Registered number: 02505767

CANTOR FITZGERALD EUROPE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

CANTOR FITZGERALD EUROPE

COMPANY INFORMATION

DIRECTORS	Mr R. Haley Mr S. P. Matthews (resigned 23 April 2018) Ms D. E. Moore (non-executive) (appointed 20 September 2017) Mr A. J. Simpson (non-executive) (appointed 20 September 2017) Mr R. M. Snelling Mr S. Sofocleous
COMPANY SECRETARY	Mr R. M. Snelling
REGISTERED NUMBER	02505767
REGISTERED OFFICE	1 Churchill Place Canary Wharf London E14 5RB
INDEPENDENT AUDITOR	Ernst & Young LLP 25 Churchill Place Canary Wharf London E14 5EY

CANTOR FITZGERALD EUROPE

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STRATEGIC REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

INTRODUCTION

Cantor Fitzgerald Europe ("the Company") is an unlimited company with share capital, which acts as an investment bank in securities and derivatives operating from the United Kingdom and Israel.

The Company is part of the Cantor Fitzgerald, L.P. group which is comprised of Cantor Fitzgerald, L.P. ("CFLP") and its subsidiaries (the "Cantor Group"). The immediate parent of the Company is CFS LLP.

The Company is regulated by the Financial Conduct Authority ("FCA") and is authorised to conduct investment business in the UK under the Financial Services and Markets Act 2000 ("FSMA"). Furthermore, under the provisions of the Markets in Financial Instruments Directive II ("MiFID II"), it is authorised to conduct cross border investment business into European Economic Area ("EEA") member states. The Company also has a branch office in Israel.

As at 31 December 2017, the Company was an equity exchange member of the London Stock Exchange, NYSE Euronext in Amsterdam, Brussels and Paris and Deutsche Borse Xetra. The Company was a derivatives exchange member of the London Stock Exchange, NYSE Euronext in Amsterdam, Brussels and Paris, Eurex Exchange, ICE Futures Europe and Nasdaq OMX.

The Company is a Nominated Adviser ('NOMAD") for the Alternative Investment Market ("AIM"), as approved by the London Stock Exchange ("LSE"), and serves as a broker to firms listed on both AIM and the LSE.

The Company operated three main business lines: institutional sales and trading; corporate advisory and research.

Institutional Sales and Trading
The Sales and Trading division provides services within the cash equity, debt and Exchange Traded Fund ("ETF") markets, Institutional Contract for Differences ("CFDs"), stock borrow / loan and market making services to clients on a principal basis. The Company makes markets in over 850 FTSE and AIM listed stocks and provides liquidity in more than 250 investment trusts.

The Company also provides services to clients in cash and derivative equity, debt and foreign exchange ("FX") markets on an agency basis.

Corporate Advisory and Research Services
The Company provides advisory and research services to clients through a team of highly experienced professionals, covering primary issuance, mergers and acquisitions, capital reorganisations, debt issuance, research and strategy. The Company is a corporate broker and / or NOMAD to over 80 clients and also provides sector, and pan European equity, research on over 190 stocks as at 31 December 2017.

BUSINESS REVIEW

In 2017 the Company continued to focus on the consolidation of its activities and the organic growth of existing business lines.

Despite a hesitant start to the year, capital markets produced strong gains in 2017 with many indexes reaching new all-time highs. The global economic recovery continued apace, with markets in China heading higher on strong domestic consumption and western economies experiencing low unemployment and upturns in activity for manufacturing and services. The pick-up in global growth boosted corporate earnings and commodity prices, while benign inflation ensured that monetary policy remained accommodative.

The favourable market conditions ensured the franchise delivered a solid performance for the year; trading activities benefited from the stock market surge although were somewhat offset by historically low volatility levels. The corporate finance division saw a significant increase in activity in the second half of the year and delivered a strong result. Gross profit increased from US$30,232k in 2016 to US$32,931k for 2017, an increase of 8.9%.

In 2017, the Company made considerable investment in compliance with the MIFID II and successfully implemented the new regulations in January 2018. Despite this additional one off cost, the profitability of the business continued to benefit from a close monitoring of the cost base and a tight control on spending. The Company increased profits before tax to US$6,691k for 2017 versus US$5,342k for 2016, an increase of 25.3%.

Focus was maintained on adding shareholder value and removing non-performing business lines. Headcount was reduced by 13 during the year to 118 at the year-end 2017.

Closure of Paris Branch
The Company's Paris branch is no longer trading and the Company is in the process of taking the necessary steps to close the branch. As at the date of signing the financial statements, the branch has no staff or premises.

Dissolution of the Company's Subsidiary
On 5 March 2017 the Company's subsidiary entity, Cantor Fitzgerald (India) Holdings Pvt Limited, a company incorporated in Mauritius, was dissolved.

Subordinated debt
During the year, the Company extended the repayment date of all tranches of its subordinated debt with CFLP, totalling US$64,100k (2016: US$64,100k), from 30 September 2021 to 31 December 2021.

Recognition of a deferred tax asset
Following a review of the Company's performance, the directors are of the opinion that deferred tax will be recovered against the reversal of deferred tax liabilities or other future taxable profits, and have therefore recognised a deferred tax asset to the extent seen as probable.

FUTURE DEVELOPMENTS

The Company intends to continue to grow its business by both acquisition and expansion of existing business lines. Concurrently the Company is continuing to review its mix of businesses in order to ensure resources are deployed to maximise future profitability and the range of products it offers.

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;
• the challenge of attracting and retaining highly skilled revenue producers and appropriately qualified staff in all other areas; and
• the impact created to the industry by MIFID II and Brexit.

Credit, market, interest rate, liquidity, foreign exchange, operational and capital risk
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, as detailed in the risk management notes (see notes 24 to 31).

FINANCIAL 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 a number of roles, including:
• 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 strategy.

Gross profit from continuing operations
Aim: For the continuous improvement of the business's operational activities.

Analysis: During 2017, the Company's continuing gross profit increased 8.9% when compared with 2016 (2017 gross profit: US$32,931k; 2016 gross profit: US$30,232k).

Profit before tax
Aim: To focus on maintaining profitability, through cost reduction and increasing revenues.

Analysis: The Company achieved a profit before tax of US$6,691k in 2017, compared with a profit before tax of US$5,342k in 2016. This was achieved through cost reduction initiatives.

External regulatory capital requirements
Aim: To maintain a regulatory capital surplus and exceed the minimum capital ratio requirements.

