

Registered number: 02505767

## **CANTOR FITZGERALD EUROPE**

### **DIRECTORS' REPORT AND FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED 31 DECEMBER 2012**

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## **CANTOR FITZGERALD EUROPE**

### **COMPANY INFORMATION**

#### **DIRECTORS**

Mr D Barnard (resigned 20 January 2012)  
Mr L J Blake (appointed 5 October 2012 & resigned 24 January 2013)  
Mr M A J Cooper  
Mr G D Hutt (appointed 6 July 2012)  
Mr C J Knott  
Mr S P Matthews  
Mr S M Merkel  
Mr J L Rowsell (appointed 24 May 2012)  
Mr A G Sadler  
Mr E Spar (resigned 15 June 2012)

#### **COMPANY SECRETARY**

Mr R M Snelling

#### **COMPANY NUMBER**

02505767

#### **REGISTERED OFFICE**

17 Crosswall  
London  
England  
EC3N 2LB

#### **AUDITOR**

Ernst & Young LLP  
1 More London Place  
London  
SE1 2AF

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**CANTOR FITZGERALD EUROPE**

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## **CANTOR FITZGERALD EUROPE**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012**

The directors present their report and the financial statements for the year ended 31 December 2012

#### **PRINCIPAL ACTIVITIES**

Cantor Fitzgerald Europe (the "Company"), an unlimited company having share capital, acts as a corporate finance advisor and broker in securities and derivatives operating from the United Kingdom, France, Italy, Switzerland and Israel

The Company is also a wholesale and retail provider of contracts for differences ("CFD") and Financial Spread Betting ("FSB") as described below. The Company sold its non-equity FSB business on 20 March 2013

The Company was regulated by the Financial Services Authority ("FSA") up until 31 March 2013. The new regulatory structure for the UK financial services industry came into effect on 1 April 2013 under the provisions of the Financial Services Act 2012. As a result, regulatory responsibility is divided between the Prudential Regulation Authority ("PRA") (a division of the Bank of England) and the Financial Conduct Authority ("FCA"). In addition, the Financial Policy Committee ("FPC") has power of recommendation and direction to address systems risk for both the PRA and the FCA. Depending on their type, firms are PRA or FCA or dual PRA/FCA regulated. The Company is regulated by the FCA.

The Company is authorised to conduct investment business from its London head office and its branch and representative offices in France, Italy, Switzerland and Israel. It is authorised to conduct cross border investment business in EEA member states on a service basis under these provisions.

As at the year end date, the Company was a member of the following exchanges: Borsa Italiana, CME Clearport, The London Stock Exchange, LCH Clearnet, EUREX, XETRA, Euronext Cash markets in Amsterdam, Brussels and Paris, Euronext Liffe, Liffe B-Clear and Paris, Euronext Brussels, ICE Europe, NOMX, SWX Europe, Turquoise and Xetra.

The Company is managed along five principal business lines: institutional equity broking, corporate advisory business, debt capital markets, CFD business and FSB business.

#### **Institutional equity broking**

Institutional equity broking acts as a broker-dealer within the equity markets offering matched principal and agency give-up services. The Company also acts as a market maker in certain listed stocks on the London Equity Markets. The Company also provides sector and stock specific research.

#### **Corporate Advisory business**

Corporate advisory business comprises a team of highly experienced professionals, providing financial advisory services for asset management, wealth management and investment companies, covering primary issuance, mergers and acquisitions, capital reorganisations, debt issuance, research and strategy.

#### **Debt capital markets ("DCM")**

The DCM business offers a broking service of fixed income products that allow eligible counterparties and professional customers to access a pool of institutional services in the debt capital market.

#### **CFD business**

The Company operates a CFD business for institutions, elective professional clients and retail clients. In addition, Cantor Index Limited ("CIL"), an entity under common ownership of Cantor Fitzgerald, L.P. ("CFLP"), has sold and transferred its business to the Company during the current period. Previously, CIL introduced CFD business to the Company. CIL compensated the Company for the risk borne on these trading positions, as well as for the use of its balance sheet. These compensation arrangements ceased on transfer of the business from CIL to the Company.

#### **FSB business**

FSB is characterised as a bet providing clients with tax advantages on gains. In addition, CIL, an entity under common ownership of CFLP, has sold and transferred its equity and non-equity FSB business to the Company during the current period. Previously, CIL introduced equity FSB business to the Company. CIL compensated the Company for the risk borne on these trading positions, as well as for the use of its balance sheet. These compensation arrangements ceased on transfer of the business from CIL to the Company.

## **CANTOR FITZGERALD EUROPE**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **BUSINESS REVIEW**

Performance during the 2012 financial period was characterised by on-going changes in the overall brokerage landscape which has meant that competition remains intense and the market oversupplied. 2012 has proved to be another difficult year with market volumes across all areas of the business continuing to fall and a long term industry trend in declining margins. The Company has focused on expanding its business while at the same time carefully controlling costs and making cost savings where possible.

##### *CFDs and FSBs businesses*

After conducting a review of its activities, the management of CIL commenced a project in 2012 to introduce all of the clients of CIL to the Company.

The equity spread betting business was introduced to the Company by CIL in July 2012 with 100% of revenue and costs being transferred to CIL. The Company received a fee from CIL in consideration for the risk that the Company took, as well as for the use of its balance sheet. The arrangement came to an end at the same time that the Company acquired the CFD and FSB business from CIL on the effective date of 19 December 2012. On the transfer of the business from CIL to the Company these compensation arrangements ceased.

The transfer was effected as an asset sale with the Company acquiring the assets and liabilities of the business of CIL for net asset value plus goodwill of US\$1, which represents the fair value of the net assets transferred.

##### *Business Acquisitions*

During the year the Company acquired a corporate advisory team comprising sales, market-making, research and corporate finance functions.

On 8 February 2013, the Company acquired certain assets and liabilities relating to the corporate finance, advisory, sales and market making business of Tenebris Realisations Ltd (in administration), formally known as Seymour Pierce Ltd. Total consideration paid upon completion was US\$1,686k. The net assets acquired had a fair value of US\$1,767k. The acquired business will be reported as an acquisition in the profit and loss account for the year ended 31 December 2013.

##### *Sale of Client List*

On 20 March 2013, the Company sold certain assets associated with the non-equity FSB business to Spreadex Limited. The consideration received upon completion was US\$906k. The discontinued operations will be reported as a discontinued business in the profit and loss account for the year ended 31 December 2013.

##### *Foreign Exchange Businesses*

The retail client facing portion of the foreign exchange business was closed on 30 September 2011. Results for this business line are disclosed as discontinued activities for the prior year.

All other activities are continuing for the current and prior year.

#### **RESULTS AND DIVIDENDS**

The loss for the year, after taxation, amounted to US\$17,966k (2011 loss US\$27,281k).

The directors do not recommend a dividend for the year (2011 US\$Nil).

## **CANTOR FITZGERALD EUROPE**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **DIRECTORS**

The directors who served during the year were

Mr D Barnard (resigned 20 January 2012)  
Mr L J Blake (appointed 5 October 2012 & resigned 24 January 2013)  
Mr M A J Cooper  
Mr G D Hutt (appointed 6 July 2012)  
Mr C J Knott  
Mr S P Matthews  
Mr S M Merkel  
Mr J L Rowsell (appointed 24 May 2012)  
Mr A G Sadler  
Mr E Spar (resigned 15 June 2012)

#### **POLITICAL AND CHARITABLE CONTRIBUTIONS**

During the year, the Company made charitable donations of US\$138k (2011 US\$192k) The Company did not make any political contributions in the current or prior year

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

##### **Business activity risk**

The principal risks facing the Company arise from

- high level of competition for clients from other brokerage and financial services firms, and
- not being able to continue to attract and retain highly skilled brokers and appropriately qualified staff

##### **Credit, market, interest rate, liquidity, foreign exchange, operational and capital risk**

The Company transacts business on an agency and matched principal basis and in CFDs and FSBs The Company faces credit, market, interest rate, liquidity, foreign exchange, operational and capital risk in the course of its normal business The directors' place reliance on the risk management functions and receive regular reports on specific risks affecting the Company The Company has established policies and procedures to mitigate further its exposure to these risks

#### **FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES**

These are described in notes 29 - 36 to the financial statements

#### **FUTURE DEVELOPMENTS**

Management of the Company is considering the mix of businesses in order to ensure resources are deployed to ensure future profitability The Company is looking at expanding the range of products it offers and the geographical locations it operates from

## **CANTOR FITZGERALD EUROPE**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **KEY PERFORMANCE INDICATORS**

The Company's core objectives and long term strategy dictate key performance indicators ("KPIs") that the business monitors, targets and measures. These KPIs fulfil two roles:

- to give directors and senior management a means to evaluate the Company's overall performance from an operational, growth and sustainable development perspective, and
- to provide managers and their teams with clarity and focus on the areas that are critical for the successful achievement of the Company's goals

#### **Revenue**

**Aim** For the continuous improvement of the business's operational activities

**Analysis** During 2012, the Company's continuing turnover decreased by 6% compared with 2011 (2012 turnover US\$65,347k, 2011 turnover US\$73,236k)

#### **Loss before tax**

**Aim** To focus on cost-cutting activities

**Analysis** The Company's loss before tax decreased by 36% compared with 2011 (2012 loss before tax US\$17,507k, 2011 loss before tax US\$27,281k)

#### **Capital ratio to risk weighted assets**

**Aim** To maintain a capital surplus in excess of the Company's regulatory requirements

**Analysis** The Company maintained a strong capital surplus of US\$20,476k (2011 US\$40,578k)

#### **Receivables overdue more than 90 days**

**Aim** Minimise the Company's exposure to credit risk

**Analysis** The Company maintained a relatively low amount of receivables overdue by more than 90 days of US\$344k (2011 US\$640k)

#### **Maximum Cumulative Outflow less Available Liquidity Reserves**

**Aim** The Company should have an appropriate amount of liquidity reserve that will allow the Company to survive a variety of potential stressed liquidity outflows

**Analysis** The Company maintained a strong liquidity position over and above the regulatory thresholds

#### **GOING CONCERN**

The Company's business activities, together with factors likely to affect its future development and position, are set out in the business review and future developments in the Directors' report on page 1 - 6. In addition, notes 29 - 36 to the financial statements include the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit, market, interest rate, foreign exchange, liquidity, operational and capital risk.

Whilst the Company has been loss making in the current year, the Company has sufficient resources to continue its regular trading activity for the foreseeable future. The Company's treasury function manages the liquidity risk of the Company. The Company has a service agreement in place with Cantor Fitzgerald (Singapore) Capital Markets Ltd, eSpeed International Limited, eSpeed Support Services Limited and Tower Bridge International Services L.P.

