

CANTOR FITZGERALD EUROPE

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018



CANTOR FITZGERALD EUROPE

COMPANY INFORMATION

DIRECTORS

Mr R. Haley
Mr S. Sofocleous
Ms D. E. Moore (non-executive)
Mr A. J. Simpson (non-executive)
Mr J. R. Lightbourne (appointed 24 May 2018)
Mr M. E. Kaplan (appointed 24 September 2018)
Mr S. P. Matthews (resigned 23 April 2018)
Mr R. M. Snelling (resigned 24 May 2018)

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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CANTOR FITZGERALD EUROPE

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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 Cantor Fitzgerald Services LLP ("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 2018, 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 575 FTSE 250 and AIM listed stocks and provides liquidity in more than 220 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 77 clients and also provides sector, and pan European equity, research on over 184 stocks as at 31 December 2018.

This activity was expanded in 2018 to include Power and Infrastructure teams providing mainly M&A and private equity and debt advisory activities.

BUSINESS REVIEW

After two years of steady growth in asset prices and stock market indices, 2018 proved a challenging year for investors and market participants. The start to the year was encouraging with US tax cuts and strong GDP growth boosting sentiment, however, this positive outlook faded with a shift in US monetary policy from accommodative to tightening starting in Q1 2018. The prospect of reduced monetary stimulus, an escalation of the US-China trade conflict, Brexit uncertainty and weak economic growth in Europe and Asia took its toll on market confidence. This combined with a strong rebound in volatility resulted in global indexes posting their worst performance since the financial crisis.

The UK and European markets were also impacted by the implementation of MiFID II, which created uncertainty and change in the way clients could pay for services provided by the investment banking community. As this issue started to stabilise during the year, growing concern surrounding uncertainty on the outcome of Brexit, saw fund raising activity in listed companies or companies proposing an Initial Public Offering almost stop in Q3 / Q4.

CANTOR FITZGERALD EUROPE

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

BUSINESS REVIEW (CONTINUED)

The weak macroeconomic and political conditions are reflected in the franchise's results for the year, all core businesses were adversely impacted with revenues lower than expected, US\$71,051k (2017: US\$80,987k). The listed corporate finance division saw a significant reduction in activity with transactions postponed or cancelled especially in the second half of the year. The Company's broker dealer activities performed more defensively given the pickup in volatility, however, the continued downwards trend in markets still had a substantial impact on performance.

At the beginning of the year, the Company decided to invest in creating an additional banking franchise specialising in Power and Infrastructure. This business will principally focus on M&A, private debt and equity fund raising. The investment in this team was significant, took time to build out and gain traction but in Q4 2018, the Company started to see the benefits of this investment, with December revenues of \$6m. This has continued in to Q1 2019. This investment has resulted in the increase in staff costs year on year, US\$38,057k (2017: US\$34,195k). Gross profit declined from US\$32,931k in 2017 to US\$20,494k for 2018, a decrease of 37.8%.

The Company also continued to investment in compliance with MiFID II and successfully implemented the new regulations in January 2018. These costs further impacted profitability. Overall, the Company posted a loss before tax of US\$6,148k for 2018 versus a profit before tax of US\$6,691k for 2017. Headcount increased by 10 during the year to 128 at 31 December 2018.

Closure of Paris Branch

The Company's Paris branch was dissolved on 4 May 2018.

Capital Restructure (see note 18 and 21)

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 to CFLP. Also, the Company cancelled and extinguished 37,987,596 ordinary shares of £1 each, equivalent to US\$53,289k on 28 December 2018. The shares were cancelled against the profit and loss reserve account.

The capital restructuring increased both the quantity of the total eligible regulatory capital by \$12.8m due to the previously amortised value of the Tier 2 capital as at year-end 2017 and has improved the quality of the Company's regulatory capital from comprising Tier 1 and Tier 2 instruments to all Tier 1 equity capital.

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.

On 29 March 2017, the United Kingdom notified the European Council and triggered a two year period to negotiate its withdrawal from the European Union (EU) on 29 March 2019 ("Brexit"), subsequently extended to 31st October 2019. The final impact on the business due to Brexit is yet to be determined formally, as political negotiations between the UK and the EU continue. The Cantor Group has established several work streams to analyse and plan for the potential effects of a number of scenarios and will continue to monitor legislative developments in order to finalise the Cantor Group's operating model going forward. To date, there have been no matters that warrant adjustments to the financial results as at 31 December 2018.