The Company was in compliance with external capital requirements at 31 December 2017 and 31 December 2016. The Company maintained a strong capital surplus of US$19,987k (2016: US$21,592k) at the year end, which includes ICG, Capital planning buffer and the 2017 audited profit. Capital ratios were in excess of the minimum Pillar 1 requirements: CET1 capital ratio (must be > 4.5%) 16.4% (2016 must be > 4.5%: 13.5%), Tier 1 capital ratio (must be >6.0%) 16.4% (2016 must be >6%: 13.5%) and total capital ratio (must be > 8.0%) 36.4% (2016 must be > 8.0%: 36.2%).

Receivables overdue more than 90 days
Aim: Minimise the Company's exposure to credit risk.

Analysis: The Company experienced an increase in receivables overdue by more than 90 days of US$412k and as at 31 December 2017 totalled US$1,460k (2016: US$1,048k). These outstanding receivables were reviewed for their collectability which indicated no issues.

Maximum cumulative outflow less available liquidity reserves
Aim: The Company should have an appropriate amount of liquidity reserves, to meet its obligations in normal and stressed conditions, as and when they fall due, within its appetite and tolerance for liquidity risk.

Analysis: The Company maintained a liquidity position in excess of the regulatory thresholds and within its liquidity risk appetite by having sufficient cash and liquid assets to meet both business as usual and stressed market conditions.

FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

These are described in notes 24 to 31 in the financial statements.

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

Mr R. Haley
Director

Date: 25 April 2018

DIRECTORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and the financial statements for the year ended 31 December 2017.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to US$6,157k (2016:US$4,205k).

The directors do not recommend a dividend for the year (2016: US$Nil).

The directors who served during the year were:

Mr R. Haley
Mr S. P. Matthews (resigned 23 April 2018)
Ms D. E. Moore (non-executive) (appointed 20 September 2017)
Mr A. J. Simpson (non-executive) (appointed 20 September 2017)
Mr R. M. Snelling
Mr S. Sofocleous

On 20 September 2017, as part of a governance restructuring, the Risk Oversight Commitee ("ROC") and Audit Committee's ("AC") reporting lines were changed from the Cantor Fitzgerald Services LLP's ("CFS LLP") board to the the Company's board of directors. The non-executive directors who chair the ROC and AC were appointed to the Company's board.

POLITICAL CONTRIBUTIONS AND CHARITABLE DONATIONS

During the year, the Company made charitable donations of US$115k (2016: US$113k).

The Company did not make any political contributions during the current or prior year.

QUALIFYING THIRD PARTY INDEMNITY PROVISIONS

The Company has granted an indemnity to its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provision remains in force at the date of approving the Directors' Report.

DISCLOSURE 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 the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information 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.

POST BALANCE SHEET EVENTS

On 1 April 2018, CFE issued 44,986,521 ordinary shares of £1 each to its parent entity CFS LLP for a consideration of US$63,107k and 707,805 ordinary shares of £1 each to its parent entity CF&Co, LLC for a consideration of US$993k. On the same day, and using the US$64,100k of total proceeds raised in the equity issue, it repaid all tranches of the subordinated loans (see note 18) to CFLP.

DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017

MATTERS COVERED IN THE STRATEGIC REPORT

An indication of the likely future developments of the Company, along with information pertaining to the branches of the Company outside of the United Kingdom, have both been discussed in the Company Strategic Report.

GOING CONCERN

The Company's business activities, together with factors likely to affect its future development and position, are set out in the Strategic Report on pages 1 - 4. In addition, notes 24 - 31 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.

The directors of the Company, having assessed the foreseeable financial position of the Company based upon the Company's future business, capital and liquidity plans, 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.

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

Mr R. Haley
Director

Date: 25 April 2018

DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2017

The directors are responsible for preparing the Strategic Report, 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 applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including Financial Reporting Standard 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'. 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 for the Company's financial statements and then apply them consistently;
- make judgments and accounting 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 to 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.

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

Opinion
We have audited the financial statements of Cantor Fitzgerald Europe for the year ended 31 December 2017 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, the Statement of Cash Flows, and the related notes 1 to 33, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:
• give a true and fair view of the company's affairs as at 31 December 2017 and of its profit 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.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report
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.

Conclusions relating to going concern
We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:
• the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
• the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information
The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:
• the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
• the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception
In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which 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.

Responsibilities of directors
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, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Ernst & Young LLP

Simon Michaelson (Senior statutory auditor)

for and on behalf of
Ernst & Young LLP, Statutory Auditor

25 Churchill Place
Canary Wharf
London
E14 5EY

25 April 2018

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 US$000	2016 US$000
Turnover	2	80,987	85,174
Cost of sales		(48,056)	(54,942)
Gross profit		32,931	30,232
Administrative expenses		(20,698)	(19,324)
Operating profit	5	12,233	10,908
Interest receivable and similar income	9	783	486
Interest payable and similar charges	10	(6,325)	(6,052)
Profit on ordinary activities before taxation		6,691	5,342
Taxation on profit on ordinary activities	11	(534)	(1,137)
Total comprehensive income for the year		6,157	4,205

There were no recognised gains and losses for 2017 or 2016 other than those included in the statement of comprehensive income.

CANTOR FITZGERALD EUROPE
REGISTERED NUMBER: 02505767

BALANCE SHEET
AS AT 31 DECEMBER 2017

	Note		2017 US$000		2016 US$000
Current assets					
Debtors	14	361,386		469,294	
Current asset investments	15	656,706		107,248	
Cash at bank and in hand	16	131,275		75,057	
		1,149,367		651,599	
Creditors: Amounts falling due within one year	17	(1,041,467)		(549,686)	
Net current assets			107,900		101,913
Total assets less current liabilities			107,900		101,913
Creditors: Amounts falling due after more than one year	18		(64,100)		(64,100)
Provisions for liabilities	19		(506)		(676)
Net assets			43,294		37,137
Capital and reserves					
Called up share capital	21		90,426		90,426
Profit and loss account			(47,132)		(53,289)
Shareholders' funds			43,294		37,137

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

Mr R. Haley
Director

Date: 25 April 2018

The notes on pages 14 to 49 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017

	Called up share capital	Profit and loss account	Total equity
	US$000	US$000	US$000
At 1 January 2017	90,426	(53,289)	37,137
Profit for the year	-	6,157	6,157
At 31 December 2017	90,426	(47,132)	43,294

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2016

	Called up share capital	Profit and loss account	Total equity
	US$000	US$000	US$000
At 1 January 2016	90,426	(57,494)	32,932
Profit for the year	-	4,205	4,205
At 31 December 2016	90,426	(53,289)	37,137

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 US$000	2016 US$000
Cash flows from operating activities		
Profit for the financial year	6,157	4,205
	6,157	4,205
Adjustments for:		
Interest received	(783)	(486)
Decrease / (increase) in debtors	(437,949)	584,654
Decrease / (increase) in amounts owed by group undertakings	(2,612)	156
Increase / (decrease) in creditors	497,960	(592,019)
Increase / (decrease) in amounts owed to group undertakings	(3,793)	4,144
Increase / (decrease) in provisions	(170)	(169)
Corporation taxation paid	(1,723)	(749)
Deferred taxation	(1,082)	-
Net cash generated from operating activities	56,005	(264)
Cash flows from investing activities		
Interest received	783	486
Net cash from investing activities	783	486
Increase / (decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of year	55,259	57,034
Effect of exchange rates on cash at bank and in hand	(6,285)	(1,997)
Cash and cash equivalents at the end of the year	105,762	55,259
Cash at bank and in hand	131,275	75,057
Bank overdrafts	(25,513)	(19,798)
	105,762	55,259

1. ACCOUNTING POLICIES

The financial statements have been prepared in compliance with Financial Reporting Standard 102 – 'The Financial Reporting Standard applicable in the United Kingdom and Republic of Ireland' ('FRS102') and with the Companies Act 2006.