The directors of the Company have a reasonable expectation that it has adequate resources to continue in operational existence and to meet financial objectives for the foreseeable future and for at least 12 months from the approval and signing of the balance sheet. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## **CANTOR FITZGERALD EUROPE**

### **DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **PROVISION OF INFORMATION TO AUDITOR**

Each of the persons who are directors at the time when this Directors' report is approved has confirmed that

- so far as that director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- that director has taken all the steps that ought to have been taken as a director in order to be aware of any information needed by the Company's auditor in connection with preparing its report and to establish that the Company's auditor is aware of that information

#### **AUDITOR**

Under section 487(2) of the Companies Act 2006, Ernst & Young LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier

This report was approved by the board and signed on its behalf



**Mr G. D. Hutt**  
Director  
Date 17 April 2013



## **CANTOR FITZGERALD EUROPE**

### **DIRECTORS' RESPONSIBILITIES STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012**

The directors are responsible for preparing the Directors' report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

## **CANTOR FITZGERALD EUROPE**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CANTOR FITZGERALD EUROPE**

We have audited the financial statements of Cantor Fitzgerald Europe for the year ended 31 December 2012 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 39. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement, set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Directors' Report and financial statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

#### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Simon Michaelson (Senior statutory auditor)

for and on behalf of

**ERNST & YOUNG LLP**

Statutory Auditor

1 More London Place

London

SE1 2AF

19/4/13

# CANTOR FITZGERALD EUROPE

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 US\$000	2011 US\$000
<b>TURNOVER</b>	2		
Continuing operations		65,357	69,572
Discontinued operations		-	3,664
		<u>65,357</u>	<u>73,236</u>
Cost of sales	4	(51,051)	(60,513)
		<u>14,306</u>	<u>12,723</u>
<b>GROSS PROFIT</b>			
Administrative expenses	4	(25,559)	(32,810)
		<u>14,306</u>	<u>12,723</u>
<b>OPERATING LOSS</b>			
Continuing operations		(11,253)	(17,774)
Discontinued operations		-	(2,313)
	3	(11,253)	(20,087)
Interest receivable and similar income	7	713	956
Amounts written off investments		(21)	-
Interest payable and similar charges	8	(6,946)	(8,150)
		<u>(17,507)</u>	<u>(27,281)</u>
<b>LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION</b>			
Tax on loss on ordinary activities	9	(459)	-
		<u>(17,966)</u>	<u>(27,281)</u>
<b>LOSS FOR THE FINANCIAL YEAR</b>	23	<u>(17,966)</u>	<u>(27,281)</u>

The notes on pages 12 to 52 form part of these financial statements

The client facing portion of the foreign exchange business was closed on 30 September 2011. Results for this business line are disclosed as discontinued activities for the previous year.

All other activities are continuing for the current and prior year.

**CANTOR FITZGERALD EUROPE**

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012 US\$000	2011 US\$000
<b>LOSS FOR THE FINANCIAL YEAR</b>		(17,966)	(27,281)
Unrealised surplus on revaluation of fixed asset investments	23	915	107
Deferred tax liability on revaluation of fixed asset investments	23	-	908
<b>TOTAL RECOGNISED GAINS AND LOSSES RELATING TO THE YEAR</b>		<u>(17,051)</u>	<u>(26,266)</u>

The notes on pages 12 to 52 form part of these financial statements

**CANTOR FITZGERALD EUROPE**  
**REGISTERED NUMBER: 02505767**

**BALANCE SHEET**  
**AS AT 31 DECEMBER 2012**

	Note	US\$000	2012 US\$000	US\$000	2011 US\$000
<b>FIXED ASSETS</b>					
Investments	10		4,809		3,915
<b>CURRENT ASSETS</b>					
Debtors	11	758,491		579,794	
Investments	12	97,913		53,253	
Cash and cash equivalents	13	209,912		188,676	
		<u>1,066,316</u>		<u>821,723</u>	
<b>CREDITORS</b> amounts falling due within one year	14	(958,137)		(703,873)	
<b>NET CURRENT ASSETS</b>			108,179		117,850
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			<u>112,988</u>		<u>121,765</u>
<b>CREDITORS</b> amounts falling due after more than one year	15		(63,000)		(55,000)
<b>PROVISIONS FOR LIABILITIES</b>					
Other provisions	17		(825)		(551)
<b>NET ASSETS</b>			<u>49,163</u>		<u>66,214</u>
<b>CAPITAL AND RESERVES</b>					
Called up share capital	22		90,426		90,426
Revaluation reserve	23		4,384		3,469
Profit and loss account	23		(45,647)		(27,681)
<b>SHAREHOLDERS' FUNDS</b>	24		<u>49,163</u>		<u>66,214</u>

The notes on pages 12 to 52 form part of these financial statements

The financial statements were approved and authorised for issue by the board and were signed on its behalf by

  
**Mr G. D. Hutt**  
 Director  
 Date 17 April 2013

# **CANTOR FITZGERALD EUROPE**

## **CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012 US\$000	2011 US\$000
Net cash flow from operating activities	19	56,867	(63,430)
Returns on investments and servicing of finance	20	(6,233)	(7,194)
Taxation		6,576	(1,302)
<b>CASH INFLOW / (OUTFLOW) BEFORE FINANCING</b>		<b>57,210</b>	<b>(71,926)</b>
Management of liquid resources	20	(24,979)	(6,005)
Financing	20	(7,500)	86,000
<b>INCREASE IN CASH IN THE YEAR</b>		<b>24,731</b>	<b>8,069</b>

## **RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS / DEBT FOR THE YEAR ENDED 31 DECEMBER 2012**

	2012 US\$000	2011 US\$000
Increase in cash in the year	24,731	8,069
Cash outflow from decrease in liquid resources	24,979	6,005
Cash outflow / (inflow) from decrease in debt financing	7,500	(21,000)
<b>MOVEMENT IN NET DEBT IN THE YEAR</b>	<b>57,210</b>	<b>(6,926)</b>
Net funds at 1 January 2012	79,735	86,661
<b>NET FUNDS AT 31 DECEMBER 2012</b>	<b>136,945</b>	<b>79,735</b>

The notes on pages 12 to 52 form part of these financial statements

Prior year comparative figures have been reclassified in line with current year classifications

## **CANTOR FITZGERALD EUROPE**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **1. ACCOUNTING POLICIES**

The financial statements are prepared in accordance with applicable law and accounting standards in the United Kingdom. The principal accounting policies adopted are described below.

##### **1.1 Basis of preparation of financial statements**

The financial statements have been prepared under the historical cost convention as modified by the revaluation of long and short inventory positions, other financial instruments and other fixed asset investments and in accordance with applicable accounting standards.

The Company is the parent undertaking of a small group and as such is not required under section 398 of the Companies Act 2006 to prepare group accounts. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

##### **1.2 Functional currency**

The accounts are prepared in US Dollars which the directors believe is the currency of the primary economic environment in which the Company operates.

##### **1.3 Foreign currency**

Monetary assets and liabilities denominated in foreign currencies are translated into US Dollars at rates of exchange ruling at the balance sheet date. The balance sheet conversion rate used to convert GBP to USD at 31 December 2012 was 1.6255 (2011: 1.5541).

Transactions in foreign currencies are translated into US Dollars at the rate ruling on the last day of the month during which the transaction occurred.

Exchange gains and losses are recognised in the Profit and loss account.

##### **1.4 Cash flow statement**

The Company has prepared a cash flow statement in accordance with FRS 1.

##### **1.5 Segmental reporting**

The Company has not presented segmental information as, in the opinion of the directors, it would be seriously prejudicial to the interests of the Company to do so.

##### **1.6 Revenue recognition**

Revenue is recognised to the extent that economic benefits will flow to the Company and the revenue can be reliably measured. Revenues are generated from trading in financial markets, fees related to commissions earned on agency business are reported net of commissions expensed. For the matched principal, FSB and CFD businesses, open positions are carried at fair market value and gains and losses arising on this valuation are recognised in revenue together with gains and losses realised on positions that have closed.

Finance revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable. The effective interest rate is the rate which exactly discounts estimated future cash receipts over the expected life of the financial asset to that asset's net carrying amount.

Advisory fees consist of management and advisory fees that are recognised on an accrual basis. Also included in advisory fees is revenue from mergers and acquisitions activities, which is recognised when the underlying transaction is substantially completed under the engagement terms and the related revenue is reasonably determinable.

## **CANTOR FITZGERALD EUROPE**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **1. ACCOUNTING POLICIES (continued)**

##### **1.7 Turnover**

The Company's income is derived from trading and brokerage services in equities, CFDs, FSB, corporate advisory services and debt capital markets

Turnover represents the income received in respect of the purchase and sale of equities and commissions earned from executing broker businesses, and the CFD and FSB balance sheet charge and is shown net of any related dealing and broking expense (e.g. commissions, cost of carry)

##### **1.8 Cost of sales**

Cost of sales includes all expenses which are directly attributable to the activity of generating revenue such as employment costs and commissions, sales and promotion, communications and other trade related charges

##### **1.9 Operating leases**

Rentals under operating leases are charged to the Profit and loss account on a straight line basis over the lease term

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period until the date the rent is expected to be adjusted to the prevailing market rate

##### **1.10 Interest payable**

The interest expense recognised in the Profit and loss account is accrued on a time basis by reference to the principal amount charged at the effective rate applicable. Issue costs are included in the determination of the effective interest rates

##### **1.11 Taxation**

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date



## **CANTOR FITZGERALD EUROPE**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **1. ACCOUNTING POLICIES (continued)**

##### **1.12 Deferred taxation**

Full provision is made for deferred tax assets and liabilities arising from all timing differences between the recognition of gains and losses in the financial statements and recognition in the tax computation

Deferred tax is not provided on timing differences arising from the revaluation of fixed assets in the financial statements

Deferred tax is recognised in respect of the retained earnings of an overseas subsidiary, associate or joint venture only to the extent that there is a commitment to remit the earnings

A net deferred tax asset is recognised only if it can be regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted

Deferred tax assets and liabilities are calculated at the tax rates expected to be effective at the time the timing differences are expected to reverse

Deferred tax assets and liabilities are not discounted

##### **1.13 Cash and cash equivalents**

Cash comprises cash at bank and in hand, money market fund deposits and client monies which are held by the Company. The carrying amount of these assets approximates their fair value

##### **1.14 Client money**

The Company holds money on behalf of clients. This money is included within cash and cash equivalents on the balance sheet and the corresponding liability to clients is included in trade creditors. The return received on managing client money is included within finance revenue

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. ACCOUNTING POLICIES (continued)**

**1.15 Financial Instruments**

*Recognition*

The Company determines the classification of its financial instruments at initial recognition depending upon the purpose for which the financial instruments were acquired and their characteristics, in accordance with the categories outlined below. When financial instruments are recognised initially, they are measured at fair value. The financial instruments are recognised on a trade date basis.

*i) Financial instruments at amortised cost*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include amounts due from customers on pending trades and other positions (disclosed within trade debtors), other debtors and subordinated loans. These amounts are initially recognised at fair value and are subsequently measured at amortised cost when the time value of money is material, using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the profit and loss account when there is evidence that the asset is impaired. The allowance recognised is measured as the difference between the assets' carrying value and the estimated future cash flows deriving from the continued use of that asset, and discounted if the effect is material.

*Debt securities*

Debt securities are held to maturity investments and are reported on the balance sheet at amortised cost. Debt securities with an original maturity in excess of three months but less than twelve months are recognised within current assets.

*Fixed asset investments*

The investments in group undertakings are held at cost and are reviewed for impairment annually.

*ii) Financial instruments at fair value through the profit and loss*

Financial instruments classified as held for trading, or designated as such on inception, are included in this category and relate to derivative financial instruments within trade debtors and trade creditors as shown in the balance sheet. Financial instruments are classified as held for trading if they are acquired for the purpose of reselling. The financial instruments are initially recognised at fair value on the date on which a contract is entered into. They are subsequently carried in the balance sheet at fair value, with gains or losses recognised in the profit and loss account.

*(iii) Available-for-sale investments*

Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the two preceding categories and are initially recognised at fair value. Gains and losses arising from the changes in fair value are recognised directly in equity via the available for sale reserve until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is recognised and is included in the profit and loss account for the period, the available for sale reserve having first been reversed.

Available-for-sale investments in equity instruments that do not have a quoted market price in an active market or whose fair value cannot be reliably measured, are measured at cost. When the investment is disposed of, the cumulative gain or loss previously recognised in the statement of total recognised gains and losses is recognised in the profit and loss account under other operating income or other operating expenses.