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 on the industry created by MiFID II and Brexit.

CANTOR FITZGERALD EUROPE

STRATEGIC REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2018

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

The Company faces credit, market, interest rate, liquidity, foreign exchange, operational, regulatory 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 32).

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 2018, the Company's continuing gross profit decreased 37.8% when compared with 2017 (2018 gross profit: US\$20,494k; 2017 gross profit: US\$32,931k).

Profit before tax

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

Analysis: The Company returned a loss before tax of US\$6,148k in 2018, compared with a profit before tax of US\$6,691k in 2017.

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 2018 and 31 December 2017. The Company maintained a strong capital surplus of US\$52,646k (2017: US\$19,987k) at the year end, which includes ICG, Capital planning buffer and the 2018 audited loss. Capital ratios were in excess of the minimum Pillar 1 requirements: CET1 capital ratio (must be > 4.5%) 41.9% (2017 must be > 4.5%: 16.4%), Tier 1 capital ratio (must be >6.0%) 41.9% (2017 must be >6%: 16.4%) and total capital ratio (must be > 8.0%) 41.9% (2017 must be > 8.0%: 36.4%).

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\$274k and as at 31 December 2018 totalled US\$1,734k (2017: US\$1,460k). 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.

CANTOR FITZGERALD EUROPE

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES

These are described in notes 24 to 32 in the financial statements.

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

A handwritten signature in black ink, appearing to be 'R. Haley', written over the printed name.

Mr R. Haley
Director

Date: 25 April 2019

CANTOR FITZGERALD EUROPE

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The directors present their report and the financial statements for the year ended 31 December 2018.

RESULTS AND DIVIDENDS

The loss for the year, after taxation, amounted to US\$6,630k (2017 - profit US\$6,157k).

The directors do not recommend a dividend for the year (2017: US\$Nil).

The directors who served during the year were:

Mr R. Haley
Mr S. Sofocleous
Ms D. E. Moore (non-executive)
Mr A. J. Simpson (non-executive)
Mr J. R. Lightbourne (appointed 24 May 2018)
Mr M. E. Kaplan (appointed 24 September 2018)
Mr S. P. Matthews (resigned 23 April 2018)
Mr R. M. Snelling (resigned 24 May 2018)

On 20 September 2017, as part of a governance restructuring, the Risk Oversight Committee ("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\$93k (2017: US\$115k).

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

The auditor, Ernst & Young LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

POST BALANCE SHEET EVENTS

On 11 March 2019, the Company established a Dubai branch. The branch is regulated by the Dubai Financial Services Authority ("DFSA").

**DIRECTORS' REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 - 32 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 2019

**DIRECTORS' RESPONSIBILITIES STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 judgements 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;
- 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 2018 which comprise the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and the related notes 1 to 35, 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 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

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.



Peter Wallace (Senior statutory auditor)

for and on behalf of

Ernst & Young LLP, Statutory Auditor

25 Churchill Place
Canary Wharf
London
E14 5EY

25 April 2019

CANTOR FITZGERALD EUROPE

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 US\$000	2017 US\$000
Turnover	2	71,051	80,987
Cost of sales		(50,557)	(48,056)
GROSS PROFIT		20,494	32,931
Administrative expenses		(24,284)	(20,698)
OPERATING (LOSS)/PROFIT	5	(3,790)	12,233
Interest receivable and similar income	9	2,068	1,181
Interest payable and similar charges	10	(4,426)	(6,723)
(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		(6,148)	6,691
Taxation on ordinary activities	11	(482)	(534)
Total comprehensive income for the year		(6,630)	6,157

There were no recognised gains and losses for 2018 or 2017 other than those included in the statement of comprehensive income.

The notes on pages 13 to 50 form part of these financial statements.

CANTOR FITZGERALD EUROPE
REGISTERED NUMBER: 02505767

BALANCE SHEET
AS AT 31 DECEMBER 2018

	Note	2018 US\$000	As restated 2017 US\$000
Current assets			
Debtors	14	225,881	130,346
Current asset investments	15	140,182	615,001
Cash at bank and in hand	16	32,562	131,275
		<u>398,625</u>	<u>876,622</u>
Creditors: Amounts falling due within one year	17	(297,041)	(768,722)
Net current assets		<u>101,584</u>	<u>107,900</u>
Total assets less current liabilities		<u>101,584</u>	<u>107,900</u>
Creditors: Amounts falling due after more than one year	18	-	(64,100)
Provisions for liabilities	19	(820)	(506)
Net assets		<u><u>100,764</u></u>	<u><u>43,294</u></u>
Capital and reserves			
Called up share capital	21	101,237	90,426
Profit and loss account		(473)	(47,132)
Shareholders' funds		<u><u>100,764</u></u>	<u><u>43,294</u></u>

The 2017 figures are restated as a result of a change in accounting policy - see note 35.

