MAREX SPECTRON

Pillar 3 Disclosures 2019

Metals | Energy | Agriculture | Financial Futures & Options
www.marexspectron.com

CONTENTS

1 INTRODUCTION

The Capital Requirements Directive ('the Directive'), the European Union's implementation of the Basel II Accord, establishes a regulatory framework comprising of three 'Pillars':

- Pillar 1 sets out the minimum capital required to meet a firm's credit, market and operational risks;
- Pillar 2 requires a firm to undertake an Internal Capital Adequacy Assessment Process ('ICAAP') that establishes whether the Pillar 1 capital is adequate to cover all the risks faced and, if not, calculates the additional capital required. The ICAAP is reviewed by the Financial Conduct Authority ('FCA') through a Supervisory Review and Evaluation Process ('SREP'); and
- Pillar 3 requires a firm to disclose specific information concerning its risk management policies and procedures as well as the firm's regulatory capital position.

From 1 January 2014, Marex Spectron Group Limited ('the Group') was required to comply with Basel III requirements, which are implemented through the Directive and the Capital Requirement Regulation ('CRR'), collectively referred to as CRD IV. These regulations are also implemented in the UK through the Prudential Sourcebook for Investment firms (IFPRU) and Prudential Sourcebook for Banks, Building Societies and Investment firms (BIPRU).

This document contains the disclosures outlined in Part Eight of the CRR and FCA BIPRU 11, fulfilling the disclosure requirements under these regimes and making them accessible to clients and market participants.

2 DISCLOSURE POLICY

In accordance with BIPRU 11.3.3 (FCA) and Article 431 (CRR), the Group has adopted a formal disclosure policy to comply with the requirements set out in CRD IV, and has policies in place for assessing the appropriateness of the disclosures, including verification and frequency.

Disclosure requirements are assessed to reflect the risk profile of the firm. Where information has been deemed to be immaterial, confidential or proprietary in nature, the Group has taken advantage of Article 432 of the CRR where a firm may omit one or more of the required disclosures on these grounds.

In accordance with BIPRU 11.3.8 and BIPRU 11.3.10 (FCA), Article 433 and 434 (CRR), the Group will publish this disclosure at least annually on the Group's website.

3 SCOPE AND APPLICATION OF DIRECTIVE REQUIREMENTS

3.1 OVERVIEW OF THE GROUP

The Group is a leading broker whose primary business is providing clients with access to execution and clearing services in both Over-The-Counter ('OTC') and Exchanged-Traded markets for commodity and financial products. The Group is subject to supervision by the FCA under BIPRU 8.4 and Chapter 2 of the CRR.

The Group owns and controls two entities that are authorised and regulated by the FCA:

- Marex Financial (442767) - regulated activities include execution and clearing on exchange-traded products and FX products and acting as principal to OTC commodity derivatives contracts. The firm is a full scope IFPRU 730K investment firm.
- Marex Spectron International Limited (193027) - regulated activity includes arranging transactions in commodity derivatives and operating an OTF. The firm is a limited licence IFPRU 730k investment firm.

Marex Spectron International Limited is also supervised by the National Futures Association ('NFA') on behalf of the US based Commodity Futures Trading Commission ('CFTC').

The Group owns and controls four subsidiaries that have authorisations in foreign jurisdictions:

- Marex North America LLC – regulated by the CFTC in the USA;
- Marex Hong Kong Limited – regulated by the Securities and Futures Commission ('SFC') in Hong Kong;
- Marex Spectron Asia Pte. Ltd - regulated by the Monetary Authority of Singapore; and
- Marex Spectron Europe Limited – regulated by Central Bank of Ireland ('CBI') in Ireland.

For the purpose of the Directive, all of the above entities are fully consolidated for Regulatory Reporting purposes and are disclosed at the Group Level in the Pillar 3 Disclosures.

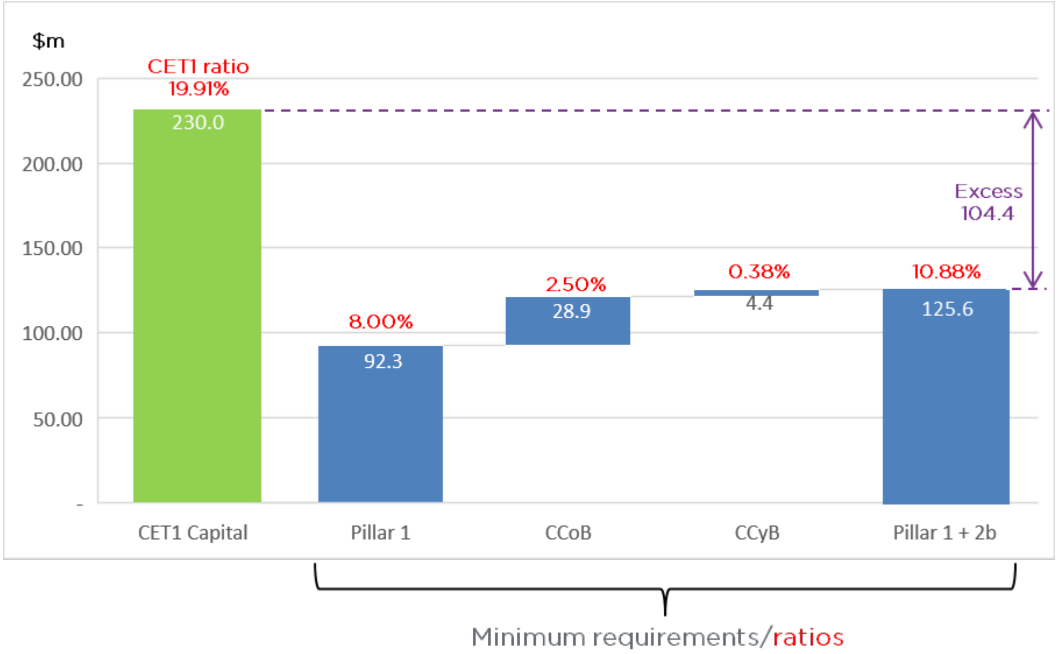
There are no known current or foreseen practical or legal impediments to the prompt transfer of capital resources or repayments of liabilities between any of the above entities.