Dividends earned whilst holding available-for-sale investments are also recognised in the profit and loss account.

## **CANTOR FITZGERALD EUROPE**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **1 ACCOUNTING POLICIES (continued)**

##### **1.16 Securities purchased under agreements to resell and securities lending arrangements**

Cash balances and accrued interest arising under repurchase agreements and securities lending arrangements are recorded as liabilities and the related securities, where owned by the Company, are included in financial instruments at fair value. Cash balances and accrued interest arising under resale agreements, and securities borrowing arrangements are recorded as debtors.

##### **1.17 Derecognition of financial assets or liabilities**

A financial asset is considered for derecognition when the contractual rights from the financial asset expire, or when the contractual right to benefit from the future cash flow of that asset has been transferred. The Company derecognises a financial asset when it substantially transfers all the risks and rewards of ownership.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. In circumstances where a financial liability is replaced by the same lender yet the contractual terms are substantially different or modified, the original financial liability will be derecognised at the point of contractual exchange and the new financial liability recognised.

##### **1.18 Fixed asset investment**

Fixed asset investment is recognised and derecognised on trade date, where a purchase or sale of an investment is under a contract which terms require delivery of the investment within the timeframe established by the market concerned. Fixed asset investment is initially measured at cost.

Fixed asset investment is classified as available for sale and is measured at subsequent dates at fair value. The fixed asset investment is unlisted and is valued on the basis of net assets value from the published, audited financial statements. Gains and losses arising from the change in fair value is recognised directly in equity via the available for sale investment reserve until the security is disposed of or is determined to be impaired. At the time, the cumulative gain or loss is recognised and is included in the Profit and loss account for the year, the available for sale reserve having first been reversed.

##### **1.19 Investment in subsidiary undertakings**

Investments in subsidiaries are stated at cost less any provision for permanent diminution in value. They are reviewed for impairment at least annually or whenever events or circumstances indicate that the carrying amount may not be realised.

##### **1.20 Current asset investment**

The current asset investment is stated at fair value, with changes in fair value recorded in the Profit and loss.

##### **1.21 Impairment of doubtful debts**

All CFD and FSB trade debtor balances outstanding greater than 90 days are provided for in full. Other trade debtor balances, including CFD and FSB trade debtors outstanding less than 90 days, are assessed on a case by case basis and provided for where recoverability is in question. The above policy is the same for brokerage receivables.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**1. ACCOUNTING POLICIES (continued)**

**1.22 Impairment of assets**

The Group assesses, at each balance sheet date, whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date. In addition, evidence of impairment requires that loss event to have had an impact on the estimated future cash flows of the financial asset that can be reliably estimated. The recoverable amount is the higher of the fair value less costs to sell and the value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and risks to the specific asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

**1.23 Compensation**

From time to time, CFLP awards certain employees of the Company grant units in CFLP. Grant units entitle the employees to participate in quarterly distributions of CFLP's income and to receive certain post-termination payments.

Adjustments are made to the fair value of all awards outstanding at the accounting reference date to account for the likelihood that the grant unit holder will fulfil the vesting conditions.

An expense has been recognised in the Profit and loss account based on the adjusted fair value with a corresponding increase in the Company's intercompany liability to CFLP as the Company reimburses CFLP for the costs associated with the issuance of the awards.

**1.24 Pensions**

The Company operates a defined contribution scheme for certain UK employees as determined by their contract of employment. Contributions are charged to the Profit and loss account as they are incurred. The Company provides no other post retirement benefits to its employees.

**1.25 Going concern**

The Company's business activities, together with factors likely to affect its future development and position, are set out in the business review and future developments in the Directors' report on page 1 - 6. In addition, notes 29 - 36 to the financial statements include the Company's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit, market, interest rate, foreign exchange, liquidity, operational and capital risk.

Whilst the Company has been loss making in the current year, the Company has sufficient resources to continue its regular trading activity for the foreseeable future. The Company's treasury function manages the liquidity risk of the Company. The Company has a service agreement in place with Cantor Fitzgerald (Singapore) Capital Markets Ltd, eSpeed International Limited, eSpeed Support Services Limited and Tower Bridge International Services L.P.

The directors of the Company have a reasonable expectation that it has adequate resources to continue in operational existence and to meet financial objectives for the foreseeable future and for at least 12 months from the approval and signing of the balance sheet. They therefore continue to adopt the going concern basis of accounting in preparing the annual financial statements.

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 2. TURNOVER

The Company's income is derived from trading and brokerage services in equities, CFDs, FSB, corporate advisory services and debt capital markets

Turnover represents the income received in respect of the purchase and sale of equities and commissions earned from executing broker businesses, and the CFD and FSB balance sheet charge to CIL (this is described further in note 25 to the financial statements) It is shown net of any related dealing/broking expense (e.g. commissions, cost of carry)

#### 3. OPERATING LOSS

The operating loss is stated after charging

	2012 US\$000	2011 US\$000
Goodwill amortisation and impairment	-	694
Foreign exchange loss	769	567
Rent payable under operating leases	856	670
	<u>1,625</u>	<u>1,931</u>

Included in the operating loss is the auditors' remuneration, which is further analysed below

	2012 US\$000	2011 US\$000
Audit of the financial statement	305	383
Other fees to auditors - other services	103	19
	<u>408</u>	<u>402</u>

The auditors' remuneration of US\$305k (2011 US\$383k) has been borne by an associated group entity and subsequently recharged to the Company for the current and prior year

Other fees were paid to the auditors Ernst and Young LLP for work performed that was not related to the statutory audit of the Company

#### 4. ANALYSIS OF OPERATING LOSS

	2012		2011	
	Continuing US\$000	Discontinued US\$000	Continuing US\$000	Discontinued US\$000
Turnover	65,357	-	69,572	3,664
Cost of sales	(51,051)	-	(59,345)	(1,168)
Gross profit	<u>14,306</u>	<u>-</u>	<u>10,227</u>	<u>2,496</u>
Administrative expenses	(25,559)	-	(28,001)	(4,809)
Operating loss	<u>(11,253)</u>	<u>-</u>	<u>(17,774)</u>	<u>(2,313)</u>

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 5. STAFF COSTS

Staff costs were as follows

	2012 US\$000	2011 US\$000
Wages and salaries	30,792	39,365
Social security costs	4,100	4,200
Other pension costs	65	77
	<u>34,957</u>	<u>43,642</u>

The average monthly number of employees, including the directors, during the year was as follows

	2012 No	2011 No
Direct operating	138	152
Other administrative and management	9	8
	<u>147</u>	<u>160</u>

There were outstanding contributions totalling US\$28k payable to the pension scheme by the Company as at 31 December 2012 (2011 US\$Nil) These contributions were paid over on 9 January 2013

#### 6 DIRECTORS' REMUNERATION

The remuneration paid to the directors of the Company comprised

	2012 US\$000	2011 US\$000
Directors' remuneration	1,197	714
Remuneration of the highest paid director	479	387
	<u>          </u>	<u>          </u>

No directors had entitlements in relation to the pension scheme in the current or prior year

Refer to note 26 to the financial statements for details of loans to directors

#### 7. INTEREST RECEIVABLE

	2012 US\$000	2011 US\$000
Other interest receivable	713	956
	<u>          </u>	<u>          </u>

# CANTOR FITZGERALD EUROPE

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 8. INTEREST PAYABLE

	2012 US\$000	2011 US\$000
On bank loans and overdrafts	1,517	781
On loans from group undertakings	4,577	6,596
Other interest payable	852	773
	<u>6,946</u>	<u>8,150</u>

### 9 TAXATION

	2012 US\$000	2011 US\$000
<b>Analysis of tax (credit) / charge in the year</b>		
UK corporation tax (credit) / charge on loss for the year	-	-
UK corporation tax adjustments in respect of prior periods	(2,139)	-
	<u>(2,139)</u>	<u>-</u>
Foreign current tax on income for the period	88	-
Foreign tax adjustment in respect of previous periods	2,510	-
	<u>459</u>	<u>-</u>
<b>Tax on loss on ordinary activities</b>		

#### Factors affecting tax charge for the year

The tax assessed for the year is lower than (2011 - lower than) the standard rate of corporation tax in the UK of 24.5% (2011 26.5%). The differences are explained below

	2012 US\$000	2011 US\$000
Loss on ordinary activities before tax	<u>(17,507)</u>	<u>(27,281)</u>
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011 26.5%)	(4,289)	(7,229)
<b>Effects of</b>		
Expenses not deductible for tax purposes, other than goodwill amortisation and impairment	1,451	1,679
Capital allowances for year in excess of depreciation	88	26
Unrelieved tax losses	2,474	5,658
Adjustments to tax charge in respect of prior periods	371	-
Short term timing difference leading to an increase / (decrease) in taxation	276	(134)
Foreign tax	88	-
	<u>459</u>	<u>-</u>
<b>Current tax charge / (credit) for the year (see note above)</b>		

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 9. TAXATION (continued)

##### Factors that may affect future tax charges

The rate of corporation tax enacted at the balance sheet date was 23%. Accordingly, this rate has been used to calculate the carried forward deferred tax asset disclosed by the company. The decrease of the UK corporation tax rate was enacted on 3 July 2012. A corporation tax rate of 23% will be effective from 1 April 2013 with further reductions of 3% anticipated to 21% from April 2014 and 20% from April 2015. The aggregate impact of the proposed reductions from 23% to 20% will decrease the deferred tax asset that has not been recognised as disclosed in note 16 by US\$2,539k. However, this will not impact the tax charge as the carried forward deferred tax asset has not been recognised in this period.

#### 10. FIXED ASSET INVESTMENTS

	Investments in subsidiary companies US\$000	Unlisted investments US\$000	Total US\$000
<b>Cost or valuation</b>			
At 1 January 2012	21	3,894	3,915
Revaluations	-	915	915
At 31 December 2012	21	4,809	4,830
<b>Impairment</b>			
At 1 January 2012	-	-	-
Charge for the year	21	-	21
At 31 December 2012	21	-	21
<b>Net book value</b>			
At 31 December 2012	-	4,809	4,809
At 31 December 2011	21	3,894	3,915

The investment in subsidiary is an undertaking in Cantor Fitzgerald (India) Holdings Pvt Limited, a company incorporated in Mauritius. The directors have deemed the subsidiary's net assets immaterial for consolidation purposes. During 2012, the directors determined that the value of the investment in Cantor Fitzgerald (India) Holdings Pvt Limited was fully impaired.

##### *Investment in LCH Clearnet*

The unlisted investment is classified as available for sale investment and is valued on the basis of net assets value from the published, audited financial statements. The investment is 362,903 shares in London Clearing House ("LCH Clearnet"). The historical cost of the shares is US\$423k.



## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 11. DEBTORS

	2012 US\$000	2011 US\$000
Trade debtors	753,744	566,436
Amounts owed by group undertakings	338	2,706
Other taxes and social security	98	7,133
Other debtors	2,385	3,205
Prepayments and accrued income	177	296
Tax recoverable	1,749	18
	<u>758,491</u>	<u>579,794</u>

Trade debtors includes net derivative balances of US\$(1,754)k (2011 US\$12,700k), further details are provided in notes 26 and 37

Trade debtors above include US\$489,584k (2011 US\$467,720k) of securities trades pending settlement, and US\$111,095k (2011 US\$27,947k) of failed trades to deliver

Other debtors consists primarily of employee loans US\$1,828k (2011 employee loans US\$2,321k)

#### 12. CURRENT ASSET INVESTMENTS

	2012 US\$000	2011 US\$000
Long positions	<u>97,913</u>	<u>53,253</u>

Included in long positions is a listed investment in US treasury bills, whose market value at 31 December 2012 was US\$40,976k (2011 US\$15,997k) The US treasury bills are due to mature on 6 June 2013

#### 13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of segregated money held on behalf of clients and non-segregated balances

	2012 US\$000	2011 US\$000
Non-segregated cash and cash equivalents	105,109	141,148
Client segregated cash	104,803	47,528
	<u>209,912</u>	<u>188,676</u>

# **CANTOR FITZGERALD EUROPE**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

### **14. CREDITORS**

#### **Amounts falling due within one year**

	2012 US\$000	2011 US\$000
Bank loans and overdrafts	6,443	9,938
Trade creditors	832,919	612,528
Amounts owed to group undertakings	26,102	6,085
Other amounts owed to group undertakings	44,500	60,000
Social security and other taxes	1,867	2,094
Short positions	27,600	1,436
Other creditors	284	1,560
Accruals and deferred income	18,422	10,232
	<u>958,137</u>	<u>703,873</u>

Included in other amounts owed to group undertakings is a senior loan for US\$44,500k (2011 US\$60,000k) that was issued by CFLP on 17 December 2010. The interest rate charged is 250 basis points above the One month London Inter Bank Offer Rate ("LIBOR"). The initial fixed term of the loan was 180 days. Every 30 days the loan resets to the initial fixed term unless CFLP calls the loan, at which time the Company is obliged to repay the senior loan upon maturity. On 19 December 2012, US\$8,000k was converted from the senior loan into subordinated loan with CFLP and on 31 December 2012, US\$7,500k was repaid to CFLP.

Trade creditors includes net derivatives balances and short positions of US\$19,013k (2011 US\$8,005k), further details are provided in notes 26 and 37.

Prior year comparative figures have been reclassified in line with current year classifications.

### **15. CREDITORS**

#### **Amounts falling due after more than one year**

	2012 US\$000	2011 US\$000
Amounts owed to group undertakings	<u>63,000</u>	<u>55,000</u>

Amount  
received  
US\$000

#### **Received from and date issued / repayable**

Cantor Fitzgerald L P - 31 October 2009/29 September 2018	7,000
Cantor Fitzgerald L P - 31 December 2009/15 October 2018	17,000
Cantor Fitzgerald L P - 29 September 2011 / 29 September 2018	16,000
Cantor Fitzgerald L P - 13 December 2011 / 29 September 2018	15,000
Cantor Fitzgerald L P - 20 December 2012 / 29 September 2018	8,000
	<u>63,000</u>

At 31 December 2012, the Company had subordinated loans with CFLP totaling US\$63,000k (2011 US\$55,000k). The interest rate charged is 450 basis points above the 3 month LIBOR. The subordinated loan is classified as qualifying capital for FSA financial resources requirements. During 2012, the Company increased its subordinated loans following the conversion of US\$8,000k the senior loan.

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 16. DEFERRED TAXATION

	2012 US\$000	2011 US\$000
At beginning of year	-	908
Other movement	-	(908)
At end of year	-	-

There is no deferred tax provision. A deferred tax asset has not been recognised in respect of timing differences relating to trading losses and capital allowances in excess of depreciation, as there is insufficient evidence that the asset will be recovered. The total amount of the asset not recognised is approximately US\$19,469k (2011: US\$10,086k). Of the total asset not recognised, the amount relating to capital allowances in excess of depreciation is approximately US\$398k (2011: US\$176k) and the amount of the asset not recognised relating to trading losses is approximately US\$19,071k (2011: US\$9,910k). The asset would be recovered if there were sufficient suitable trading profits in the future years against which the losses could be offset.

#### 17. PROVISIONS

	Litigation provision US\$000	Asset Retirement Obligation Reserve US\$000	Vacant Property Provision US\$000	Total US\$000
At 1 January 2012	551	-	-	551
Additions	244	308	68	620
Amounts used	(322)	-	-	(322)
Foreign exchange adjustments	(24)	-	-	(24)
At 31 December 2012	449	308	68	825

##### Litigation provision

Litigation provisions include provisions in respect of claims against the Company. In the normal course of business the company receives claims in respect of employee related matters and other legal claims. Where a claim is more likely than not to result in an economic outflow of benefits from CFE, a provision is made representing the expected cost to the firm of settling such claims. Instances of litigation are typically expected to settle within 3 years.

##### Asset Retirement Obligation Reserve

During 2012, an asset retirement obligation in respect of the properties occupied by the Company was established for US\$338k (2011: US\$nil).

##### Vacant Property Provision

The provision for vacant property has been calculated for properties vacated during 2012 by reference to discounted expected future net cash flows relating to the properties. The lease term will expire in March 2013.

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 18. OPERATING LEASE COMMITMENTS

At 31 December 2012 the Company had annual commitments under non-cancellable operating leases as follows

	Land and buildings	
	2012	2011
	US\$000	US\$000
<b>Expiry date:</b>		
Within 1 year	922	1,034
Between 2 and 5 years	2,340	3,196

#### 19. NET CASH FLOW FROM OPERATING ACTIVITIES

	2012	2011
	US\$000	US\$000
Operating loss	(11,253)	(20,087)
Amortisation of intangible fixed assets	-	694
(Increase) / decrease in debtors	(207,776)	98,585
Decrease / (increase) in amounts owed by group undertakings	2,368	(2,193)
Increase / (decrease) in creditors	253,238	(97,703)
Increase / (decrease) in amounts owed to group undertakings	20,017	(43,180)
(Decrease) / increase in provisions	273	454
<b>Net cash inflow / (outflow) from operating activities</b>	<b>56,867</b>	<b>(63,430)</b>

Prior year comparative figures have been reclassified in line with current year classifications

#### 20. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT

	2012	2011
	US\$000	US\$000
<b>Returns on investments and servicing of finance</b>		
Interest received	713	956
Interest paid	(6,946)	(8,150)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(6,233)</b>	<b>(7,194)</b>
	2012	2011
	US\$000	US\$000
<b>Management of liquid resources</b>		
Purchase of US Treasury Bills	(24,979)	(6,005)

# CANTOR FITZGERALD EUROPE

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

### 20. ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN CASH FLOW STATEMENT (continued)

	2012 US\$000	2011 US\$000
<b>Financing</b>		
Issue of ordinary shares	-	65,000
Increase in subordinated loans payable to group undertakings	-	31,000
Decrease in senior loans payable to group undertakings	(7,500)	(10,000)
<b>Net cash (outflow) / inflow from financing</b>	<b>(7,500)</b>	<b>86,000</b>

Prior year comparative figures have been reclassified in line with current year classifications

### 21. ANALYSIS OF CHANGES IN NET FUNDS

	1 January 2012 US\$000	Cash flow US\$000	Other non-cash changes US\$000	31 December 2012 US\$000
Cash and cash equivalents	188,676	21,236	-	209,912
Bank overdraft	(9,938)	3,495	-	(6,443)
	<u>178,738</u>	<u>24,731</u>	<u>-</u>	<u>203,469</u>
<b>Liquid resources:</b>				
US Treasury Bills	15,997	24,979	-	40,976
<b>Debt:</b>				
Senior loans payable to group undertakings	(60,000)	7,500	8,000	(44,500)
Subordinated loans payable to group undertakings	(55,000)	-	(8,000)	(63,000)
<b>Net funds</b>	<b><u>79,735</u></b>	<b><u>57,210</u></b>	<b><u>-</u></b>	<b><u>136,945</u></b>

Prior year comparative figures have been reclassified in line with current year classifications

### 22. SHARE CAPITAL

	2012 US\$000	2011 US\$000
<b>Authorised, allotted, called up and fully paid</b>		
57,716,432 (2011 57,716,432) Ordinary shares of £1 each	90,426	90,426

The capital is in British Pounds Sterling and the reporting currency is in US Dollars

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 23. RESERVES

	Revaluation reserve US\$000	Profit and loss account US\$000
At 1 January 2012	3,469	(27,681)
Loss for the year		(17,966)
Revaluation of assets held as available for sale	915	
	<u>4,384</u>	<u>(45,647)</u>
At 31 December 2012		

Refer to note 10 to the financial statements for more details regarding the revaluation of assets held as available for sale

#### 24. RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2012 US\$000	2011 US\$000
Opening shareholders' funds	66,214	27,480
Loss for the year	(17,966)	(27,281)
Shares issued during the year	-	65,000
Other recognised gains and losses during the year	915	1,015
	<u>49,163</u>	<u>66,214</u>
Closing shareholders' funds		

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 25. RELATED PARTY TRANSACTIONS

The Company enters into service arrangements with various parties that are related by common ownership and control. The intercompany balances held with related parties comprised:

	2012 Due to US\$000	2012 Due from US\$000	2011 Due to US\$000	2011 Due from US\$000
BGC Brokers Tokyo Holdings LLC	-	-	-	-
BGC Capital Markets and FX Brokerage (Korea) Limited	-	1	-	1
BGC Capital Markets (Japan) LLC	-	34	-	34
BGC European Holdings LP Group	246	-	-	-
BGC Financial LP	7,710	-	-	-
BGC Global Holdings LP	86	-	11	-
BGC Holdings LP	247	-	-	-
BGC Partners LP	-	-	-	4
BGC Shoken Kaisha Ltd	-	2	-	-
Cantor Fitzgerald & Co	171	-	-	-
Cantor Fitzgerald (Hong Kong) Capital Markets Limited	415	-	4,093	-
Cantor Fitzgerald (India) Holdings PVT Limited	180	-	448	-
Cantor Fitzgerald, L P	-	-	-	13
Cantor Fitzgerald Securities	45,132	-	116,365	-
Cantor Fitzgerald Services LLP	-	270	-	2,606
Cantor Fitzgerald (Singapore) Capital Markets Limited	-	30	-	-
Cantor Index Limited	15,192	-	-	48
Playwizzard Holdings LP	1,221	-	166	-
	2	-	2	-
	<u>70,602</u>	<u>337</u>	<u>121,085</u>	<u>2,706</u>

On 4 November 2009, C. Knott, a director of the Company, was granted a £300,000 promissory note in a related party, CF Notes LLC, repayable on demand, with annual interest payable of 5%. The amount outstanding as at 31 December 2012 was £347,500 (31 December 2011: £332,500).

On 9 May 2010, D. Barnard, a director of the Company, was granted a loan from a related party, CF Notes LLC, repayable on demand, with annual interest payable based on the American Federal Rate. The amount outstanding as at 31 December 2012 was US\$37,278 (31 December 2011: US\$46,608). During the year, US\$10,567 was repaid.

On 15 April 2011, D. Barnard, a director of the Company, was granted a loan from a related party, CF Notes LLC, repayable on demand, with annual interest payable based on the American Federal Rate. The amount outstanding as at 31 December 2012 was US\$16,456 (31 December 2011: US\$26,387). During the year, US\$10,505 was repaid.

On 31 October 2010, M. A. J. Cooper, a director of the Company, was granted a loan from a related party, Tower Bridge International Services L.P., repayable on demand, with annual interest payable of 4%. The amount outstanding as at 31 December 2012 was US\$41,812 (31 December 2011: US\$76,006). During the year, US\$37,049 was repaid.

On 21 March 2011, M. A. J. Cooper, a director of the Company, was granted a loan from a related party, Tower Bridge International Services L.P., repayable on demand, with annual interest payable of 4%. The amount outstanding as at 31 December 2012 was US\$28 (31 December 2011: US\$36,201). During the year, US\$36,840 was repaid.

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 25. RELATED PARTY TRANSACTIONS (continued)

On 21 April 2012, G D Hutt, a director of the Company, was granted a loan from a related party, Tower Bridge International Services L P, repayable on demand, with annual interest payable of 4%. The amount outstanding as at 31 December 2012 was US\$3,660. During the year, US\$1,773 was repaid.

