce its credit exposures on its transactions, thus allowing the offset of receivables and payables with these counterparties.

The Firm also enters into agreements enabling it to receive and post cash and securities collateral with respect to applicable transactions, thus providing additional mitigation against counterparty credit risk.

The collateral held by MCM consists primarily of cash, although securities may also be held. The process for securing such collateral is referred to earlier in this section.

The Firm values positions traded on the following basis:

<u>Exchange-Traded Positions</u>

Prices for instruments traded on listed markets are marked according to the relevant exchange's guidelines (e.g. exchange derived settlement price ("EDSP"); the price provided or required by the exchange which could be mid-price, bid or settled).

Prices for positions in exchange-traded instruments are entered into the booking and clearing systems as automated line feeds, either from external system providers or directly from exchanges.

<u>OTC Positions</u>

Prices for positions in OTC instruments are obtained in the following priority sequence:

- By reference to an exchange-traded price where this is the closest proxy, as designated by the Risk Department and sourced by the Operations functions

- By reference to a third-party, unconnected broker, where the information is directly collected by a third-party vendor or directly sourced through a screen by the Operations functions, as designated by the Risk Department
- By models developed and controlled by the Risk Department, where the underlying prices and implied data is extracted directly from the market

The total gross derivatives exposure as at 30 September 2015 amounted to $754.8m, with collateral of $562.6m, resulting in a net derivatives exposure of $192.2m.

iv) Default Fund Contributions

Risk exposures for contributions to the default fund of a Central Counterparty Clearing House ("CCP") are calculated in line with Article 308 of the CRR and the data provided by the individual CCPs.

v) Concentration Risk

As an FCA Limited Activity Firm, the concentration risk rules do not apply to MCM.

c) Market Risk

MCM operates as an FCA Limited Activity Firm and, as such, does not take market risk positions as a consequence of its trading activity. However, the Firm is exposed to foreign exchange risk on its Balance Sheet, which is reviewed on a regular basis and hedged as required.

The market risk requirements are the Interest Rate Position Risk Requirement ("PRR") arising on client facilitation trades and the Foreign Exchange PRR arising from Balance Sheet items in currencies other than the base currency of the Firm.

As at 30 September 2015, the market risk capital requirements were as follows:

Market Risk Capital Requirements	**Amount $000**
Interest Rate Position Risk Requirement	3,995
Foreign Exchange Position Risk Requirement	864
Total Market Risk Capital Requirements	**4,859**

d) Operational Risk

MCM calculates this as its fixed overheads requirement which amounted to $7.361m as at 30 September 2015 as per Article 97 of the CRR.

Operational risk is defined as the risk of a loss or other adverse consequence arising from inadequate or failed internal processes, people and systems or from external events.

Sub categories of operational risk include:

- Execution, delivery, and process management
- Clients, products, and business practices
- Internal or external fraud
- Business disruption and system failure
- Damage to physical assets
- Employment practices and workplace safety

MCM mitigates its operational risk exposures through the implementation of an effective control environment.

MCM collects reports on all operational risk incidents as they occur on formalised incident reporting. MCM's formalised escalation policy sets out the Firm's requirement to highlight incidents with either significant systemic importance or over a defined USD impact to differing individuals and/or committees depending on level of severity.

e) Credit Valuation Adjustment

The Company calculates its credit valuation adjustment ("CVA") using the standardised method per Article 384 of the CRR. As at 30 September 2015, this amounted to a risk- weighted exposure value of $12,496,000.

f) Liquidity Risk

This is the risk that the Company although solvent does not have available sufficient liquid financial resources to enable it to meet its obligations as they fall due.

Liquidity Stress Reporting is designed to allow management to monitor and understand potential liquidity needs and potential drains on the available liquidity resources of the business.

MCM constructs a set of potential events which might adversely affect the liquidity requirements of the business. MCM designs and groups these events together into scenarios which describe the macro situation that might lead to these events occurring simultaneously. The results from this combination of events determines the potential draw for each scenario. By assuming the worst case draw generated by each scenario and comparing this potential draw to our available sources of liquidity on a daily basis, MCM can establish if the current sources of liquidity are sufficient. If there are insufficient resources to cover the calculated draw then this forms part of our escalation process. MCM have the option to draw on committed facilities and lines to improve the liquidity position if required.

g) Capital Risk

This is the risk that the Company's capital is insufficient to meet the needs of the business.

In addition to making its own internal assessment of the capital it should hold for its risk profile, MCM is required by its regulators to hold specific levels of regulatory capital against its various business obligations. The Company seeks to hold capital resources equal to the greater of its own internal assessment of capital required or the total of all regulatory requirements for capital.

The Chief Financial Officer ("CFO") is responsible for the monitoring of capital risk and capital resources. These are monitored and measured against the Company's Risk Appetite and Delegations of Authority.

6. Remuneration

a) Remuneration Policy

Following the guidance in SYSC19A of the FCA Handbook, the Company classifies as a Proportionality Tier Three firm. Its remuneration policies and procedures have been prepared to meet the requirements of this tier status.

MCM is a member of the Group whose strategic plans and objectives are set for the long term interests of its shareholders who are mainly its staff. The Group's policy is to ensure that a proportion of variable remuneration is paid in the form of Group shares and, in general, these share awards are deferred over three years.

b) Remuneration Governance

The MCM Board is responsible for implementing the remuneration policies. Remuneration is also reviewed by the Group's Remuneration and Nominations Committee.

c) Performance Criteria

In order to determine the elements of fixed and variable remuneration, senior managers use a number of criteria including:

- Contribution to revenue and business growth
- Adherence to policies and regulations
- Operational performance
- Contribution to cost reduction and general efficiency

The Group's Deferred Incentive Plan contains provisions in relation to good and bad leaver status for deferred awards. Deferred awards are at risk if an employee commits a disciplinary offence.

d) Quantitative Information

The aggregate quantitative remuneration for senior management and members of staff whose actions have a material impact on the risk profile of the Firm, i.e. Code Staff, is as follows for the year ended 30 September 2015: Code Staff – 17; Fixed Remuneration – US$4.6m; Variable Remuneration – US$17.4m. The number of Code Staff earning over EUR 1m amounted to five, banded as follows: one between EUR 2m and 2.5m, two between EUR 2.5m and 3m and two between EUR 3m and 3.5m.

7. Disclaimer

The Information has been prepared to meet the requirements of the EU CRR regarding the disclosures of matters in Part 8 of the CRR. This disclosure generally contains information around capital requirements, and about the management of risks relating to those requirements and for no other purpose. It therefore does not constitute any form of financial statement nor does it constitute any form of contemporary or forward looking record or opinion.