3.2 CAPITAL RATIO

The Group is required to maintain a minimum capital ratio, based on the following:

- Pillar 1 requirement of 8%
- Combined buffer requirement, based on the Capital Conservation Buffer (CCoB) and the Countercyclical Buffer (CCyB).
- At 31 December 2019, the CCoB was 2.5% and the CCyB was 0.38%.

3.2.1 Capital Ratio as at 31 December 2019



The CET1 ratio is CET1 capital resources of the Group, over the Total Risk Exposure Amounts (TREA). The Pillar 1 requirement is 8% of TREA. The Group's capital resources are solely comprised of CET1 capital.

In addition, an Individual Capital Guidance (ICG) ratio is required to be held by the FCA to meet the overall financial adequacy rule (IFPRU 2.2.1R) and overall liquidity adequacy rule (BIPRU 12.2.1R). The Group held significant surplus capital over its total requirements as at 31 December 2019.

4 RISK MANAGEMENT

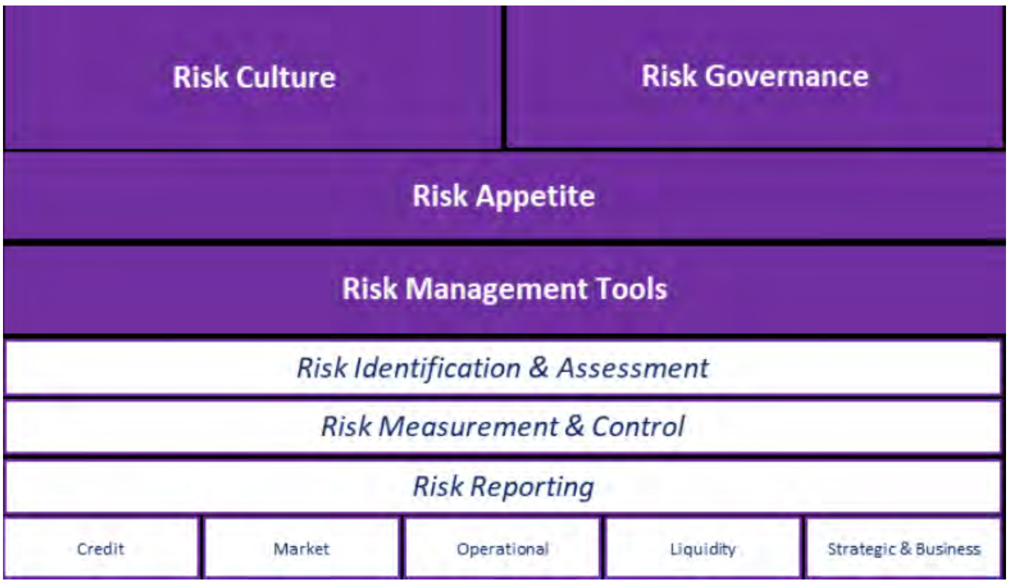
The Group views risk management as a key consideration in delivering its strategic business aims and objectives, whilst ensuring the Group's long-term sustainability and effective corporate governance. The Group's business strategy and risk appetite are linked and form the driver for decision-making across the Group to ensure risk taking remains within the defined boundaries to support business strategy, effective management of capital and efficient use of liquidity.

To ensure effective risk management practices permeate throughout the business there is a comprehensive risk management governance structure in place, articulating the control mechanisms to identify, measure, assess, monitor, control & report on underlying risks. This governance structure is articulated within the Group's Enterprise Wide Risk Management (EWRM) Framework which is enabled by people, processes and systems and sets the foundations and organisational structure for implementing and reviewing risk management practices and activities across the Group.

The Group EWRM Framework is an overarching document applicable to the entire Group. The Group Board has overall responsibility for ensuring an appropriate governance framework for the Group. The Group Board maintains oversight over subsidiaries yet is cognisant of the local regulatory responsibilities applicable. Subsidiaries may develop their own risk frameworks and policies tailored to their specific business, however in the development and approval of such frameworks and policies they should be consistent with and have regard for the principles of the Group EWRM Framework and Group policies. This ensures that all separate legal entities are treated collectively for the purposes of risk identification, assessment and reporting, so the Group has a holistic view of risk.

4.1 COMPONENTS OF THE EWRM FRAMEWORK

The Group EWRM Framework is reviewed annually by Risk Management, or more frequently where material changes occur, and approved by the Group Board every three years. The framework is cascaded to relevant senior management to ensure business and risk strategies are formulated and reported consistently.