CIL, an entity related by common ownership and control, acted as an introducing broker in CFDs and equity FSBs to the Company. Under a services agreement, the Company executes and clears the hedge transactions and enters into CFDs and equity FSBs with clients introduced by CIL. In providing these services, the Company finances the hedge positions, bears the settlement risk of the hedging transactions and the credit risk associated with the CFD with the client. CIL compensates the Company for providing these services, a fee of 80 basis points of the aggregate CFD portfolio entered into by the Company in connection with this arrangement. These transactions with CIL occur on an arm's length basis. During the year ended 31 December 2012, the Company reported turnover and operating profit of US\$421k (2011: US\$297k) in relation to this arrangement. These compensation arrangements ceased on the transfer of the business from CIL to CFE.

The Company traded in the name of Cantor Fitzgerald & Co for the DCM business and in the name of Cantor Fitzgerald Securities ("CFS") for the loans business, both under a revenue sharing arrangement. Cantor Fitzgerald & Co also acts as broker and custodian for certain of the Company's government securities.

Cantor Fitzgerald (Hong Kong) Capital Markets ("CFHK") acts as an introducing broker to the Company for convertible bonds and equities. All positions reside in the Company. The Company also places orders with CFHK in order to match its positions with its clients.

Included in amounts owed to CFLP is a senior loan for US\$44,500k (2011: US\$60,000k) that was issued by CFLP on 17 December 2010. The interest rate charged is 250 basis points above the 1 month LIBOR. The initial fixed term of the loan was 180 days. Every 30 days the loan resets to the initial fixed term unless CFLP calls the loan, at which time the Company is obliged to repay the senior loan upon maturity. During 2012, the Company converted US\$8,000k of the senior loan into subordinated debt and on 31 December 2012, US\$7,500k was repaid to CFLP.

Also included in amounts owed to CFLP are subordinated loans totaling US\$63,000k (2011: \$55,000k). The interest rate charged is 450 basis points above the 3 month LIBOR. The subordinated loan is classified as qualifying capital for FSA financial resources requirements. During the year, the company increased subordinated loans totaling US\$8,000k through the conversion of part of the senior loan.

During the years ended 31 December 2012 and 2011, the net value of charges payable for the following transactions from related parties comprised:

	2012 US\$000	2011 US\$000
<b>Service arrangements (expense)</b>		
BGC International	1,427	406
eSpeed International Limited	596	1,112
eSpeed Support Services Limited	2,750	3,290
Tower Bridge International Services L P	9,975	12,897
	<u>14,748</u>	<u>17,705</u>

Included in the above are recharged costs for support services provided by Tower Bridge International Services L P as the service entity to commonly controlled European trading entities. Also included are costs recharged by eSpeed Support Services Limited ("ESSL") and eSpeed International Limited ("EIL") for the provision of its electronic trading platform and IT support services (ESSL provided infrastructure and EIL provided development). BGC International holds the lease of 1 America Square.



# **CANTOR FITZGERALD EUROPE**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

### **25. RELATED PARTY TRANSACTIONS (continued)**

The Company enters into foreign exchange derivative transactions with related parties that are related by common ownership and control. The outstanding balances held with related parties comprised

	Gross contract or underlying notional amount 2012 US\$000	Amount due from / (to) 2012 US\$000	Gross contract or underlying notional amount 2011 US\$000	Amount due from / (to) 2011 US\$000
eSpeed Markets LP	3,768	(28)	-	-
BGC Global Holdings LP	16,715	(96)	10,749	5
BGC Capital Markets (Hong Kong) Limited	26,593	6	22,198	38
BGC Securities (Hong Kong) LLC	7,187	(1)	8,096	14
BGC Partners (Singapore) Limited	22,137	(74)	14,911	2
BGC Radix Energy LP (Singapore Branch)	328	(1)	416	1
BGC Capital Markets (Japan) LLC	3,102	(68)	1,309	17
BGC Shoken Kaisha Limited	7,087	(199)	6,014	78
BGC Capital Markets (Switzerland) LLC (Nyon Branch)	3,865	6	2,041	4
BGC Securities Sarl	272	(1)	2,084	5
BGC European Holdings LP Group	132,741	675	166,263	179
Cantor Fitzgerald (Hong Kong) Capital Markets Limited	9,066	(13)	8,943	32
Cantor Fitzgerald Services	-	-	6,148	56
Cantor Fitzgerald (Singapore) Capital Markets Limited	2,996	(3)	385	1
Cantor Index Limited	3,990	9	13,072	(17)
Newmark & Co Real Estate, Inc	6,483	117	-	-
<b>Total</b>	<b>246,330</b>	<b>329</b>	<b>262,629</b>	<b>415</b>

There are no other related party transactions or balances requiring disclosure under FRS 8 Related Party Disclosures

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 26. DERIVATIVE FINANCIAL INSTRUMENTS

The Company utilises the following derivative instruments for trading and economic hedging purposes

	Gross contract or underlying notional amount US\$000	Fair Value Asset US\$000	Fair Value Liability US\$000
<b>2012</b>			
CFDs	581,745	30,340	23,525
Foreign exchange derivatives	615,342	2,893	2,972
Futures	36,252	177	79
Total derivatives asset / liability	1,233,339	33,410	26,576
<b>2011</b>			
CFDs	416,041	18,575	15,114
Foreign exchange derivatives	505,750	670	820
Total derivative asset / liability	921,791	19,245	15,934

Total derivative asset / liability balances are included in trade debtors and trade creditors respectively

The CFD positions have been grossed up by counterparty. Any collateral held against the counterparty has been offset against any derivative receivable position. All open positions are fully margined and therefore the Company has sufficient collateral to net against any derivative receivable position.

#### 27. GUARANTEES

The Company has agreed to act as guarantor against any default of its lease agreement for its Tel Aviv offices, Discount Tower, 28th Floor, 23 Yehuda Halevi Street, Tel Aviv, 65136, Israel. The indemnities are valid until 15 May 2013 and 2 June 2016 cannot exceed the aggregate sums of ILS 879,552 and ILS 40,000 respectively, which are equivalent in total to US\$252k as at 31 December 2012.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**28. COMPENSATION**

From time to time, CFLP awards certain employees of the Company grant units in CFLP

Grant units entitle the holder to participate in quarterly distributions of income by CFLP and receive post-termination payments equal to the notional value of the award in four equal installments on the first, second, third and fourth anniversaries of the employee's termination, provided that the employee has not engaged in any competitive activity with CFLP or its affiliates prior to each payment date

The value of the grant awards is determined using a fair value model and uses the following key assumptions

	2012	2011
	%	%
Discount rate	1.78	1.89
Forfeiture rate	40	40
Paid termination rate	2	2
Retirement age (years)	55	55

The Company recognised in cost of sales a total income of US\$2,058k in the year ended 31 December 2012 (2011 expense of US\$2,727k) in relation to the grant units

The Company has a cumulative capital contribution of US\$6,276k as at 31 December 2012 (2011 US\$6,276k). Prior to 1 April 2008, an expense was recognised in the Profit and loss account and a corresponding capital adjustment was made to the Profit and loss reserve account, on the basis that the Company would not reimburse CFLP for the costs associated with the issuance of these awards

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**29. RISK MANAGEMENT**

**Financial Instrument Risk Management**

In the course of its business activities, The Company is exposed to a number of risks that may impact its business. The Company is exposed to these risks in the conduct of its business by acting in various capacities:

- As a counterparty in financial contracts,
- As a holder of marketable securities,
- As an advisor, and
- As a member of exchanges and clearing houses

Risk management is the process of identifying, assessing, measuring, monitoring and reporting risk. The ability to effectively manage risk is important for ensuring that the organisation is operating in a manner consistent with its risk appetite and for meeting responsibilities to enhance value for its shareholders. The Company is exposed to credit risk, market risk, interest rate risk, foreign exchange risk, liquidity risk, operational risk and capital risk in the course of its normal business.

**Risk Management Structure**

The Company has adopted the "three lines of defence" model in embedding risk management capability across the organisation. The model distinguishes between functions that own and manage risks, functions overseeing risks and functions providing independent assurance.

Firstly, as a first line of defence, business and operational management has ownership, responsibility and accountability for identifying, assessing, controlling and mitigating risks.

Secondly, as a second line of defence, the Risk department (and also other supporting functions like Compliance) challenges, reviews and monitors the implementation of effective risk management practices by business and operational management. It also independently provides reporting and escalation of risk issues up and down the organisation.

Thirdly, as a third line of defence, Internal Audit, through a risk based approach, provides assurance to the Board of Directors of the Company (the "Board") and senior management, on how effectively the Company assesses and manages its risks, including the manner in which the first and second lines of defence operate. This assurance covers all elements of the risk management framework, i.e. risk identification, risk assessment and response to escalation of risk related information.

The Board sets the risk appetite for each risk type and oversees the application of risk policies. The board is also responsible for approving the Internal Capital Adequacy Assessment Process ("ICAAP"), the Individual Liquidity Adequacy Assessment ("ILAA") and the Business Plan which incorporate more detailed analysis of each of the risks and describe the risk framework by which these risks are managed.

The Executive Committee has the overall responsibility for the implementation of principles, frameworks, policies and limits. It is responsible for addressing risk issues and manages and monitors relevant risk decisions. The Executive Committee is supported by a number of risk committees including the Finance, Capital, Assets and Liabilities Committee ("FCALCO") and Operational Risk and Compliance Committee ("ORCC").

The risk management department is responsible for assuring the careful selection, monitoring and reporting of counterparty credit and market risk. This is accomplished by establishing consistent credit and market risk standards, applying those standards in the assessment of counterparties and positions, adhering to delegated authority limits, and monitoring current and potential exposures after the execution of transactions.

The operational risk function within the risk department has the responsibility to assess, analyse and report key and emerging risks and ensure that risks are appropriately controlled and mitigated.

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 29. RISK MANAGEMENT (continued)

In addition to individual responsibilities for risk management, there is a structure of committees that, under authority delegated by the Board, have formal responsibility for defined aspects of risk management, including the ORCC and the FCALCO. The risk management department prepares a monthly report which forms part of the reporting pack for the ORCC. This pack also includes wider risk information relating to compliance, internal audit, legal and business continuity. A monthly report is prepared for the FCALCO. This report contains management information on market risk exposures, VaR exposure, market risk limit breaches and related matters. Summarised versions of these packs are prepared for the Executive Committee and the Board.

The New Business Committee is responsible for all matters related to new "business". This includes new products, services, geographical locations, distribution channels, plans for material growth in existing activities (either organically or through acquisition) and any material changes to existing business. The committee also considers reputational risk attached to any new business line or product.

#### **Business Activity Risks**

The principal risk exposures arising from the Company's business activities are summarised below.

##### **Matched Principal**

Transactions where the Company acts as principal and client buyer/seller anonymity is preserved. This business involves purchasing securities from one counterparty and selling to another. The Company is the buyer in one leg of the transaction and the seller on the other leg of the transaction.

*Credit risk* - The counterparty may not meet its obligation to settle outstanding principal and brokerage balances. Matched principal transactions typically settle on a delivery versus payment ("DVP") basis.

*Market risk* - Unfavourable price movement on positions held to facilitate customer flows or unmatched positions arising from booking disputes.

*Liquidity risk* - The main liquidity risks this business faces are with respect to intra-day funding and the funding of failed settlements or transactions that happen to settle on different days.

*Operational risk* - The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

##### **Name Give-Up Basis (Agency Business)**

Transactions where the Company acts as an agent and the identity of the client buyer and seller counterparties is disclosed once the trade is completed. This business involves matching buyers and sellers of equity derivatives and some equities. The Company does not own the instruments at any time.