The principal accounting policies are described below:

1.1 Basis of preparation of financial statements

The financial statements are prepared on a going concern basis under the historical cost convention, as modified by the inclusion of financial instruments which are held at fair value. The financial statements are presented in US dollars.

The Company has not reported consolidated financial statements. Under section 402 of the Companies Act 2006, the Company is not required to prepare group accounts, as the Directors deem the Company's subsidiary (disolved on 5 March 2017) to be immaterial for consolidation purposes. These financial statements therefore present information about the Company as an individual undertaking and not about its group.

1.2 Foreign currencies

The Company's functional currency is US dollars as this is the currency of the primary economic environment in which the entity operates. Transactions in foreign currencies are initially recorded at the month end exchange rate for the month that the transactions occurred. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are recognised in the profit and loss account.

The balance sheet conversion rate used to convert GBP to USD at 31 December 2017 was 1.3528 (2016: 1.2357).

1.3 Segmental reporting

The Company has not presented segmental information per business line, as in the opinion of the directors, it would be seriously prejudicial to the interests of the Company to do so. The Company has however disclosed its geographical segmental information.

1. ACCOUNTING POLICIES (CONTINUED)

1.4 *Revenue (turnover) 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 and fees related to commissions earned on agency business are reported net of commissions expensed. For the principal 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.

Fee income includes revenue from placements, initial public offerings, mergers and acquisition transactions and is recognised when the outcome of a transaction can be measured reliably

1.5 Cost of sales

Cost of sales includes all expenses which are directly attributable to the activity of generating revenue such as the cost of the Company's employees and commissions, sales and promotion, communications and other trade related charges.

1.6 Operating leases

Rental expenses and lease incentives are recognised in the profit and loss account on a straight line basis over the lease term.

1.7 Retirement benefit costs

The Company operates a defined contribution scheme for certain UK employees as determined by their contracts of employment. Contributions are charged to the profit and loss account as they are incurred. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

1.8 Interest income and expense

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or liability.

1. ACCOUNTING POLICIES (CONTINUED)

1.9 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.

1.10 Deferred tax

Deferred tax is recognised in respect of all timing differences which are differences between the Company's taxable profits and total comprehensive income that arise from the inclusion of income and expenses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

1.11 Cash at bank and in hand

Cash comprises cash at bank, in hand, and client monies held by the Company. Any overdrawn accounts are classified as creditors falling due within one year.

Client monies held on behalf of clients by the Company are included within cash on the balance sheet and the corresponding liability to clients is included in trade creditors. The return received on holding client money is included within interest receivable.

1.12 Financial instruments

The Company applies the recognition and measurement provisions of IAS 39 – 'Financial Instruments: Recognition and Measurement' (as adopted for use in the EU), as permitted by FRS 102, to account for all of its 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.

1. ACCOUNTING POLICIES (CONTINUED)

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 amounts owed by subsidiaries and affiliates. 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 asset's carrying value and the estimated future cash flows deriving from the continued use of that asset, and discounted if the effect is material.

Financial liabilities measured at amortised cost
This category of financial liabilities includes amounts due to customers on pending trades and other positions (disclosed within trade creditors), other creditors and amounts owed to parent undertakings, subsidiaries and affiliates. 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.

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.

Securities borrowing, securities lending and, repurchase and reverse purchase agreements
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, continue to be recognised in the financial statements at fair value.

Cash balances and accrued interest arising under resale agreements and securities borrowing arrangements are recorded as debtors and the related securities are not recognised in the financial statements.

Derecognition
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 transfers substantially 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.

Impairment of financial assets not held at fair value through profit or loss
The Company 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.

1. ACCOUNTING POLICIES (CONTINUED)

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. An impairment loss is recognised as an expense immediately in the profit and loss account.

1.13 Fixed asset investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment. They are reviewed for impairment at least annually or whenever events or circumstances indicate that the carrying amount may not be recoverable.

1.14 Impairment of non-financial assets

The Company assesses at each reporting date whether an asset may be impaired. If any such indication exists the Company estimates the recoverable amount of the assets. If it is not possible to estimate the recoverable amount of the individual asset, the Company estimates, the recoverable amount of the cash generating unit to which the asset belongs. The recoverable amount of an asset or cash generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount is less than its carrying amount, the carrying amount of the asset is impaired and it is reduced to its recoverable amount through an impairment recognised in profit and loss. An impairment loss recognised for all assets, including goodwill, is reversed in a subsequent period if and only if the reasons for the impairment loss have ceased to apply.

1.15 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. ACCOUNTING POLICIES (CONTINUED)

1.16 Provisions

Provisions are recognised when the Company has a present obligation; legal or constructive, arising from a past event that is measurable and it is probable that an outflow of economic benefits will be required to settle that obligation. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the balance sheet date and they are discounted to present value where the effect is material.

The discount rate used reflects current market assessments of the time value of money and the risks specific to the liability.

1.17 Judgements and key sources of estimation uncertainty

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates. The following judgements and estimates have had the most significant effect on amounts recognised in the financial statements.

Provisions
Provisions established by the Company are based on management's assessment of relevant information and advice available at the time of preparing the financial statements. Outcomes are uncertain and dependent on future events. Where outcomes differ from management's expectations, differences from the amount provided will impact profit or loss in the period the outcome is determined.

Impairment of financial assets not held at fair value through profit or loss
The Company assesses, at each balance sheet date, whether there is objective evidence that an asset is impaired. A financial asset is considered impaired if there is objective evidence of impairment as a result of one or more loss events and that loss event has had an impact on the estimated future cash flows of the financial asset. The estimation of future cash flows requires management to make judgements and assumptions which impact the recoverable amount of the asset being assessed.