4.2 RISK CULTURE

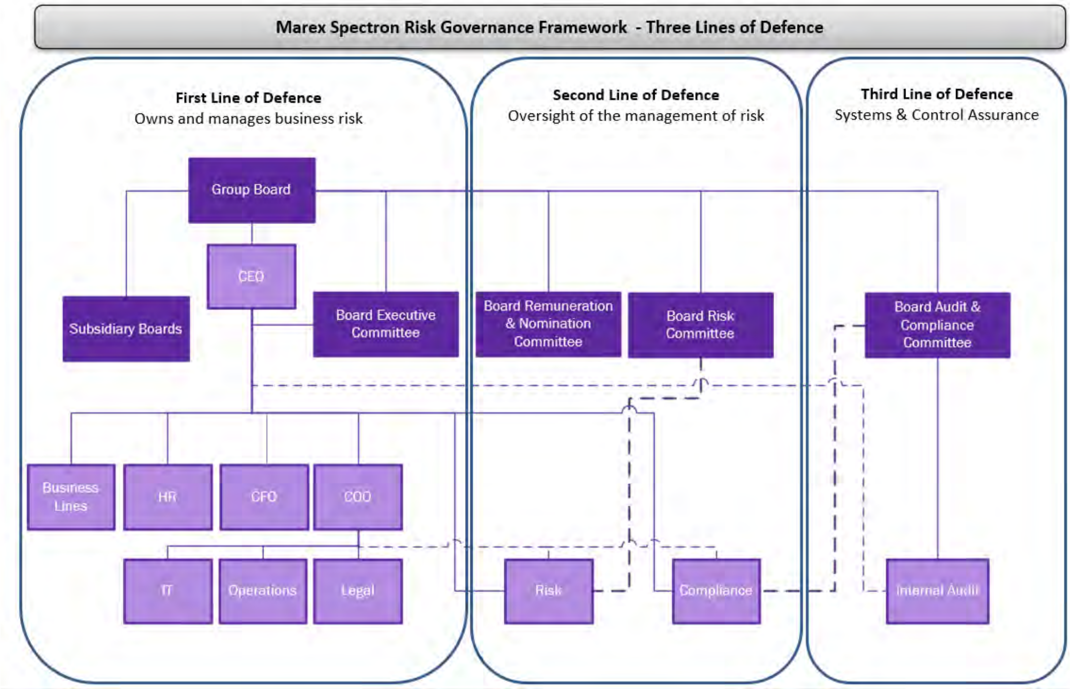
Risk culture describes the values and behaviours present throughout the organisation which shape risk decisions made by each employee. The risk culture is consistent with the Group's ethics and values, strategic and risk objectives.

The Group identifies, assesses and controls risk to which the Group is exposed to ensure the identified business strategy and objectives are met. Risk is inherent with the Group's operations and is actively monitored. Risk is categorised according to the Group's Risk Categorisation Model (RCM), with accompanying mitigation, where possible, to ensure adherence to the stated risk appetite. This categorisation and subsequent controls are explored further in this chapter. Additional attention is paid to risks identified as key risks that may pose the biggest threat to the Group, its customers and its reputation. Measured risk taking and effective risk management are fundamental to the core values and culture as a Group. The Group aims to build upon and enhance its reputation with customers, market counterparties and regulators.

Responsibility for risk management resides at all levels within the Group, from the Group Board and the Board Executive Committee down through the organisation to each business manager, employee and risk specialist. Responsibility for effective review and challenge of risk policies reside with senior managers, risk oversight committees, internal audit, independent Group risk function, the Group Board and the Risk Committee.

4.3 RISK GOVERNANCE

The Group has adopted the 'Three Lines of Defence' model in conjunction with a strong risk culture, good communication and understanding. The approved risk governance model includes the Group Board, the Board Executive Committee and the Risk Committees that form the management of risk governance within the Group. Within the risk infrastructure, key risk governance personnel are aware of their key roles.



<u>First Line of Defence</u>

The first line of defence for day-to-day risk management is with the business units and support functions. They are responsible for understanding and adhering to the risk and control environment. Front line employees must consider the risk / reward trade off in the short and long term and must ensure compliance with all risk policies and limits. The first line is responsible for the ongoing assessment, monitoring and reporting of risk exposures and events.

<u>Second Line of Defence</u>

The second line of defence is the internal control function which includes the Risk Management and Compliance Functions. These teams provide independent risk oversight and challenge to the first line, and supervision of the operation of the risk control framework. Responsibilities also include the formulation and maintenance of risk frameworks, policies and risk reporting.

Third Line of Defence

The third line of defence is the Group's Internal Audit Function, who provide independent assurance of the first and second lines. Internal Audit carries out an annual programme of risk-based audits covering all aspects of first- and second-line risk management and risk control activities.

4.4 ROLES AND RESPONSIBILITIES

The scale, knowledge and composition of the Board and separate supervisory committees outlined below are appropriate to achieve the strategic aims of the Group. The Board and subsequent committees provide appropriate challenges, checks and balances to the executive committee which allows for an enhanced risk governance model.

The roles and responsibilities of core functions within the Group are summarised, below:

4.4.1 Board of Directors

- Sets 'tone at the top', risk culture and risk philosophy
- Oversees establishment and maintenance of business plan and risk strategy
- Sets Risk Appetite
- Reviews and approves risk strategies, risk management and control framework, risk policies and key risk limits
- Monitors risk profile of the businesses and ensures adequate financial resources are in place to meet regulatory and business requirements

The Group Board is structured such that directors bring to the Group a balance of skills, knowledge and experience. The Group Board is comprised of:

- Independent Non-Executive Chair
- Chief Executive Officer (Executive Director)
- Chief Operating Officer (Executive Director)
- President (Executive Director)
- One* Independent Non-Executive Director
- Seven Non-Executive Directors (representing the Shareholders)

**appointment of a further Independent Non-Executive Director pending as at 31 December 2019.*

4.4.2 Executive Committee

- Develops and recommends Group objectives, strategy and budget to the Board;
- Executes the strategy approved by the Board;
- Identifies and executes new business opportunities consistent with the strategy approved by the Board;
- Examines potential investments, divestments and major capital expenditure proposals and recommends to the Board those that are material in nature or context, or are matters reserved to the Board;
- Agrees objectives for business divisions based on approved Group strategy;
- Monitors the Group's business and financial performance;
- Optimises the prioritisation, allocation and adequacy of resources;
- Monitors and reviews conduct and culture issues, risks and initiatives;
- Reviews significant business and operational issues;
- Identifies matters required or appropriate for escalation to the Board;
- Addresses matters specifically referred to the Committee by the Board.

The Executive Committee is chaired by the Chief Executive Officer.