*Credit risk* - Settlement delays, non-receipt of brokerage receivables and disputes arising from the commission charges billed to clients.

*Operational risk* - The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

##### **CFDs**

Institutional and elective professional provider of CFDs on a comprehensive range of equities, indices, currencies, commodities and fixed income instruments.

*Credit risk* - The counterparty may not meet its obligation to settle a margin call which could result in a credit loss to the Company.

*Market risk* - Unfavourable price movement on positions taken against clients.

*Liquidity risk* - Potential for sudden increases in margin requirements by large hedge providers (particularly for segregated client positions).

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**29. RISK MANAGEMENT (continued)**

*Operational risk* - The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events

**Stock Loans and Borrows**

*Credit risk* - Exposure from stock lending and borrowing is the difference between the market value of the stock borrowed or lent and the cash paid or received. Positions are marked-to-market daily, and risk lies in a default from our counterparty following an adverse move in the value of the stock.

*Liquidity risk* - The liquidity risks associated with stock loan activity include widening of haircuts in the stock loan market, sudden decreases in stock loan funding capacity or unexpected increase in positions.

*Operational risk* - The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

**Cash, Cash Equivalents and Client Segregated Funds**

*Credit risk* - Risk that the bank where money is deposited should fail leading to a lack of recoverability of the deposited funds.

**Market-making**

The Company is a market-maker on the London Stock Exchange ("LSE") in over 200 stocks. The Company offers other LSE members the ability to trade on its prices and as a result the Company may end up with positions on its books.

*Credit risk* - counterparty may not meet its obligation to settle outstanding principal and brokerage balances. Transactions typically settle on a DVP basis.

*Market risk* - Unfavourable price movement on positions held as a result of the market-making activity.

*Liquidity risk* - The main liquidity risks this business faces are with respect to intra day funding and the funding of failed settlements or transactions that happen to settle on different days.

*Operational risk* - The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

**Corporate Broking and Advisory**

The Company is a corporate broker and/or financial advisor to 13 clients. In this role the Company provides advice to clients on mergers and acquisitions, issuances and placements.

*Credit risk* - The counterparty may not meet its obligation to pay retainer or other fees.

*Operational risk* - The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

**FSBs**

The Company provides financial spread betting on indices, equities, bonds, currencies and commodities. As set out in note 38, subsequent to year end the company sold the non-equity FSB business and as such currently only consists of equity FSBs.

*Credit risk* - For those counterparties remaining with the Company, the counterparty may not meet its obligation to settle a margin call which could result in a credit loss to the Company.

*Market risk* - Unfavourable price movement on positions taken against clients.

*Liquidity risk* - Potential for sudden increases in margin requirements by large hedge providers (particularly for segregated client positions).

*Operational risk* - The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**30. RISK MANAGEMENT - CREDIT RISK**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in potential financial loss to the Company. It arises principally from trading and treasury activities. The Company has standards, policies and procedures dedicated to controlling and monitoring risk from all such activities. Limits are in place for each counterparty.

The main credit risks taken are on CFDs, FSBs, brokerage receivables, cash on deposit and DVP transactions. DVP transactions are defined as those in which payment and transfer of the subject security occur simultaneously. Settlement normally occurs within a central depository (e.g. DTC, Euroclear) which mitigates the risk.

**Counterparty Credit Risk**

*Matched Principal Trading and market-making*

The credit risk exposure from the matched principal business arises from the risk of a counterparty defaulting and causing the transaction to fail. The exposure is not to the full notional value of the transaction that has failed but is limited to market movement on the value of the security during the period from execution until settlement. At settlement, where a counterparty has defaulted, the Company either holds the security to cover a fail-to-receive cash, or purchases the security in the market to fulfil a fail-to-deliver cash. In some cases clients are required to put up margin as collateral with the Company which mitigates credit risk exposure.

*Name Give-Up Basis*

The credit risk exposure from the name give-up brokerage business arises from the risk of not collecting commissions that have been billed to a counterparty. There are no limits in place with respect to the maximum amount of commission that can be outstanding with a given counterparty, however, outstanding receivables are monitored and followed up on a daily basis by the brokerage receivables department.

The types of counterparties that the business transacts with, predominantly investment grade banks and established investment firms, significantly reduces the risk of default. In the name give-up brokerage business a significant mitigating factor, with respect to credit exposure, is the policy whereby brokers earn brokerage commissions only on amounts that have actually been collected.

*Corporate Finance and Advisory*

The credit risk exposure from the corporate finance and advisory business arises from the risk of not collecting commissions that have been billed to a counterparty. There are no limits in place with respect to the maximum amount of fees that can be outstanding with a given counterparty, however, outstanding receivables are monitored and followed up on a daily basis by the brokerage receivables department.

The types of counterparties that the business transacts with significantly reducing the risk of default. These counterparties are listed companies on either the London Stock Exchange ("LSE") or Alternative Investment Market ("AIM") for which the Company is an advisor or broker to and therefore mitigates the risk.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**30. RISK MANAGEMENT - CREDIT RISK (continued)**

*CFDs and FSBs*

The Company is a provider of CFDs and FSBs to institutions, elective professional clients and retail clients. While the Company is exposed to customer defaults on the CFD business, this exposure is mitigated by requiring margin to be posted by customers. Risk management reviews customer margin call lists daily. A summary of debt outstanding at month end is presented to the Company's FCALCO.

Customers whose equity balance falls below their margin requirement are called for additional funds. Failure to meet a call is a default and, if not remedied, the Company has the right to liquidate the customers' position. An impairment provision has been established for all debt balances aged greater than 90 days.

**Credit Risk Concentrations**

The risk department undertakes credit risk stress testing on a regular basis. The credit risk stress test incorporates the impact of concentration risk and the results are used to determine the Company's own assessments of its capital adequacy under Pillar 2 of the Capital Requirements Directive.

**Credit Risk Acceptance, Monitoring and Controlling**

*Trade Debtors*

The credit risk arising from matched principal, name give-up, corporate finance and advisory, CFD and FSB business is managed separately.

*Matched Principal Trading and Market-making*

The credit department obtains information to assess the credit quality of the prospective counterparty as part of the client approval process. Once the relevant information is collated and reviewed, the risk department will approve a credit risk limit.

The following credit risk maintenance procedures are carried out to monitor and control the credit risk of counterparties:

- a) The latest set of audited financial statements are obtained,
- b) News is reviewed on an on-going basis for any items related to the Group's existing counterparties. Relevant information is reviewed and actioned as appropriate and reported to management, and
- c) The risk department has access to credit rating agencies. Information is vetted for news on counterparties and actioned as appropriate.

The credit department produces a daily credit report, which is sent to senior management. Any counterparty limits that are exceeded are reported to management. Front office personnel may be instructed to suspend all further trading until utilisation of credit lines are within set limits. Fails to deliver/receive securities and pending trades reports are reviewed regularly by senior management.

*Name Give-Up Basis and Corporate Finance and Advisory*

Brokerage and fee receivable balances are monitored and actively chased once past due. The Company's brokers are typically involved in pursuing past due amounts over 90 days as name give-up commission is not paid until amounts due are settled. Corporate Finance and Advisory balances are monitored also on a company by company basis. Aged debtor reports by entity and by broker are reviewed by senior management on a regular basis.



## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 30. RISK MANAGEMENT - CREDIT RISK (continued)

##### *CFDs and FSBs*

The Company is exposed to customer defaults on its CFD and FSB businesses. This loss exposure is mitigated by requiring customers to post margin. The customer is contractually responsible for ensuring that the equity balance in their account, including mark to market profit and loss, is sufficient to cover the required margin at all times. Customers are obliged to be contactable at all times. Failure to meet a call will, if not remedied, result in closure of the customer's position. A daily summary of margin calls is distributed and debts outstanding at month end is presented to the FCALCO. All debt balances aged greater than 90 days are 100% provided for.

##### *Amounts Owed by Group Undertakings*

Amounts advanced to fellow group entities under common ownership and control are on an arms' length basis and are settled frequently.

##### *Stock loans and borrows*

Exposure from stock lending and borrowing is the difference between the market value of the stock borrowed or lent and the cash paid or received. Positions are marked-to-market daily, and risk lies in a default from our counterparty following an adverse move in the value of the stock. All stock loan counterparties are reviewed by the risk management department and exposure is monitored daily.

##### *Cash, Cash Equivalents and Client Segregated Funds*

Corporate treasury, in conjunction with risk management, considers and approves the list of credit-worthy banks. Each bank is assessed and assigned an internal rating dependant on a number of risk drivers. Additional external credit ratings are also monitored and reviewed.

Funds are only placed with an entity rated short-term above a minimum defined external and internal rating. An annual review is held to determine whether the policy remains appropriate or whether changes are required. However monthly assessments are also conducted and changes are made on a more frequent basis if required. Credit risk is diversified by placing funds with a number of banks.

#### **Maximum Credit Risk Exposure**

The table below shows the maximum exposure to credit risk for the components of the balance sheet. The exposure is shown gross, before mitigation through the use of master netting and collateral arrangements (including margin).

	Gross maximum exposure 2012 US\$000	Gross maximum exposure 2011 US\$000
<b>On balance sheet items</b>		
Trade debtors	753,744	566,440
Amounts owed by group undertakings	338	2,706
Other taxes and social security	98	7,133
Other debtors	2,385	3,202
Prepayments and accrued income	177	296
Tax recoverable	1,749	18
Cash and cash equivalents	209,912	188,676
Long positions	97,913	53,253
Unlisted investments	4,809	3,914
	<u>1,071,125</u>	<u>825,638</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**30. RISK MANAGEMENT - CREDIT RISK (continued)**

**Collateral and Other Credit Enhancements**

The Company holds money in non-segregated and segregated client bank accounts which represent collateral held to mitigate credit risk exposure

At 31 December 2012, the long positions of US\$97,913k (2011 US\$53,253k) include securities owned pledged as collateral amounting to US\$23,381k (2011 US\$19,761k)

At 31 December 2012, securities and cash amounting to US\$1,626k (2011 US\$1,804k) was pledged as collateral with clearing houses

**Credit Quality Per Class of Financial Assets: Financial Assets Neither Past Due Nor Impaired**

*Trade Debtors*

The material trade debtors, which mostly relate to principal trading, are amounts owing from highly rated financial institutions with very short-term exposure that further reduces the probability of default. The business normally trades flat (i.e. both sides of the trade settle simultaneously, also defined as DVP) and only takes closely monitored positions

*Amounts Owed by Group Undertakings*

Amounts owed by group undertakings are primarily from trading in the loans business in the name of Cantor Fitzgerald Securities under a revenue sharing arrangement. Amounts owed by group undertakings are settled upon demand.

*Cash and Cash Equivalents*

Cash and cash equivalents consist of cash and money market fund deposits held at credit worthy financial institutions and petty cash.

*Long Positions*

Long positions represent positions held for trading and liquidity purposes, which include corporate bonds, equities, CFD hedges and a US treasury bill. The credit risk on these positions is considered low as the majority is held in listed companies. Given the nature of the US treasury bill, the risk associated is also considered low.

*Unlisted Investments*

The unlisted investment is shares held in LCH Clearnet. It is classified as available for sale and valued on the basis of net assets value from the published, audited financial statements. There is minimal credit risk associated with this investment. The value of this asset is dependent on the financial performance of the LCH Clearnet.

*Other*

This consists of other debtors, prepayments and accrued income and taxes recoverable. Given the short term nature of these balances, the credit risk is considered low. Tax balances are due from government bodies which have minimal risk of non-receipt.