2. TURNOVER

The Company's income is derived from trading and brokerage services in equities, CFDs, ETFs and derivatives, corporate advisory, NOMAD, research 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 corporate advisory fees. Revenue is shown net of any related dealing and broking expense (e.g. commissions, cost of carry).

3. TURNOVER ANALYSIS

Turnover includes commission and fee income of US$42,787k (2016: US$45,318k) and fees from group undertakings of US$2,836k (2016: US$2,612k). The remaining turnover relates to net gains from financial assets and liabilities at fair value through profit and loss.

4. GEOGRAPHICAL SEGMENTAL ANALYSIS

The following disclosures are made in accordance with the Capital Requirements Directive IV ("CRD IV") Country by Country Reporting ("CBCR") framework:

	2017 US$000	2016 US$000
Turnover		
United Kingdom	79,838	83,923
Israel	1,149	1,251
	80,987	85,174

	2017 US$000	2016 US$000
Profit before tax		
United Kingdom	6,826	5,867
Israel	(147)	(659)
France	12	134
	6,691	5,342

	2017 US$000	2016 US$000
Taxation on profit (excluding deferred tax)		
United Kingdom	(1,616)	(1,137)
	(1,616)	(1,137)

Refer to note 11 for further details regarding taxation.

	2017 No.	2016 No.
Average number of employees		
United Kingdom	120	141
Israel	3	3
	123	144

Public subsidies received

The Company did not receive any public subsidies during the current and prior year.

5. OPERATING PROFIT

Operating profit is stated after charging / (crediting):

	2017 US$000	2016 US$000
Foreign exchange gain	(629)	(1,073)
Rent payable under operating leases	930	945

6. AUDITOR'S REMUNERATION

	2017 US$000	2016 US$000
Audit of the financial statements	211	207
Other audit related assurance services	148	180
	359	387

The auditor's remuneration is borne by an associated group entity, of which the Company was subsequently recharged US$234k (2016: US$197k).

7. STAFF COSTS

Staff costs were as follows:

	2017 US$000	2016 US$000
Wages and salaries	28,573	34,667
Social security costs	3,892	4,533
Cost of defined benefit scheme	189	232
	32,654	39,432

There were no outstanding contributions payable to the defined contribution scheme by the Company as at 31 December 2017 and 31 December 2016.

STAFF COSTS (CONTINUED)

The average monthly number of employees (excluding the directors), during the year was as follows:

	2017 No.	2016 No.
Operating	118	138
Business Management	5	6
	123	144

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 a fixed 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:

	2017	2016
Discount rate (%)	2	2
Forfeiture rate (%)	41	40
Retirement age (years)	50	50

The Company recognised in cost of sales a total expense of US$1,905k in the year ended 31 December 2017 (2016: expense of US$2,037k) in relation to the grant units.

8. DIRECTORS' REMUNERATION

The remuneration paid to the directors of the Company comprised:

	2017 US$000	2016 US$000
Directors' remuneration	1,320	1,808
Remuneration of the highest paid director	1,177	1,014

No directors had entitlements in relation to the defined contribution scheme in the current or prior year and certain directors were remunerated by associated undertakings.

9. INTEREST RECEIVABLE AND SIMILAR INCOME

	2017 US$000	2016 US$000
Other interest receivable	783	486
	783	486

10. INTEREST PAYABLE AND SIMILAR CHARGES

	2017 US$000	2016 US$000
Bank interest payable	1,589	1,249
Loans from group undertakings	3,749	3,418
Other interest payable	987	1,385
	6,325	6,052

11. TAXATION

	2017 US$000	2016 US$000
Corporation tax		
Current tax on profits for the year	1,652	1,143
Adjustments in respect of previous periods	(36)	(6)
Total current tax	1,616	1,137
Deferred tax		
Origination and reversal of timing differences	(1,157)	-
Effect of changes in tax rates	75	-
Total deferred tax	(1,082)	-
Taxation on profit on ordinary activities	534	1,137

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is lower than (2016 - higher than) the standard rate of corporation tax in the UK of 19.25% (2016 - 20.00%). The differences are explained below:

	2017 US$000	2016 US$000
Profit on ordinary activities before tax	6,691	5,342
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20.00%)	1,288	1,068
Effects of:		
Expenses not deductible	949	920
Income not taxable	-	(14)
Losses carried forward / (utilised)	(551)	(480)
Deferred tax recognised	(1,157)	-
Adjustment from previous periods	(36)	(5)
Tax rate changes	75	-
Short-term timing differences	(34)	(352)
Tax charge for the period	534	1,137

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The effective statutory corporation tax rate for the year ended 31 December 2017 is 19.25%. The Finance Act 2016 which was substantively enacted on 6 September 2016 confirmed that the rate of corporation tax will reduce to 19% from 1 April 2017 and to 17% from 1 April 2020. A 18% rate has been applied to calculate the deferred tax asset as at 31 December 2017.

12. DEFERRED TAXATION

A deferred tax asset of US$1,082k has been recognised in respect of part of the tax losses carried forward as at 31 December 2017 based on forecast profits for future years against which the tax losses can be offset. The total deferred tax asset not recognised has been calculated at a 17% rate and is US$7,100k (2016: US$9,100k). Of the total asset not recognised, the amount relating to tax losses is approximately US$5,800k (2016: US$7,700k), and the amount relating to capital allowances is approximately US$200k (2016: US$200k), and the amount relating to other short-term timing differences is US$1,100k (2016: US$1,200k). There is no deferred tax liability provision.

13. FIXED ASSET INVESTMENTS

On 5 March 2017, the Company's wholly owned subsidiary, Cantor Fitzgerald (India) Holdings Pvt Limited was dissolved. The subsidiary had previously been incorporated in Mauritius, and prior to it's dissolution, was registered at 6th Floor, Tower A, 1 CyberCity, Ebène, Republic of Mauritius.

Upon dissolution, the Company's investment in the subsidiary of US$21k was written off. The investment had been fully impaired since 2012.

14. DEBTORS

	2017 US$000	2016 US$000
Trade debtors	353,609	462,048
Amounts owed by group companies	4,336	1,724
Other taxes and social security	-	65
Other debtors	2,144	5,212
Prepayments and accrued income	215	245
Deferred taxation	1,082	-
	361,386	469,294

Of the deferred tax asset, US$721k (2016: US$Nil) is considered non-current and to be utilised in more than one year.

Trade debtors are further analysed below:

	2017 US$000	2016 US$000
Securities trades pending settlement	231,436	266,359
Failed trades to deliver	23,720	54,587
Securities purchased under agreements to resell	-	61,371
Stock borrows with group undertakings	-	857
Stock borrows with unrelated parties	28,763	8,220
Derivative balances	14,812	3,157
Receivables from clients, clearers, exchanges and other broker dealers	54,878	67,497
	353,609	462,048

15. CURRENT ASSET INVESTMENTS

	2017 US$000	2016 US$000
Long positions	615,945	66,347
Liquid resources	40,762	40,901
	656,707	107,248

Long positions represent the Company's trading positions in equities and fixed income securities.