4.4.3 Risk Committee:

- Provides oversight and advice to the Board on current risk exposures and future risk strategies

- Has primary oversight of the Internal Liquidity Adequacy Assessment (ILAA) and the Internal Capital Adequacy Assessment (ICAAP)
- Advises the Board on decisions regarding the overall Risk Appetite, tolerances and risk strategy
- Approves and monitors appropriate limits on risk exposures and concentrations across the business
- Advises the Remuneration & Nomination Committee on risk factors to consider in determining performance objectives for the remuneration and incentive structures for the CEO and Executive team

The Risk Committee is comprised of:

- Chair: Independent Non-Executive Director
- Members: Three Non-Executive Directors
- Attendees: Chief Risk Officer, Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Group Head of Compliance, President, Group Chair and the Head of Enterprise Risk

4.4.4 Audit & Compliance Committee

- Reviews the systems of internal control, including the effectiveness of policies, controls, risk identification and control, detection and prevention of fraud and compliance with legal and regulatory requirements
- Examines Internal Audit reports on internal control systems and management responses and ensures timely resolution of issues.
- Approves, monitors and challenges the scope of Internal Audit reviews relative to risk exposures
- Ensures Internal Audit is adequately resourced and is appropriately regarded by the business

The Committee is comprised of:

- Interim Chair*: Non-Executive Director
- Members*: Two Non-Executive Directors
- Attendees: Global Head of Internal Audit, Group Head of Compliance, Chief Financial Officer, Head of Treasury, Chief Executive Officer, Chief Risk Officer and Chief Operating Officer

** as at 31 December 2019 a Non-Executive Director acts as Interim Chair pending the appointment of an additional Independent Non-Executive Director to Chair the Committee.*

4.4.5 Remuneration & Nomination Committee

- Reviews and approves the Remuneration Policy
- Recommends remuneration levels for Board members, senior management, CRO, Head of Compliance, Head of Internal Audit, HR Director and key employees to the Board
- Approves self-assessment of compliance with the FCA's Remuneration Code

The Committee is comprised of:

- Chair: Non-Executive Director
- Members*: One Independent Non-Executive Director and two Non-Executive Directors
- Attendees: Chief Executive Officer, Group HR Director

** A further Independent Non-Executive Director will be added as a member once appointed to the Group Board.*

4.4.6 Acquisitions & Disposals Committee

The Acquisitions & Disposals Committee meets as required and is tasked with evaluating potential acquisition and/or divestment of companies, businesses and/or teams, as proposed by management. The Committee recommends proposals to the Group Board.

The Committee is comprised of:

- Chair: Independent Non-Executive Chair
- Members: Three Non-Executive Directors
- Attendees: Chief Executive Officer, Chief Operating Officer

4.4.7 CEO

- Has primary responsibility for identification and evaluation of risk and designing, implementing and maintaining suitable internal control systems
- Recommends Risk Appetite, risk strategies, EWRM framework, the financial risk limits and risk policies to the Board
- Ensures management of risks in line with parameters approved by the Board
- Ensures changes to internal control systems recommended by Internal Audit and the Audit & Compliance Committee are appropriately implemented

4.4.8 CRO

- Has accountability for enabling the efficient and effective governance of significant risks and related opportunities across all segments of the business
- Guides the Executive Committee on formulation of risk appetite, strategies, policies, delegated authorities and limit structures for the management of risk across the business
- Provides independent, informed and objective challenge to the executive line management on the management of strategic and other key risks
- Identifies, escalates and oversees the resolution of risk management issues
- Advises the Executive Committee, risk sub-committees and the Board on developing industry risk management practices, regulatory requirements and impacts on existing risk management approaches across the business.

4.5 RISK APPETITE

The Group-wide business strategy is aligned with the Group's risk appetite to guide the Group's business activity and associated risk taking. This ensures structures exist to identify and analyse emerging risks for issues that could become material risks in the future.

Risk appetite is the level of risk the Group Board is willing to take now and over the future planning horizon, given the financial resources of the firm to pursue the stated business and risk strategies. The risk appetite recognises a range of possible outcomes as business plans are implemented. It is set and implemented against the business and risk strategies from the 'top down', cascading from high level objectives set by the Group Board, down through the Group into the formulation of detailed risk measures by specific departments, trading desks, traders and where appropriate to individual risk exposures.

The Group's risk appetite is governed by its Risk Appetite Framework which includes measures that assess risks to ensure the successful delivery of the business and risk strategies. These measures are grounded against key balance sheet and profit and loss figures, as well as other specific measures and qualitative assessments. The framework is responsive to changes in Group's business strategy and plans, which ensures that the Risk Appetite is aligned with changes in the Group's overall strategic goals.

Risk appetite is embedded within The Group's strategy and planning, business decision making, risk management governance and risk management policy. Metrics are monitored and compared to approved risk appetite limits, triggers and capacity for each risk category, which are then presented to the Group Board ensuring that they are aware of the risks across the Group.