# **CANTOR FITZGERALD EUROPE**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

### **30. RISK MANAGEMENT - CREDIT RISK (continued)**

#### **Ageing Analysis of Past Due but Not Impaired Financial Assets**

The carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated is US\$Nil (2011 US\$Nil) Past due balances are analysed below

	2012 US\$000	2011 US\$000
<b>Matched Principal Ageing Analysis</b>		
Less than 1 month	1,216	27,942
1 month to less than 2 months	346	5
2 months to less than 3 months	93	-
3 months and over	-	-
	<u>1,655</u>	<u>27,947</u>

Failed and pending reports are reviewed daily Senior management reviews past due matched principal business receivables on a regular basis Substantially fail to receive transactions totalling US\$88k and fail to deliver transactions totalling US\$87k at 31 December 2012 had not yet been settled As at 31 December 2011 all fail to receive and deliver transactions had been settled at the contracted amount

	2012 US\$000	2011 US\$000
<b>Name Give-Up Basis Ageing Analysis</b>		
Less than 1 month	485	392
1 month to less than 2 months	323	416
2 months to less than 3 months	278	285
3 months and over	344	640
	<u>1,430</u>	<u>1,733</u>

Past due balances are reviewed daily and actively chased There is no current policy for making a systematic provision for old balances as the historic default rate is extremely low

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 30 RISK MANAGEMENT - CREDIT RISK (continued)

	2012 US\$000	2011 US\$000
<b>CFDs and FSBs Ageing Analysis</b>		
Less than 1 month	-	-
1 month to less than 2 months	-	-
2 months to less than 3 months	-	-
3 months and over	-	-
	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

Aged debtor reports are produced and reviewed daily and the credit department reviews receivables from customers regularly. The table above shows the ageing analysis of past due but not impaired client receivables.

Active management of net margin balances within the CFD and FSB business results in the Company being exposed to very little residual credit risk as the above table demonstrates. Past due balances over 90 days old are considered impaired and on impairment a provision is established for the full amount. Other trade debtor balances, including CFD and FSB trade debtors outstanding less than 90 days, are assessed on a case by case basis and provided for where recoverability is in question.

#### *Other Financial Assets*

No other class of financial assets were past due as at 31 December 2012 or 31 December 2011.

#### **Ageing Analysis of Past Due and Impaired Financial Assets**

	2012 US\$000	2011 US\$000
Less than 1 month	-	-
1 month to less than 2 months	-	-
2 months to less than 3 months	-	-
3 months and over	2,588	2,788
	<u>2,588</u>	<u>2,788</u>
Impairment provision	<u>2,588</u>	<u>2,788</u>

The gross impaired trade debtors arise from CFDs and FSBs and represent amounts due from customers which are unlikely to be settled. No collateral is held to mitigate the credit risk exposure arising from the impaired financial assets.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**31. RISK MANAGEMENT - MARKET RISK**

The Company classifies exposures to market risk into either trading or non-trading portfolios. The non-trading book includes all types of financial instruments entered into for funding purposes whereas the remaining financial instruments fall into the trading book category.

The market risk of the trading portfolio is managed by monitoring open position limits. Non-traded interest rate risk is immaterial and generated naturally through the raising of senior debt and subordinated loans, and by the listed investment in a US Treasury Bill which is held for liquidity purposes. The foreign exchange exposure arising from revenues and expenses denominated in foreign currencies is managed and reported separately from any trading and customer activity in the non-trading book.

**Trading**

*Position Monitoring*

At the end of each day, risk management reviews positions and performs an independent mark to market. Positions are reported to senior management. At 31 December 2012, the gross exposure to market risk arising from such positions amounted to US\$22,538k (2011: US\$2,931k).

*Value at risk ("VaR")*

One of the principal tools used by the Company to monitor and limit market risk exposure is VaR. VaR is a tool that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence.

The VaR model used by the Company is predominantly based on factor returns. The factor returns are estimated by regression analysis every week. Factor returns are then used to generate a covariance matrix of factor returns. Returns are weighted by an exponential decay factor so that more distant factor returns are assigned smaller weights relative to the more recent ones.

The parametric simulation model used by the Company incorporates the following features:

- Five factors are used: Style, Industry, Country, Currency and Market factors,
- VaR is calculated to a 99% confidence level, and
- VaR is calculated for a one day holding period.

Although a valuable guide, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those that are extreme in nature,
- the use of a 1 day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a 1 day holding period may be insufficient to liquidate or hedge all positions fully,
- the use of a 99% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence, and
- VaR is calculated on the basis of exposures outstanding at the close of business and does not necessarily reflect intra-day exposures.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**
**31. RISK MANAGEMENT - MARKET RISK (continued)**

The VaR for the trading portfolio was as follows

	2012 US\$000	2011 US\$000
<b>Value at Risk</b>		
<i>For the year ended 31 December</i>		
Average	337	285
Minimum	146	84
Maximum	1,069	798
Standard deviation	106	164
<i>At 31 December</i>	282	84

**32. RISK MANAGEMENT - INTEREST RATE RISK**

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Interest rate risk arises from cash at bank, listed investments in US treasury bills, subordinated loans payable, and from other financial assets and liabilities as per below. The interest rate risk profile of the Company's financial assets and liabilities as at the balance sheet date was as follows

	Less than 1 year US\$000	More than 1 year US\$000	Non-interest bearing US\$000	2012 US\$000
<b>2012</b>				
Cash and cash equivalents	209,912	-	-	209,912
US treasury bills	40,977	-	-	40,977
Gilts	1,186	-	-	1,186
Bank overdrafts	(6,443)	-	-	(6,443)
Senior debt loan	(44,500)	-	-	(44,500)
Subordinated loan	-	(63,000)	-	(63,000)
Other financial assets and liabilities	-	-	(104,674)	(104,674)
	<u>201,132</u>	<u>(63,000)</u>	<u>(104,674)</u>	<u>33,458</u>
<b>2011</b>				
Cash and cash equivalents	188,676	-	-	188,676
US treasury bills	15,997	-	-	15,997
Bank overdrafts	(9,938)	-	-	(9,938)
Senior debt loan	(60,000)	-	-	(60,000)
Subordinated loan	-	(55,000)	-	(55,000)
Other financial assets and liabilities	-	-	(49,266)	(49,266)
	<u>134,735</u>	<u>(55,000)</u>	<u>(49,266)</u>	<u>30,469</u>

Other financial assets and liabilities include trade debtors and creditors, other debtors and creditors, accruals and deferred income, and amounts owed to/from group undertakings, details of which can be found in note 11 and 14

The Company estimates that a 1% hypothetical adverse movement in interest rates would have resulted in an increase (2011 increase) in loss before tax for the year and decrease (2011 decrease) in equity of US\$437k (2011 US\$316k)

**NOTES TO THE FINANCIAL STATEMENTS  
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**33. RISK MANAGEMENT - LIQUIDITY RISK**

Liquidity risk is the risk that the Company does not have sufficient financial resources to meet its obligations when they fall due. A lack of liquidity could stop or materially hinder the operations of the business or create an adverse reputational impact.

The Company's liquidity risk is managed through two complimentary models, the Maximum Cumulative Outflows ("MCO") versus Liquidity Reserves ("LR") (collectively known as "MCO LR") and the Net Cash Capital ("NCC"). The MCO seeks to ensure that the Company has adequate access to liquidity to meet both business as usual requirements and potential stress events that may reasonably be expected to occur. It quantifies the cumulative worst case potential liquidity outflows ("MCO") that could occur during prolonged periods of stress. As such the model calculates the liquidity reserves ("LR") that would be needed to meet these potential outflows. The Company seeks to maintain available liquidity that is greater than the total potential cash outflows that could occur during a period of stress (that is the LR > MCO). The Company holds liquidity reserves invested in a diverse range of liquid assets in multiple currencies which include US treasury bills, money market mutual funds, and ring fenced bank deposits.

The NCC model seeks to ensure that the Company has sufficient long dated funding, known as cash capital, to fund illiquid assets, the haircut portion of financeable assets and all potential stressed liquidity outflows. The Company's sources of long dated liabilities includes term senior loan funding, subordinated debt with a maturity greater than 1 year and shareholders' funds. Additionally non segregated cash qualifying as good cash capital used to finance margin requirements against the clients own position is included in the NCC model as a cash capital source.

The two models work in complimentary fashion to allow the Company to survive a prolonged stress period. The MCO LR ensures adequate access to available liquidity, while the NCC ensures adequate long dated sources of funding in the context of its asset base and potential stress outflows.

**Liquidity Risk Maturity Table**

The following table details the Company's contractual maturity for its financial liabilities. The table has been prepared on the basis of undiscounted cash flows of financial liabilities based on the earliest date on which the Company can be required to pay. The table includes both interest and principal cash flows.

	Less than 1 year US\$000	Between 1 and 5 years US\$000	5 years or more US\$000	Total US\$000
<b>2012</b>				
Bank loans and overdrafts	6,443	-	-	6,443
Trade creditors	832,919	-	-	832,919
Amounts owed to group undertakings	26,102	-	-	26,102
Other amounts owed to group undertakings	44,500	-	-	44,500
Social security and other taxes	1,867	-	-	1,867
Short positions	27,600	-	-	27,600
Other creditors	284	-	-	284
Accruals and deferred income	18,422	-	-	18,422
Subordinated loan	-	7,000	56,000	63,000
Asset Retirement Obligation	308	-	-	308
Vacant Property Provision	68	-	-	68
Litigation Provision	449	-	-	449
	<u>958,962</u>	<u>7,000</u>	<u>56,000</u>	<u>1,021,962</u>

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 33. RISK MANAGEMENT - LIQUIDITY RISK (continued)

	Less than 1 year US\$000	Between 1 and 5 years US\$000	5 years or more US\$000	Total US\$000
<b>2011</b>				
Bank loans and overdrafts	9,938	-	-	9,938
Trade creditors	612,528	-	-	612,528
Amounts owed to group undertakings	6,085	-	-	6,085
Other amounts owed to group undertakings	60,000	-	-	60,000
Social security and other taxes	2,091	-	-	2,091
Short positions	1,436	-	-	1,436
Other creditors	1,563	-	-	1,563
Accruals and deferred income	10,232	-	-	10,232
Subordinated loan	-	7,000	48,000	55,000
Litigation provision	551	-	-	551
	<u>704,424</u>	<u>7,000</u>	<u>48,000</u>	<u>759,424</u>

The only material financial liability with a remaining contractual maturity longer than one year relates to subordinated debts to a fellow group entity, CFLP Treasury manages this longer term liquidity risk by ensuring that sufficient funds are in place to settle the obligation arising at the contractual maturity. Derivative financial instruments are settled within one year of the balance sheet date on a gross basis and are included in trade debtors and trade creditors.

Prior year comparative figures have been reclassified in line with current year classifications.

#### 34. RISK MANAGEMENT - FOREIGN EXCHANGE

The Company is exposed to risks associated with changes in foreign exchange rates. The Company's operations generate a portion of its revenues and expenses in British Pounds Sterling and Euros. Changes in the translation of the Company's net assets are recorded as part of its results of operations and fluctuate with changes in exchange rates.

Taking the Sterling denominated balance sheet as at 31 December 2012, if Sterling was to weaken 10% against the US Dollar with all other variables held constant, loss before tax for the year and equity would be unfavourably affected by US\$2,323k (2011 US\$1,515k).

Taking the Euro denominated balance sheet as at 31 December 2012, if the Euro was to weaken 10% against the US Dollar with all other variables held constant, loss before tax for the year and equity would be favourably affected by US\$1,147k (2011 favourably affected by US\$3,600k).