Liquid resources represent the Company's positions in government securities, held for regulatory purposes.

16. CASH AT BANK AND AT HAND

Cash at bank and at hand is comprised of segregated money held on behalf of clients and non-segregated balances:

	2017 US$000	2016 US$000
Non-segregated cash at bank and at hand	130,704	74,480
Client segregated cash	571	577
	131,275	75,057

17. CREDITORS: Amounts falling due within one year

	2017 US$000	2016 US$000
Bank overdrafts	25,513	19,798
Trade creditors	910,438	474,974
Amounts owed to group undertakings	3,834	7,627
Corporation tax	234	293
Other taxation and social security	2,568	3,141
Other creditors	358	144
Accruals and deferred income	33,351	28,462
Short positions	65,171	15,247
	1,041,467	549,686

CREDITORS: Amounts falling due within one year (continued)

Trade creditors are further analysed below:

	2017 US$000	2016 US$000
Securities trades pending settlement	271,975	267,768
Failed trades to receive	37,814	38,668
Securities sold under agreements to repurchase with group undertakings	-	54,659
Stock loans with unrelated parties	23,664	13,505
Derivative balances	19,189	16,880
Payables to customers, clearers, exchanges and other broker dealers	557,796	83,494
	910,438	474,974

18. CREDITORS: Amounts falling due after more than one year

	2017 US$000	2016 US$000
Amounts owed to group undertakings	64,100	64,100
	64,100	64,100

	2017 US$000	2016 US$000
Received from and date issued / repayable		
Cantor Fitzgerald L.P. - 31 October 2009 / 31 December 2021	7,000	7,000
Cantor Fitzgerald L.P. - 31 December 2009 / 31 December 2021	17,000	17,000
Cantor Fitzgerald L.P. - 29 September 2011 / 31 December 2021	16,000	16,000
Cantor Fitzgerald L.P. - 13 December 2011 / 31 December 2021	15,000	15,000
Cantor Fitzgerald L.P. - 20 December 2012 / 31 December 2021	8,000	8,000
Cantor Fitzgerald L.P. - 24 May 2013 / 31 December 2021	1,100	1,100
	64,100	64,100

During the year, the Company extended the repayment date of all tranches of its subordinated debt with CFLP, totaling US$64,100k (2016: US$64,100k), from 30 September 2021 to 31 December 2021. The interest rate charged is 450 basis points above the 3 month LIBOR. The subordinated loans are classified as qualifying capital for FCA financial resources requirements.

During 2017 and 2016, there were no repayments of subordinated loans.

19. PROVISIONS & CONTINGENT LIABILITIES

	Litigation Provision US$000
At 1 January 2017	676
Charged to profit or loss	80
Utilised in year	(250)
At 31 December 2017	506

Litigation Provision and Contingent Liabilities
From time to time the Company may become subject to various litigation, regulatory matters or employment related claims. The directors have considered any current matters pending against the Company. Where a claim is considered to be more likely than not to result in a cost to the Company, a provision has been made based on management's best estimate of the cost to the Company of settling such claims. Certain other matters may give rise to a material future outflow of economic benefit, however management consider that this is not probable and, based on the facts and circumstances, that it is not possible to reliably estimate the amounts involved.

20. COMMITMENTS UNDER OPERATING LEASES

At 31 December 2017 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2017 US$000	2016 US$000
Within 1 year	170	155
Between 2 and 5 years	182	317
Total	352	472

21. SHARE CAPITAL

	2017 US$000	2016 US$000
Shares classified as equity		
Authorised, allotted, called up and fully paid		
57,716,432 Ordinary shares of £1 each	90,426	90,426

22. RELATED PARTY TRANSACTIONS

The Company enters into service arrangements with Cantor Group entities including the BGC Partners, Inc. group ("BGC Group") which is partially owned by CFLP. The balances outstanding with BGC Group and Cantor Group undertakings are disclosed below:

	2017 US$000	2016 US$000
Due to		
Entities with control over the Company	64,141	64,901
Group undertakings	3,793	6,826
	67,934	71,727

	2017 US$000	2016 US$000
Due from		
Entities with control over the Company	87	515
Group undertakings	4,249	1,209
	4,336	1,724

Included in amounts due to entities with control over the Company are subordinated loans from CFLP of $64,100k (2016: $64,100k). The details of these loans are disclosed in note 18. All other amounts owed to group undertakings are unsecured, non-interest bearing and repayable on demand. The Company has accrued interest of US$24,179k (2016: US$20,430k) in relation to loans from entities with control over the Company.

During the year ended 31 December 2017 the net service arrangements expense with BGC Group entities was US$13,889k (2016: US$14,038k). Included in this fee are costs for support services provided by Tower Bridge International Services L.P. ("TBISLP"), the service entity to the BGC Group and Cantor Group European entities. Also included are costs for BGC Technology Support Services Limited ("BTSSL") and BGC Technology International Limited ("BTIL") in relation to the provision of IT support services (BTSSL provide infrastructure and BTIL provide development). TBISLP, BTSSL and BTIL are all subsidiaries of the BGC European Holdings Group.

RELATED PARTY TRANSACTIONS (continued)

The Company enters into foreign exchange derivative transactions with BGC Group and Cantor Group entities. The outstanding balances held with related parties comprise:

	2017 US$000	2016 US$000
Amount due from / (to)		
Entities with control over the Company	55	(51)
Group undertakings	2,159	(2,303)
	2,214	(2,354)

	2017 US$000	2016 US$000
Gross contract or underlying notional amount		
Entities with control over the Company	3,835	25,275
Group undertakings	524,648	227,296
	528,483	252,571

The Company also enters into securities borrowing, lending and repurchase and reverse repurchase agreements with BGC Group and Cantor Group entities. At 31 December 2017 the Company had stock borrows of US$Nil (2016: US$857k) with entities with control over the Company and US$Nil (2016: US$54,659k) of securities sold under agreements to purchase with group undertakings.

The directors have authority and responsibility for planning, directing and controlling the activities of the Company and are considered to be key management personnel. Their remuneration is disclosed in note 8.

The Company earns fees from group undertakings which are disclosed in note 3.

23. 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 / (Liability) US$000
2017		
CFDs	645,292	(3,879)
Foreign exchange derivatives swaps	786,571	(307)
Foreign exchange derivatives forwards	174,833	(191)
Total derivatives	1,606,696	(4,377)

	Gross contract or underlying notional amount US$000	Fair Value Asset / (Liability) US$000
2016		
CFDs	90,751	(14,067)
Foreign exchange derivatives swaps	863,315	388
Foreign exchange derivatives forwards	22,291	(44)
Total derivatives	976,357	(13,723)

Total derivative fair value asset / (liability) balances are included in trade debtors and trade creditors respectively.