4.6 RISK MANAGEMENT TOOLS

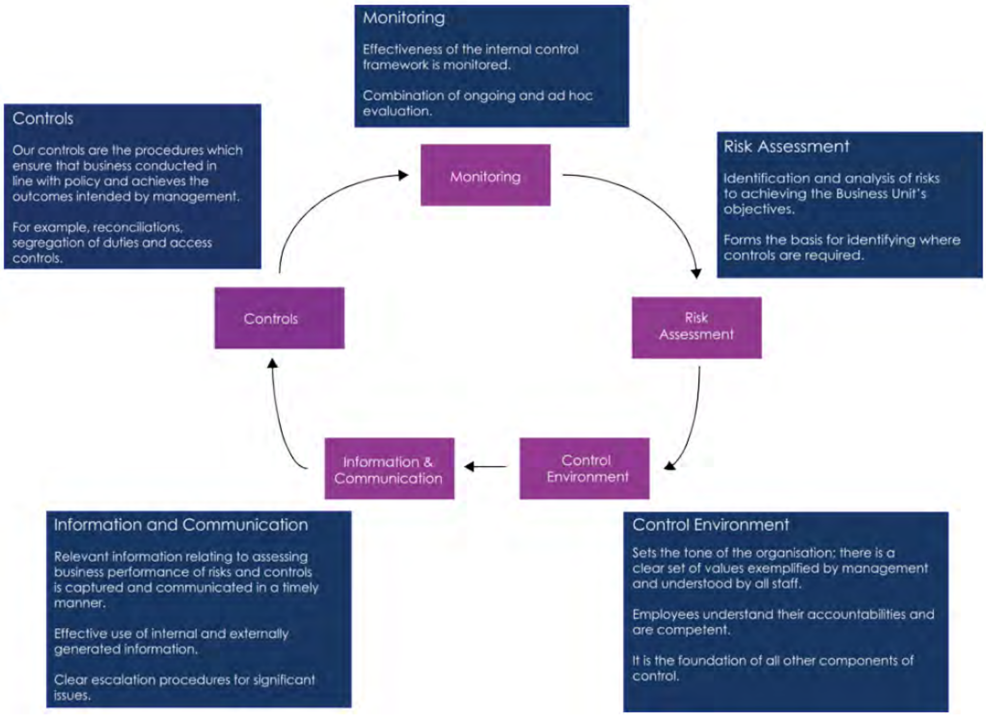
Risk management tools and methodologies form part of the Group's risk management tool-kit and assist in fulfilling the risk mandate in understanding the risks its exposed to, the method to control such risks and the steps to mitigate risks and how to communicate those risks.

It is the responsibility of the CRO to ensure that the appropriate infrastructure, processes and resources are in place to enable effective management of the risks faced by Marex Spectron. This is reviewed, at least annually, as part of the Annual Risk Compliance report consistent with SYSC 4.3.2 R (1).

4.7 RISK REPORTING

An important part of the risk management remit is regular and appropriate reporting and communication of risk. In line with the governance structure in place, periodic reporting and risk analysis is presented to the relevant governing bodies as well as the relevant risk takers, including the Group Board; Risk Committee; the Board Executive Committee; and daily senior management. The escalation procedures for raising significant issues with managers and supervisors are clear and well embedded across the Group. The Risk Committee held six meetings between 1 January 2019 and 31 December 2019.

The Control Framework consists of the following components:



4.8 RISK CATEGORIES

The risk categorisation model forms an important part of the EWRM Framework and provides a benchmark to evaluate the Group's Risk Appetite. The Group's risk appetite is determined by the Board across a number of dimensions and tracked via a dashboard of targeted key indicators. Risk is monitored and measured against trigger levels, limits and capacity, as determined by the Board.

The framework includes a broad range of risks associated with profitability, market, credit, liquidity, capital, staff, clients, compliance, regulatory environment, legal, IT performance and security as well as others.

Credit Risk

Credit risk is incurred if the Group is exposed to loss where a client or counterparty fails to perform its contractual obligations, either in a timely manner or at all. Credit risks are mitigated by limits imposed upon the provision of credit lines. These limits are set and monitored by the Credit department and reviewed by the Risk Committee and the Board. Clients are also subject to position limits, which have the effect of limiting credit exposures. The Group uses robust credit risk models to monitor exposures to counterparties and to analyse other aspects such as credit concentration, wrong-way and intra-day credit risks.

Market Risk

Market risk represents the risks that arise from fluctuations in the value of the Group's traded positions due to changes in the value of price, volatility or interest rates within financial markets. Overall limits are allocated by the CRO to each desk. The Risk department monitors the global position per desk against respective limits, and against the Risk Appetite, and alerts the CRO should the risk exceed a prescribed threshold of the overall risk limit.

Operational Risk

Operational risk represents losses that arise from inadequate, or failed internal processes, personnel, systems or external events. This category excludes business, strategic and reputational risks. The Group's policy is to operate a robust and effective risk management process that is embedded in all parts of the business.

All business areas within the Group are subject to, at least, an annual risk review by the Operational Risk team. This review process identifies potential and actual operational risks, and puts in place controls to mitigate such risks. Additionally, the Group monitors operational risk on a cost-benefit basis and seeks to minimise the frequency and impact of operational risk events.

Liquidity Risk

Liquidity risk represents the risk that the Group does not have sufficient cash and/or cash equivalents to allow it to meet its obligations as they fall due, or can only be secured at excessive cost. Liquidity risk is monitored daily at a detailed level. Stress testing is carried out for multiple liquidity scenarios to ensure that the Group remains within the Board's approved risk appetite for liquidity risk and that liquidity contingency planning is sufficiently robust.

Legal & Compliance Risk

Legal and compliance risks include those arising from violations of, or non-conformance, with laws, rules and regulations. This type of risk is constantly evolving. To mitigate such risks, additional resources have been allocated to the Legal and Compliance team, which closely monitors ongoing regulatory developments, assesses, anticipates and plans for such risks, and is involved in industry working groups to establish regulatory policies.

Strategic and Business Risk

Strategic and business risks are those arising from the Group's strategic direction or business model, including the risk that the firm may not be able to execute its business plan or its desired strategy successfully. The Group seeks to mitigate such risks by running economic scenario planning to model and prepare for the impact of economic downturns / upturns to the Group's financial positions and put in place appropriate measures to ensure that any impact is minimal to the Group.

Concentration Risk

Concentration risk can be defined as any single (direct and/or indirect) exposure or group of exposures with the potential to produce losses large enough to threaten the Group's ability to maintain its core business. Concentration risk can arise from credit concentration to a specific country, or to specific counterparty, revenue concentration, exposure concentration to a specific product or concentrations from specific suppliers. Through the use of limits, be it credit limits or product limits, the Group manages the key drivers of concentration risk. Other areas of concentration are monitored and escalated where perceived build-up occurs.

5 GROUP CAPITAL RESOURCES

The calculation is based on the consolidated balance sheet of Marex Spectron Group in accordance with BIPRU 8.6 and Article 437 (1a) (CRR).