**NOTES TO THE FINANCIAL STATEMENTS  
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**35. RISK MANAGEMENT - OPERATIONAL RISK**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. When controls fail to perform, operational risks can cause damage to reputation, have regulatory and legal implications or lead to financial loss. The Company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the Company is able to mitigate the risks. Controls include segregation of duties, access controls, authorisation controls, reconciliation procedures and various assessment processes, including the use of internal audit. The ORCC monitors the operational risks inherent within the business.

*New Products/Business Approval Process*

This process is under the responsibility of the New Business Committee. The committee is responsible for all matters related to new "business". This includes new products, services, geographical locations, distribution channels, plans for material growth in existing activities (either organically or through acquisition) and any material changes to existing business. The committee shall also consider reputational risk attached to any new business line or product.

In the event that a new product or business is identified and raised with the committee, a working group will be formed to manage the request. This group comprises members from the various control and executive functions.

**36. RISK MANAGEMENT - CAPITAL**

The Company maintains an actively managed capital base to cover risks inherent in the business and is required to maintain a minimum capital base to comply with FSA requirements.

**Objectives, Policies and Processes for Managing Capital**

The primary objectives of the Company's capital risk management policy are to ensure that the Company will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of its debt and equity balances, and also to ensure that the Company complies with externally imposed capital requirements. The capital structure consists of called up share capital, surplus on revaluation of other fixed assets and retained earnings of the Company, and debt, including the borrowings disclosed in note 15.

The Company manages its capital structure and makes adjustments to it in light of economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders or issue share capital and/or subordinated debt.

CFLP, the ultimate parent entity registered in the United States of America, could make capital available to the Company in the event of a liquidity crisis or sudden large losses, although it does not provide guarantees that capital will be provided in such a scenario.

Formal capital applications are made to CFLP for all new capital. These applications include:

- Rationale for the proposal, and
- Business plan

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 36. RISK MANAGEMENT - CAPITAL (continued)

	2012 US\$000	2011 US\$000
Share capital, available for sale investment reserve and profit and loss account	49,367	66,214
Subordinated debt	63,000	55,000
Total	<u>112,367</u>	<u>121,214</u>

#### 37. FAIR VALUE

The fair values of financial assets and financial liabilities are determined as follows

The fair value of non-derivative financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes from similar instruments

The carrying amounts and corresponding fair values of financial assets and financial liabilities in the financial statements are designated into the categories below. The carrying amount and fair values are not considered to be materially different.

The derivatives receivable amounts shown at fair value through profit and loss are shown gross of margin. In the financial statements, the net derivative and margin positions are reported in trade creditors as there is sufficient collateral held to cover the derivatives receivable in full.

**CANTOR FITZGERALD EUROPE**

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**37. FAIR VALUE (continued)**

	Carrying amount 2012 US\$000	Carrying amount 2011 US\$000	Fair value 2012 US\$000	Fair value 2011 US\$000
<b>Financial assets</b>				
<b>Loans and receivables</b>				
Trade debtors	755,498	566,436	755,498	566,436
Amounts owed by group undertakings	338	2,706	338	2,706
Other taxes and social security	98	7,133	98	7,133
Other debtors	2,385	3,205	2,385	3,205
Prepayments and accrued income	177	296	177	296
Tax recoverable	1,749	18	1,749	18
	<u>760,245</u>	<u>579,794</u>	<u>760,245</u>	<u>579,794</u>
<b>Available for sale</b>				
Non-listed investment other than loans	4,809	3,893	4,809	3,893
	<u>4,809</u>	<u>3,893</u>	<u>4,809</u>	<u>3,893</u>
<b>Financial assets designated at fair value through profit or loss</b>				
Long positions	97,913	53,253	97,913	53,253
Trade debtors - derivatives receivable	5,930	19,245	5,930	19,245
Trade debtors - derivatives payable	(7,684)	(6,545)	(7,684)	(6,545)
	<u>96,159</u>	<u>65,953</u>	<u>96,159</u>	<u>65,953</u>
<b>Financial liabilities</b>				
<b>Measured at amortised cost</b>				
Bank loans and overdrafts	6,443	9,938	6,443	9,938
Trade creditors	841,506	612,528	841,506	612,528
Amounts owed to group undertakings	70,602	66,085	70,602	66,085
Social security and other taxes	1,867	2,094	1,867	2,094
Other creditors	284	1,560	284	1,560
Accruals and deferred income	18,422	10,232	18,422	10,232
Deferred tax	-	-	-	-
Litigation provision	449	551	449	551
Subordinated debt	63,000	55,000	63,000	55,000
Asset Retirement Obligation	308	-	308	-
Vacant Property Provision	68	-	68	-
	<u>1,002,949</u>	<u>757,988</u>	<u>1,002,949</u>	<u>757,988</u>
<b>Financial liabilities designated at fair value through profit or loss</b>				
Short positions	27,600	1,436	27,600	1,436
Trade creditors - derivatives receivable	(24,587)	(18,830)	(24,587)	(18,830)
Trade creditors - derivatives payable	16,000	9,389	16,000	9,389
	<u>19,013</u>	<u>(8,005)</u>	<u>19,013</u>	<u>(8,005)</u>

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**

**37 FAIR VALUE (continued)**

**Assumptions Used in Determining Fair Value of Financial Assets and Financial Liabilities**

*Trade Debtors and Trade Creditors*

Trade debtors measured at fair value includes derivative financial instruments

Trade creditors measured at fair value and designated as held for trading include derivatives

These derivatives are designated as held for trading and are measured at bid-market prices if deemed a financial asset or offer-market prices if a financial liability. Where the assets and liabilities offset market risks, mid-market prices are used to establish fair values for the off-setting risk position.

*Amounts Owed By / To Group Undertakings*

Amounts receivable and payable from / to group undertakings include subordinated and senior loans as well as balances which are settled upon demand and are measured at amortised cost. The fair value of these balances approximates the carrying value as these amounts may be called upon shortly after the balance sheet date.

*Available for Sale Investment*

Non-listed investments classified as available for sale are valued on the basis of net assets value, which is also considered to be fair value.

*Long positions*

Long positions represent positions held for trading and liquidity purposes, which include corporate bonds, equities, CFD hedges and a US treasury bill. Long positions are measured at fair value through the Profit and loss account. For the treasury bill, fair value approximates the carrying value as it is a zero coupon bond traded at a discount of 0.0567%.

*Subordinated Loans Payable*

Fair value approximates the carrying value as the interest rate payable tracks LIBOR.

*Other*

Other includes taxes and social security, other debtors/creditors, prepayments and accrued income, tax recoverable, bank loans and overdrafts, accruals and deferred income, deferred tax and provision for litigation. Given the short term nature of these balances, the carrying value is not considered to be materially different from the fair value.

Prior year comparative figures have been reclassified in line with current year classifications.

**Fair Value of Financial Instruments**

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 quoted (unadjusted) prices in active markets for identical assets and liabilities,

Level 2 other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and

Level 3 techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable marketable data.

**NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2012**
**37. FAIR VALUE (continued)**

The following table shows an analysis of the financial instruments recorded at fair value shown in accordance with the hierarchy above

	Level 1 US\$000	Level 2 US\$000	Level 3 US\$000	Total US\$000
<b>31 December 2012</b>				
<b>Financial assets</b>				
<i>Derivative financial instruments</i>				
Forward foreign exchange contracts	-	2,893	-	2,893
CFD	-	30,340	-	30,340
Futures	177	-	-	177
<i>Other financial assets held-for-trading</i>				
Long positions	96,796	-	1,117	97,913
<i>Available for sale</i>				
Unlisted investments	-	4,809	-	4,809
	<u>96,973</u>	<u>38,042</u>	<u>1,117</u>	<u>136,132</u>
<b>Financial liabilities</b>				
<i>Derivative financial instruments</i>				
Forward foreign exchange contracts	-	2,972	-	2,972
CFD	23,476	49	-	23,525
Futures	79	-	-	79
<i>Other financial assets held-for-trading</i>				
Short positions	27,600	-	-	27,600
	<u>51,155</u>	<u>3,021</u>	<u>-</u>	<u>54,176</u>
<b>31 December 2011</b>				
<b>Financial assets</b>				
<i>Derivative financial instruments</i>				
Forward foreign exchange contracts	-	670	-	670
CFD	-	37,405	-	37,405
<i>Other financial assets held-for-trading</i>				
Long positions	20,629	31,506	1,117	53,253
<i>Available for sale</i>				
Unlisted investments	-	3,893	-	3,893
	<u>20,629</u>	<u>73,474</u>	<u>1,117</u>	<u>95,221</u>
<b>Financial liabilities</b>				
<i>Derivative financial instruments</i>				
Forward foreign exchange contracts	-	820	-	820
CFD	-	15,114	-	15,114
<i>Other financial assets held-for-trading</i>				
Short positions	1,436	-	-	1,436
	<u>1,436</u>	<u>15,934</u>	<u>-</u>	<u>17,370</u>

## CANTOR FITZGERALD EUROPE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

#### 37. FAIR VALUE (continued)

There were no gains or losses on level 3 financial instruments included within turnover in the Profit or loss for the period. Prior year comparatives have been restated by US\$1,117 to account for the reclassification of certain investments from Level 2 to Level 3.

#### Impact on Fair Value Level 3 Financial Instruments Measured at Fair Value of Changes in Key Assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions.

	Carrying amount	Effect of reasonably possible alternative assumptions
	US\$000	US\$000
<b>At 31 December 2011</b>		
<b>Financial Asset</b>		
Financial investments available-for-sale	1,117	-

The fair value of Level 3 financial investments available-for-sale is the same as the historic cost of those investments.

#### Financial Instruments Recorded at Fair Value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Company's estimate of assumptions that a market participant would make when valuing the instruments.

#### Derivatives

Derivative products valued using a valuation technique with market observable inputs, are mainly forward foreign exchange contracts, currency swaps and CFDs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

Fair value is determined by reference to third party market values where available. Where the Company has assets and liabilities with offsetting market risks, mid-market prices have been used as a basis for establishing fair values for the offsetting risk positions, with bid or ask prices applied to the net open position as appropriate.

#### Financial Investments - Available for Sale

Available for sale financial assets valued using a valuation technique or pricing models primarily consist of unquoted equity investments.

These assets are valued using models which sometimes only incorporate data observable in the market and at other times use both observable and non-observable data. The non-observable inputs used to value these models include the use of the net asset value of the underlying investment.

## **CANTOR FITZGERALD EUROPE**

### **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012**

#### **38. POST BALANCE SHEET EVENTS**

On 8 February 2013, the Company acquired certain assets and liabilities relating to the corporate finance, advisory, sales and market making business of Tenebris Realisations Ltd (in administration), formally known as Seymour Pierce Ltd. Total consideration paid upon completion was US\$1,686k. The net assets acquired had a fair value of US\$1,767k. The acquired business will be reported as an acquisition in the profit and loss account for the year ended 31 December 2013.

On 20 March 2013, the Company sold certain assets associated with the non-equity FSB business to Spreadex Limited. The consideration received upon completion was US\$906k. The disposed business will be reported as a discontinued business in the profit and loss account for the year ended 31 December 2013.

#### **39. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY**

The registered office of the Company is 17 Crosswall, London EC3N 2LB. The Company is incorporated and registered in England and Wales. The immediate parent is Cantor Fitzgerald & Co Holdings L.P., and the smallest group into which the results are consolidated into is Cantor Fitzgerald Securities, both registered in the United States of America. The ultimate parent, controlling entity and largest group that the results of Cantor Fitzgerald Europe are consolidated into is Cantor Fitzgerald, L.P., a limited partnership also registered in the United States of America. Financial statements are not publicly available for either Cantor Fitzgerald & Co Holdings L.P. or Cantor Fitzgerald, L.P.