24. 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 in various capacities as a:

- Counterparty in financial contracts;
- Holder of marketable securities;
- *Advisor in Corporate Finance; and*
- Member of exchanges and clearing houses.

Risk management is the process of identifying, assessing, managing, monitoring and reporting risk. The system incorporates the identification, analysis, measurement, monitoring / recommendation, reporting and management of risks. 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.

In the course of its normal business, the Company is exposed to:

1. Credit risk
2. Market risk
3. Operational risk
4. Liquidity risk
5. Business and Strategic risk

The directors believe that culture and conduct is fundamental to how the Company embeds its controls across the range of services and activities it provides. Therefore, through processes within the above risk categories, the Company acts in the best interest to ensure they are putting the consumer and the integrity of markets at the heart of their business models, strategies and daily activities.

Risk Management Structure
The Company has adopted the 'three lines of defence' model in embedding an Enterprise Risk Management ("ERM") framework and capabilities across the organisation. The model distinguishes between functions that own and manage risks, functions overseeing risks and functions providing independent assurance.

First - The first line of defence comprises of front office staff, business management and operational management, who own the risks and controls and have responsibility and accountability for identifying, assessing, managing, monitoring and reporting risks within their sphere of responsibility.

Second - The second line of defence comprises the Risk Management and Compliance functions, who review, challenge and monitor the implementation of effective risk management practices by the first line. It also independently provides reporting and escalation of risk issues up and down the organisation.

Third - The third line of defence, Internal Audit, through a risk based approach, provides assurance to the Company's senior management and the directors of CFS LLP, 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.

Overall responsibility for the establishment of the risk framework and general risk appetite of the Company lay with CFS LLP's board of directors, until this function was transferred to the Company's board of directors on 20 September 2017, as part of a governance restructuring. CFS LLP's board of directors, and later the Company's Board, sets the culture and conduct of the Company and approves the Individual Capital Adequacy Assessment Process ("ICAAP"). CFS LLP, and later the Company's Board, approves the Company's Business Plan and reviews the Company's Individual Liquidity Adequacy Assessment ("ILAA"). These documents and processes incorporate more detailed analysis of each risk identified and the risk management framework.

RISK MANAGEMENT (CONTINUED)

Furthermore, CFS LLP's board, and later CFE's board, relies on the ROC and AC, composed of Non-Executive Directors, to provide recommendations on risk appetite, tolerance and strategy. On 20 September 2017, as part of a governance restructuring, the ROC and AC reporting lines were changed from the CFS LLP's board to the Company's board of directors. The non-executive directors who chair the ROC and AC joined to the CFE board. In recommending the risk appetite, the ROC and AC are responsible for reviewing and challenging the risk appetite methodology including the assumptions and models used in the methodology.

Within the framework established by CFS LLP, and later CFE, the Company implements the principles, policies and limits of the framework and identifies its risk appetite for each risk type. The Company undertakes an annual top-down review of the highest impact key risks identified to ensure that the list of high impact risks is complete and to determine which of those risks should be subject to capital modelling. The Company is supported by a number of risk committees including the Operational Risk and Compliance Committee ("ORCC"), the Finance, Capital, Assets and Liabilities Committee ("FCALCO"), the Business Development Committee ("BDC") and the Client Engagement Committee ("CEC") in managing and monitoring the risk framework and any risk issues.

The Risk Management department designs and deploys the ERM framework across the Company. The Risk Management department maintains a register of the key risks and catalogues them by their risk categories. Day to day management of risk and its mitigation is the responsibility of business management. The Risk Management department provides an independent assessment of the Company's risks and is responsible for the challenge and review of risk assessments and for the aggregated reporting and escalation of risk issues to the directors of the Company and CFS LLP.

Through monitoring and reporting, the Risk Management department is also responsible for ensuring the operational, credit and market risks are in line with the risk appetite. For operational risk, this is accomplished by a range of interconnecting risk and control methodologies that are embedded throughout the Company. As for 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 Risk Management department has an independent reporting line from the other business functions, and the Chief Risk Officer ("CRO") sits on the FCALCO, BDC, ORCC, and CEC. The Market and Credit Risk Management Policy and the Operational Risk Policy describe the roles and responsibilities in relation to the risk identification, assessment, management, monitoring and reporting of risks.

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 a matched 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. The principal risks affecting this business are credit, market, operational and liquidity.

Agency Give Up
Transactions where the Company acts as an arranger 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. The principal risks affecting this business are credit and operational.

Stock Loans and Borrows
Transactions where the Company lends equities held by the Company to counterparties or borrows equities from counterparties for trading and / or settlement facilitation purposes. The principal risks affecting this business are credit, operational and liquidity.

RISK MANAGEMENT (CONTINUED)

Cash, Client Segregated Funds and Money Market Funds
The principal risk is credit liquidity due to the Company's lack of ability to recover the deposited funds if the bank where money is deposited should fail.

Market Making
The Company is a market-maker on the LSE. The Company offers other LSE members the ability to trade on its prices and as a result the Company may hold positions on its books. The principal risks affecting this business are credit, market, operational and liquidity.

Corporate Finance and Advisory
In this role the Company provides advice to clients on mergers and acquisitions, issuances and placements. The principal risks affecting this business are credit and operational.

25. 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 CFD, brokerage receivables and cash on deposit. The Company's matched principal business is subject to limited credit risk due to a delivery versus payment ("DVP") settlement process. DVP is defined when the payment and transfer of the subject security occur simultaneously. Settlement normally occurs within a central depository (e.g. The Depositary Trust Company, Euroclear) which mitigates the risk. The principal risks affecting this business are:

- Credit risk - The counterparty may not meet its obligation to settle outstanding principal and brokerage balances. Matched principal transactions typically settle on a DVP basis.
- Market risk - Unfavourable price movement on positions held to facilitate customer flows or unmatched positions arising from booking disputes.
- Operational risk - The risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events.
- 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.

Counterparty Credit Risk

Matched Principal Trading and Market Making

The credit risk exposure from these businesses 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.

RISK MANAGEMENT - CREDIT RISK (CONTINUED)

Agency Give-up Basis

The credit risk exposure from the agency give-up 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, and where necessary, by the front office desks themselves.

The types of counterparties that the business transacts with are predominantly investment grade banks and established investment firms, which significantly reduces the risk of default. In the agency give-up 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 actively followed up with the counterparty. The types of counterparties that the business transacts with significantly reduces the risk of default. These counterparties are generally listed companies or companies seeking to list on either the LSE or AIM, for which the Company is an advisor or broker to, due to the listing requirements.