Marex Spectron Group reconciliation of Capital Resources and Audited Financial Statements as at 31 December 2019:

5.1 GROUP CAPITAL RESOURCES

	31 December 2019 $m	31 December 2018 $m
Common Equity Tier 1 Capital		
Share Capital	176	176
Share Premium	135	135
Reserves	107	71
Cash Flow Hedge Reserve	0	(1)
Revaluation Reserve	0	0
Less Common Equity Tier 1 deductions:		
Intangible Assets	(187)	(143)
Valuation Adjustments	(1)	0
Cash Flow Hedge Reserve	0	1
Total Common Equity Tier 1 after deductions	**230**	**239**
Total Capital Resources	**230**	**239**

Reconciliation to Financial Statements	31 December 2019 $m	31 December 2018 $m
Shareholders' Equity	**418**	**382**
Common Equity Tier 1 deduction:		
Intangible Assets	(187)	(143)
Other Regulatory Adjustments	(1)	0
Total Capital Resources	**230**	**239**

The following deductions are deducted from Common Equity Tier 1 capital of the Group:

a) Intangible Assets/Goodwill: Article 36 requires the Group to deduct intangible assets and goodwill balance from its Common Equity Tier 1 capital (31 December 2019: intangible assets $8m and goodwill $179m). Goodwill increased by $38m and other intangibles increased by $6m as the Group acquired the following businesses during 2019:

- Rosenthal Collins Group

- CSC Commodities
- Energy Brokers Ireland
- Marquee Oil Broking

b) Additional Valuation Adjustments: the Group follows a simplified approach in estimating its additional value adjustment deductions from Common Equity Tier 1 capital ($1.3m deduction as at 31 December 2019).

c) Cash Flow Hedge Reserve: the Group adjusts Common Equity Tier 1 capital for cash flow hedge reserves ($0.2m deduction as at 31 December 2019).

The Group had $230m of capital resources and reported profit after taxation of $36.4m, as at 31 December 2019. Group's deferred tax assets of $1.4m are not deducted from capital but are considered as credit risk items and risk weighted at 250%.

6 GROUP CAPITAL RESOURCES REQUIREMENT

This is calculated as the sum of credit risk, market risk and operational risk capital requirement. The total consolidated capital resources requirements and components are as follows:

6.1 TOTAL CAPITAL REQUIREMENT

	Capital Requirement 31 December 2019 $m	Total Risk Exposure Amounts 31 December 2019 $m
Market Risk Capital Requirement		
Commodity PRR	33.5	419
Foreign Exchange PRR	0.6	8
Interest Rate PRR	1.9	24
CIU and Equity PRR	0.5	7
Sub Total	**36.5**	**458**
Credit Risk Capital Requirement		
Credit Risk	29.5	369
CVA	0.6	7
Sub Total	**30.1**	**376**
Operational Risk Capital Requirement	25.7	321
Total Group Capital Requirement (Pillar 1)	**92.3**	**1,155**
Core Tier One capital ratio 2019		**19.91%**

	Capital Requirement 31 December 2018 $m	Total Risk Exposure Amounts 31 December 2018 $m
Total Group Capital Requirement (Pillar 1)	75.0	936
Core Tier One capital ratio		25.53%

Per Article 92 of the CRR, an institution shall at all times satisfy the following own fund requirements:

a) Common Equity Tier 1 ratio in excess of 4.5%;
b) Tier 1 capital ratio in excess of 6%; and
c) Total capital ratio in excess of 8%.

The Group's capital ratio as at 31 December 2019 was 19.91%. The Capital ratio is calculated as the quotient of Capital Resources ($230m) and Total Risk Exposures ($1,155m).

The entirety of the Group's Capital is classed as Common Equity Tier One capital, which comprises Share Capital, Share Premium and reserves. The Group did not hold Additional Tier One capital or Tier Two capital as at 31 December 2019.

6.2 CREDIT RISK CAPITAL REQUIREMENT

Marex Spectron has adopted the standardised approach for Credit Risk as prescribed by BIPRU 3 and CRR Part Three, Title II, Chapter 2, for the purpose of calculating the Credit Risk Capital Requirement ('CRCR'). Counterparty credit risk is calculated under the mark-to-market method in accordance with CRR Part Three, Title II, Chapter 6. Credit risk arises from the risk that parties are unable to meet their obligations as they fall due.

Concentration risk is calculated in accordance with BIPRU 10 and Articles 392 – 403 (CRR).

	Capital Requirement 31 December 2019 $m	Risk Weighted Assets 31 December 2019 $m
Exposure Class		
Central Government	0.3	3
Corporate	19.2	241
Equity Exposures	0.5	6
Exposures in Default	0.1	1
Banks/Financial Institutions	4.6	58
Other	4.8	60
Total	**29.5**	**369**
Total 2018	**20.6**	**257**

6.3 PRE-CRM EXPOSURES AND AVERAGE AMOUNT OVER THE PERIOD 442C (CRR):

Credit Risk Mitigation ('CRM'):

Existing Credit Exposures are mitigated by valid collateral and third-party guarantees, which are reflected in the Post CRM credit exposures.

The Group's credit mitigations are guarantees and tripartite agreement with highly rated institutions, which allow the guaranteed exposure to be risk weighted at the guarantors' risk weighting, thereby reducing the RWA.

The Group uses industry standard documentation with netting clauses as appropriate.

Credit conversion factors ("CCF") are applied to the Group's off-balance sheet exposures e.g. unutilised client credit lines. All the Group's off-balance sheet exposures have 0% CCF.

Exposures	Post-CRM and CCF 31 December 2019 $m	Pre-CRM 31 December 2019 $m	Pre-CRM Average 2019 $m
Central Government	1,109	1,109	948
Corporate	241	435	435
Equity Exposures	6	6	6
Exposures in Default	1	1	0
Banks/Financial Institutions	999	1,003	1,251
Other	105	105	112
Total	**2,461**	**2,659**	**2,752**
Total 2018	**1,811**	**2,003**	**1,884**

Central government exposures mostly comprise of US treasuries.