Credit Risk Concentrations

The Risk Management 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 II of the Capital Requirements Directive.

Credit Risk Acceptance, Monitoring and Controlling

Trade Debtors

The credit risk arising from matched principal, agency give-up, advisory and research businesses are managed separately:

Matched Principal

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 Company'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.

RISK MANAGEMENT - CREDIT RISK (CONTINUED)

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.

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 a 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.

Agency Give-up Advisory and Research

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.

Other 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.

Cash, Client Segregated Funds and Money Market Funds

Corporate treasury, in conjunction with the risk department, considers and approves the list of credit-worthy banks. Each bank is assessed and assigned an internal rating dependent 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.

RISK MANAGEMENT - CREDIT RISK (CONTINUED)

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 2017 US$000	Gross maximum exposure 2016 US$000
On balance sheet items		
Trade debtors	353,609	462,048
Amounts owed by group undertakings	4,336	1,724
Other taxes and social security	-	65
Other debtors	2,144	5,212
Long positions and liquid resources	656,707	107,248
Cash and cash equivalents	131,275	75,057
	1,148,071	651,354

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 2017, the long positions and liquid resources of US$656,707k (2016: US$107,248k) include securities owned and pledged as collateral amounting to US$23,664 (2016: US$68,165k).

At 31 December 2017, securities and cash amounting to US$3,376k (2016: US$5,749k) were pledged as collateral with settlement agents, prime brokers and 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 primarily relates to revenue sharing and clearing execution agreements. Amounts owed by related parties are settled upon demand.

RISK MANAGEMENT - CREDIT RISK (CONTINUED)

Cash at Bank and at Hand

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

Long Positions and Liquid Resources

Long positions and liquid resources represent positions held for trading and liquidity purposes, which include government and corporate bonds, CFD hedges, US treasury bills and cash held in money market funds. The credit risk on these positions is considered low as the majority is held in listed companies.

Other

This consists of other debtors 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.

Ageing Analysis of Past Due but Not Impaired Financial Assets and Liabilities

The carrying amount of financial assets and liabilities that would otherwise be past due or impaired whose terms have been renegotiated is US$Nil (2016: US$Nil). Past due balances are analysed below.

	2017 US$000	2016 US$000
Net Receivables / (Payables) - Matched Principal Ageing Analysis		
Less than 1 month	(14,424)	16,052
1 month to less than 2 months	337	(199)
2 months to less than 3 months	59	(11)
3 months and over	(66)	48
	(14,094)	15,890

Fails and pending reports are reviewed daily. Management reviews past due matched principal business receivables on a regular basis. Substantial fail to deliver transactions totalling US$197k and fail to receive transactions totalling US$72k as at the date of signing the financial statements had not yet been settled. As at the signing of the 2016 financial statements, fail to deliver transactions totalling US$584k and fail to receive transactions totalling US$50k that existed as at 31 December 2016 had not yet been settled.

	2017 US$000	2016 US$000
Receivables - Name Give-Up Basis and Corporate Finance Ageing Commissions Analysis (Net of Allowances for Credit Losses)		
Less than 1 month	2,265	1,946
1 month to less than 2 months	459	195
2 months to less than 3 months	194	238
3 months and over	1,526	1,000
	4,444	3,379

RISK MANAGEMENT - CREDIT RISK (CONTINUED)

At 31 December 2017, US$237k (2016: US$272k) of trade debtors were considered to be impaired. During the year, an impairment of US$97k (2016: US$253k) was charged to the profit and loss account, US$113k (2016: US$205k) of the allowance for credit losses was reversed and US$19k (2016: US$203k) of the allowance was utilised. Management consider financial assets to be impaired if there is objective evidence of impairment as a result of one or more loss events.

Other trade debtor balances 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 or impaired as at 31 December 2017 or 31 December 2016.

26. 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 2017, the gross exposure to market risk arising from such positions amounted to US$35,168k (2016: US$24,531k).

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.

RISK MANAGEMENT - MARKET RISK (CONTINUED)

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.

The value at risk for the trading portfolio was as follows:

	2017 US$000	2016 US$000
Value at Risk for the year ended 31 December		
Average	370	344
Minimum	198	102
Maximum	548	788
Standard deviation	65	120
At 31 December	332	186

27. 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 repricing periods from cash at bank and at hand, listed investments in US treasury bills, money market funds, subordinated loans payable and from other financial assets and liabilities as per below. The interest rate risk repricing profile of the Company's financial assets and liabilities as at the balance sheet date was as follows:

	Less than 1 year US$000	Non-interest bearing US$000	Total US$000
2017			
Cash and cash equivalents	131,275	-	131,275
US treasury bills	40,762	-	40,762
Gilts	403	-	403
Bank overdrafts	(25,513)	-	(25,513)
Subordinated loan	(64,100)	-	(64,100)
Other financial assets and liabilities	-	(4,171)	(4,171)
	82,827	(4,171)	78,656

RISK MANAGEMENT - INTEREST RATE RISK (CONTINUED)

	Less than 1 year US$000	Non-interest bearing US$000	Total US$000
2016			
Cash and cash equivalents	75,057	-	75,057
US treasury bills	40,901	-	40,901
Gilts	1,458	-	1,458
Bank overdrafts	(19,798)	-	(19,798)
Subordinated loan	(64,100)	-	(64,100)
Other financial assets and liabilities	-	35,881	35,881
	33,518	35,881	69,399

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.

The Company estimates that a 1% hypothetical adverse movement in interest rates, for the full financial year, would have resulted in a decrease (2016: decrease) in the profit before tax for the year and decrease (2016: decrease) in equity of US$421k (2016: US$641k).

28. 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.

To mitigate this risk, the Company's liquidity risk is managed through two complementary 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 funding includes subordinated debt with a maturity greater than 1 year and shareholders' funds. Additionally non segregated cash, qualifying as good cash capital, is used to finance margin requirements against a client's own position and is included in the NCC model as a cash capital source.

The two models work in a complementary fashion to allow the Company to survive a prolonged liquidity 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 the Company's asset base and potential stress outflows.

RISK MANAGEMENT - LIQUIDITY RISK (CONTINUED)

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 for financial instruments:

	Less than 1 year US$000	Between 1 and 5 years US$000	Total US$000
2017			
Bank loans and overdrafts	25,513	-	25,513
Trade creditors (includes derivatives - see note 10)	910,438	-	910,438
Amounts owed to group undertakings	3,834	-	3,834
Short positions	65,171	-	65,171
Other creditors	358	-	358
Accruals and deferred income	33,351	-	33,351
Subordinated loan	-	64,100	64,100
	1,038,665	64,100	1,102,765

	Less than 1 year US$000	Between 1 and 5 years US$000	Total US$000
2016			
Bank loans and overdrafts	19,798	-	19,798
Trade creditors (includes derivatives - see note 10)	474,974	-	474,974
Amounts owed to group undertakings	7,627	-	7,627
Short positions	15,247	-	15,247
Other creditors	144	-	144
Accruals and deferred income	28,462	-	28,462
Subordinated loan	-	64,100	64,100
	546,252	64,100	610,352

RISK MANAGEMENT - LIQUIDITY RISK (CONTINUED)

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.