6.4 GEOGRAPHICAL ANALYSIS OF CREDIT RISK EXPOSURES AS PER ARTICLE 442D (CRR):

	Credit Risk Exposures 31 December 2019 $m	Credit Risk Exposures 31 December 2019 $m	Credit Risk Exposures 31 December 2019 $m	Credit Risk Exposures 31 December 2019 $m	Credit Risk Exposures 31 December 2019 $m
Exposure Class	**Americas**	**Asia**	**EMEA**	**Oceania**	**Grand Total**
Central Government	1,099	-	10	-	1,109
Corporate	70	34	137	0	241
Equity Exposures	-	-	6	-	6
Exposures in Default	1	-	0	-	1
Banks/Financial Institutions	315	0	681	3	999
Other	0	0	105	-	105
Total	**1,485**	**34**	**939**	**3**	**2,461**
Total 2018	**678**	**76**	**1,051**	**6**	**1,811**

6.5 CREDIT POST CRM BY COUNTERPARTY TYPE AS PER ARTICLE 442E (CRR):

	Credit Risk Exposures 31 December 2019 $m
Exposure Class	
Central Government	1,109
Corporate Financial	12
Corporate Non-Financial	96
Corporate SME	133
Banks/Financial Institutions	999
Equity Exposures	6
Exposures in Default	1
Other	105
Total	**2,461**
Total 2018	**1,811**

6.6 ANALYSIS OF IMPAIRED AND PAST DUE EXPOSURES AND ALLOWANCE FOR IMPAIRMENT AS PER ARTICLE 442H (CRR)

The Group does have past due exposures as at 31 December 2019 which predominantly relate to agency brokerage. These exposures are not impaired and are still collectible in full. Analysis of historical payment behaviour of Trade debtors supports this assertion. The Group monitors brokerage receivables extensively and reviews where an impairment might be necessary as part of a monthly review process. As at 31 December 2019, there were no material provisions. In the overall context of the Group's credit exposure, past due exposures and credit risk adjustments are immaterial.

6.7 ANALYSIS OF CREDIT EXPOSURES BY RESIDUAL ANALYSIS AS PER ARTICLE 442F

All of the Group's material risk weighted assets are on-demand and therefore a residual maturity breakdown of all exposures as required by the CRR has not been deemed necessary. As noted above, past due exposures are immaterial to the Group's overall credit risk exposure.

6.8 OPERATIONAL RISK CAPITAL REQUIREMENT

Marex Spectron has adopted the basic indicator approach for calculation of the Pillar 1 capital requirement for operational risk as prescribed by Article 315 of CRR. This is computed as 15% of the average relevant income for the Group over three years (Operational Risk Capital requirement was $25.7m at 31 December 2019).

6.9 MARKET RISK CAPITAL REQUIREMENT

The Group calculates its Pillar 1 Position Risk Requirement ('PRR') according to the approach set out in Part 3 Title IV of the CRR. To calculate the commodity PRR, the Extended Maturity Ladder ('EML') approach set out in Article 361 of CRR is used, combined with the scenario approach outlined in the RTS for Article 358(4) to reflect other risks aside from delta risk. The total market risk capital requirement was $36.5m at 31 December 2019.

The primary internal measure of trading market risk is VaR calculated according to the Group's internally-specified model. The model is implemented using the Algorithmics risk engine, which uses Monte Carlo simulation to derive a one-day VaR and four-day VaR measure at several different confidence levels. For the purposes of both monitoring of exposures against limits and deriving internal estimates of capital requirements, a confidence level of 99.75% is used. Daily back-testing is performed to validate the risk capture of the VaR model.

The Board is satisfied that the model is appropriately conservative and represents a prudent estimate of the Group's capital needs to cover any losses against trading positions due to market movements.

6.10 INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS ('ICAAP')

The Group's latest ICAAP assessment as at 31 December 2019 demonstrates that the Group's internal assessment of risk under Pillar 2 is significantly less than the minimum requirements under Pillar 1 of the regulatory framework.

6.11 EXPOSURE TO INTEREST RATE RISK POSITIONS NOT INCLUDED IN THE TRADING BOOK

The main sources of interest rate risk is in the interest paid by Marex Spectron on its revolving loan facilities, and the interest it receives from its treasury investments, time deposits, demand deposits at institutions and from exchanges based on the cash deposits to cover initial margins. This exposure is not material.

6.12 EXTERNAL CREDIT ASSESSMENT INSTITUTIONS (ECAI)

The Group applies credit assessment to government, corporate and institution exposures, using Standard and Poor as the nominated ECAI.

6.13 NON-TRADING BOOK EXPOSURES IN EQUITIES

As at 31 December 2019 the Group had exposures in equities of LME Holdings Limited, Intercontinental Exchange Inc, CME Group Inc, which are required to be held for the Group to trade directly on these exchanges. The Group also held shares in S.W.I.F.T. SCRL, which are required for the Group to make swift payments. These non-trading book equities are classified as fair value through other comprehensive income on the balance sheet. At 31 December 2019, there were revaluation gains in relation to these equities of $1.2m included in Common Equity Tier 1.

The fair value of these exposures is below:

Equities in non-trading book	**31 December 2019**
	$m
Chicago Mercantile Exchange (CME)	1.80
London Metals Exchange (LME)	2.90
Intercontinental Exchange (ICE)	1.50
Swift	0.02
Total	**6.22**

6.14 CAPITAL BUFFERS

The Group is required to maintain a Capital Conservation Buffer and an Institution Specific Countercyclical Capital Buffer ('The Combined Buffers'). As at 31 December 2019, the Capital Conservation Buffer was calculated as 2.5% of total risk weighted assets. The Countercyclical Buffer is calculated as the weighted average of Countercyclical Buffer Rates that apply to exposures in the jurisdictions where the Group's relevant credit exposures are located multiplied by total risk weighted assets (see 6.15 below). As at 31 December 2019, the Countercyclical Buffer Rate for the Group was 0.38%.

For the purposes of the Countercyclical Buffer, relevant credit exposures exclude those to institutions and central governments.

6.15 COUNTERCYCLICAL CAPITAL BUFFER GEOGRAPHICAL EXPOSURES AS PER ARTICLE 440 OF THE CRR

Country	Credit Risk - Exposure Value for SA	Final Exposure	RWA	Own Funds Charge	Own Funds Weights	CCyB Rate	Weighted Rate (%)
United Kingdom	137	137	94	8	30%	1.00%	0.30
Switzerland	62	62	62	5	20%	0.00%	0
United States	29	31	31	2	10%	0.00%	0
Brazil	26	26	26	2	8%	0.00%	0
Singapore	22	22	22	2	7%	0.00%	0
Saudi Arabia	16	16	16	1	5%	0.00%	0
Hong Kong	12	12	12	1	4%	2.00%	0.08
Canada	9	9	9	1	3%	0.00%	0
United Arab Emirates	8	8	8	1	2%	0.00%	0
Monaco	6	6	6	1	2%	0.00%	0
Netherlands	4	4	4	0	1%	0.00%	0
Virgin Islands (British)	3	3	3	0	1%	0.00%	0
Israel	3	3	3	0	1%	0.00%	0
Spain	3	3	3	0	1%	0.00%	0
France	3	3	3	0	1%	0.25%	0.00
Belgium	2	2	2	0	1%	0.00%	0
Germany	2	2	2	0	1%	0.00%	0
Other	6	6	6	1	2%	0.00%	0
Grand Total	**353**	**355**	**312**	**25**	**100%**		**0.38**

	2019	2018
Total Pillar 1 RWA ($m)	1,155	936
Countercyclical Buffer Rate	0.38%	0.36%
Countercyclical Buffer Charge ($m)	**4.4**	**3.4**

7 ASSET ENCUMBRANCE

Encumbered assets are those that have been pledged or are subject to any form of arrangement to secure, collateralise or credit enhance, any transaction from which it cannot be freely withdrawn. The definition is not based on an explicit legal definition, such as title transfer, but rather on economic principles.

Most of the Group's encumbered loans of demand comprise collateral placed at clearing systems and CCPs to cover margin and default fund requirements. Encumbered debt securities relate to securities placed at CCPs in lieu of cash to cover margin requirements. Encumbered equities comprise exchange memberships (see section 6.13).

7.1 ENCUMBERED AND UNENCUMBERED ASSETS

	Carrying amount of encumbered assets	Carrying amount of unencumbered assets
	31 December 2019	31 December 2019
	$m	$m
Loans on demand	689	297
Equity instruments	6	29
Debt securities	1,061	38
Other assets	98	385
Assets of the reporting institution	**1,854**	**749**

8 LEVERAGE

The Group calculates the leverage ratio in accordance with Article 429 of the CRR regulations. Although the CRR does not stipulate a minimum leverage ratio, the Basel Committee on Banking Supervision proposed a minimum of 3%.

8.1 LEVERAGE RATIO

	31 December 2019
	$m
Total Leverage Ratio Exposures	2,617
Tier 1 Capital	230
Leverage Ratio	**8.8%**
Leverage Ratio 2018	13.1%

9 REMUNERATION CODE

The following disclosures are made in compliance with Article 450 of the CRR regulations.

9.1 REMUNERATION POLICY

The Group has a remuneration policy that applies to employees of the Group.

It is the Group's intention that the total remuneration of its employees recognises team and individual performance and the contribution made by each employee to overall long-term success of the Group. Such contribution is expected to be consistent with the Group's cultural values, regulatory compliance and the sound and effective management and control of risks inherent in our business.

Fixed remuneration paid to employees is determined considering an individual's level of knowledge, skills, competencies and experience. The Group ensures that fixed remuneration is comparable to current market rates.

Any variable remuneration paid to employees must be consistent with the Group's remuneration policy. The purpose of the Group's variable remuneration schemes is to compensate employees based on their individual performance, the performance of the relevant desk or team and the contribution made by the employee to overall long-term success of the Group.

Variable remuneration is also one of the tools used to promote sound and effective risk management, discouraging risk-taking in excess of the Group's Board approved risk appetites, and to promote and reinforce behaviour in respect of the Group's cultural values.

9.2 REMUNERATION GOVERNANCE

The Group's remuneration policy is considered and approved by the Remuneration & Nomination Committee. The detail of the composition of the Remuneration & Nomination Committee is found in the Corporate Governance section 4.4.5.

The term of office of each member of the Remuneration & Nomination Committee is reviewed periodically and changes in membership are approved by the Board. The Committee held five meetings and passed three written resolutions between 1 January 2019 and 31 December 2019.

The Remuneration & Nomination Committee annually reviews the remuneration of the Group's Remuneration Code staff and has the ability to apply influence to variable remuneration payments.

9.3 RECRUITMENT POLICY FOR THE SELECTION OF MEMBERS OF MANAGEMENT BODY

Appropriate candidates are identified for senior management vacancies based on candidates' skills and experience. The senior executive for each of the relevant business or support areas, together with stakeholders within the Group, evaluate each candidate's suitability for the role.

Marex Spectron has an active diversity agenda and is committed to promoting diversity within the Group, starting with the attraction of talent.

9.4 REMUNERATION OF SENIOR MANAGEMENT AND MEMBERS OF STAFF WHOSE ACTIONS HAVE A MATERIAL IMPACT ON THE RISK PROFILE OF THE GROUP

	Number of Code Staff 31 December 2019	Fixed Remuneration 31 December 2019 $m	Variable Remuneration 31 December 2019 $m	Total Remuneration 31 December 2019 $m
Senior management	16	7.1	12.8	19.9
Other staff	46	7.1	43.9	50.9
Total	**62**	**14.2**	**56.6**	**70.8**