29. 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 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 2017, if sterling was to strengthen by 10% against the US dollar with all other variables held constant, the profit before tax for the year and equity would be favourably affected by US$2,527k (2016: favourably affected by US$670k).

Taking the euro denominated balance sheet as at 31 December 2017, if the euro was to strengthen 10% against the US dollar with all other variables held constant, the profit before tax for the year and equity would be favourable affected by US$66k (2016: favourably affected by US$463k).

30. RISK MANAGEMENT - OPERATIONAL RISK

Operational risk refers to the risk of loss arising from failed or inadequate processes, people, systems and / or external events. Therefore, operational risk is inherent to the Company's daily activity and business continuance.

Operational risk is identified, assessed, managed, monitored and reported ("IAMMR") via several differed processes. For example:

Risk and Control Self-Assessment ("RCSA") - The RCSA process is the Company's approach for ensuring that effective risk mitigation activities are in place for all key operational risks. The process is based on an annual assessment (with a mid-year refresh), conducted by divisional experts who assess risks and their related controls in order to arrive at an estimation of the residual risk.

Key Risk Indicators ("KRIs") - KRI's are metrics used by the Company to provide an early indication of increasing risk exposures in various areas of the Business. KRI's are be reported as part of the periodic management reporting to the ORCC and the Board.

Risk Events - Risk events focuses on the IAMMR of internal operational risk events and analysis and reporting of external operational risk events.

Operational Risk Scenario Analysis - The Operational Risk Scenario Analysis process is designed to enable management to understand potential high impact, low probability risks in greater detail and to be better placed to prevent, detect and manage these risks. Once the key risks are identified, workshops are conducted to build scenarios which explore what else could go wrong and how management would respond to these events. Scenarios may combine two or more key risks in order to assess the aggregated impact of different risks taking place at the same time.

RISK MANAGEMENT - OPERATIONAL RISK (CONTINUED)

New Products / Business Approval Process - This process is under the responsibility of the BDC. 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 and conduct 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, comprising members from the various control and executive functions, will be formed to manage the request.

31. 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 FCA 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 shareholders 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, retained earnings of the Company, and debt, including the borrowings.

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

The shareholders' funds and subordinated debt of the Company is as follows:

	2017 US$000	2016 US$000
Shareholders' funds	43,294	37,137
Subordinated debt	64,100	64,100
	107,394	101,237

32. 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 materiality different.

The derivatives receivable / payable amounts shown at fair value through profit and loss are shown gross of margin.

	Carrying Amounts 2017 US$000	Fair Values 2017 US$000	Carrying Amounts 2016 US$000	Fair Values 2016 US$000
Financial assets				
Trade debtors	353,609	353,609	462,048	462,048
Amounts owed by group undertakings	4,336	4,336	1,724	1,724
Long positions and liquid resources	656,707	656,707	107,248	107,248
Other debtors	2,144	2,144	5,212	5,212
	1,016,796	1,016,796	576,232	576,232

	Carrying Amounts 2017 US$000	Fair Values 2017 US$000	Carrying Amounts 2016 US$000	Fair Values 2016 US$000
Financial liabilities				
Bank loans and overdrafts	25,513	25,513	19,798	19,798
Trade creditors	910,438	910,438	474,974	474,974
Amounts owed to group undertakings	3,834	3,834	7,627	7,627
Other creditors	358	358	144	144
Subordinated debt	64,100	64,100	64,100	64,100
Short positions	65,171	65,171	15,247	15,247
	1,069,414	1,069,414	581,890	581,890

FAIR VALUE (CONTINUED)

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

Trade debtors and trade creditors

Trade debtors and trade creditors are measured at amortised cost, with the exception of derivatives which are measured at fair value through profit or loss.

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.

Amounts owed by / to group undertakings

Amounts receivable and payable from / to group undertakings 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.

Positions and liquid resources

Positions are held for trading and liquidity purposes, which include government and corporate bonds, equities, CFD hedges, and a US treasury bill. Positions are measured at fair value through the profit and loss account.

Subordinated loans payable

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

Other

Other includes debtors / creditors, bank loans and overdrafts. Given the short term nature of these balances, the carrying value is not considered to be materially different from the fair value.

FAIR VALUE (CONTINUED)

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.

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

31 December 2017

	Level 1 US$000	Level 2 US$000	Total US$000
Financial assets			
Derivative forward foreign exchange forwards	-	608	608
Derivative forward foreign exchange swaps	-	2,941	2,941
Derivative CFDs	-	11,263	11,263
Long positions and liquid resources	656,707	-	656,707
	656,707	14,812	671,519

	Level 1 US$000	Level 2 US$000	Total US$000
Financial liabilities			
Derivative forward foreign exchange forwards	-	799	799
Derivative forward foreign exchange swaps	-	3,248	3,248
Derivative CFDs	-	15,142	15,142
Short positions	65,171	-	65,171
	65,171	19,189	84,360

FAIR VALUE (CONTINUED)

31 December 2016

	Level 1 US$000	Level 2 US$000	Total US$000
Financial assets			
Derivative forward foreign exchange forwards	-	38	38
Derivative forward foreign exchange swaps	-	3,119	3,119
Long positions and liquid resources	107,248	-	107,248
	107,248	3,157	110,405

	Level 1 US$000	Level 2 US$000	Total US$000
Financial liabilities			
Derivative forward foreign exchange forwards	-	82	82
Derivative forward foreign exchange swaps	-	2,731	2,731
Derivative CFDs	-	14,067	14,067
Short positions	15,247	-	15,247
	15,247	16,880	32,127

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.

33. ULTIMATE PARENT UNDERTAKING AND CONTROLLING PARTY

The registered office of the Company is 1 Churchill Place, Canary Wharf, London E14 5RB. The Company is incorporated and registered in England and Wales. The immediate parent is CFS LLP, registered at 1 Churchill Place, Canary Wharf, London E14 5RB. CFS LLP is a limited liability partnership registered in England and Wales. The smallest group into which the results are consolidated into is CFS LLP, for which financial statements are publicly available.

The ultimate parent, controlling entity and largest group that the results of the Company are consolidated into is CFLP., a limited partnership registered at 499 Park Avenue, New York, United States of America. The financial statements are not publicly available for CFLP.