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 2019

The notes on pages 13 to 50 form part of these financial statements.

CANTOR FITZGERALD EUROPE**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

	Called up share capital	Profit and loss account	Total equity
	US\$000	US\$000	US\$000
At 1 January 2018	90,426	(47,132)	43,294
Loss for the year	-	(6,630)	(6,630)
Shares issued during the year	64,100	-	64,100
Shares cancelled during the year	(53,289)	-	(53,289)
Shares cancelled against profit and loss reserve	-	53,289	53,289
At 31 December 2018	101,237	(473)	100,764

The notes on pages 13 to 50 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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 & cash flow exemption

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 (dissolved 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.

As a qualifying entity under FRS 102, the Company has taken advantage of the exemption in FRS 102 from preparing a cash flow statement. The Company is able to apply this exemption as its immediate parent CFS LLP, prepares publicly available consolidated financial statements (see note 34) which include a cash flow statement.

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 2018 was 1.2736 (2017: 1.3528).

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 its employees. 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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.

In 2018, the CFE Board have changed the accounting policy from trade date to settlement date recognition for regular way purchase/sales of financial instruments held for trading - see note 35. Financial instruments classified as amortised cost continue to be recognised on a trade date basis.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 this is principally the Company's long and short inventory positions. Financial instruments are classified as held for trading if they are acquired for the purpose of reselling. All derivative financial instruments are measured at fair value through profit and loss. 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

As mentioned above, in 2018, the CFE Board have changed the accounting policy from trade date to settlement date recognition for regular way purchase/sales of financial instruments held for trading - see note 35. Financial instruments classified as amortised cost continue to be recognised on a trade date basis.

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

1. ACCOUNTING POLICIES (CONTINUED)

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.

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, excluding 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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\$44,371k (2017: US\$42,787k) and fees from group undertakings of US\$2,470k (2017: US\$2,836k). The remaining turnover relates to net gains from financial assets and liabilities at fair value through profit and loss US\$24,210k (2017: US\$35,364k).

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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:

	2018 US\$000	2017 US\$000
Turnover		
United Kingdom	69,891	79,838
Israel	1,160	1,149
	<u>71,051</u>	<u>80,987</u>

	2018 US\$000	2017 US\$000
Taxation on profit (excluding deferred tax)		
United Kingdom	(213)	(1,616)
	<u>(213)</u>	<u>(1,616)</u>

Refer to note 11 for further details regarding taxation.

	2018 No.	2017 No.
Average number of employees		
United Kingdom	124	120
Israel	2	3
	<u>126</u>	<u>123</u>

Public subsidies received

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

CANTOR FITZGERALD EUROPE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

5. OPERATING LOSS

Operating loss is stated after charging / (crediting):

	2018 US\$000	2017 US\$000
Foreign exchange loss/(gain)	602	(629)
Rent payable under operating leases	1,609	930
	<u> </u>	<u> </u>

6. AUDITOR'S REMUNERATION

	2018 US\$000	2017 US\$000
Audit of the financial statements	218	211
Other audit related assurance services	153	148
	<u> </u>	<u> </u>
	<u>371</u>	<u>359</u>

The auditor's remuneration is borne by an associated group entity, of which the Company was subsequently recharged US\$205k (2017: US\$234k).

7. STAFF COSTS

Staff costs were as follows:

	2018 US\$000	2017 US\$000
Wages and salaries	33,626	30,114
Social security costs	4,231	3,892
Cost of defined contribution scheme	200	189
	<u> </u>	<u> </u>
	<u>38,057</u>	<u>34,195</u>

There were no outstanding contributions payable to the defined contribution scheme by the Company as at 31 December 2018 and 31 December 2017.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

STAFF COSTS (CONTINUED)

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

	2018 No.	2017 No.
Operating	117	118
Business Management	9	5
	<u>126</u>	<u>123</u>

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:

	2018	2017
Discount rate (%)	3	2
Forfeiture rate (%)	41	41
Retirement age (years)	<u>50</u>	<u>50</u>

The Company recognised in cost of sales a total expense of US\$2,241k in the year ended 31 December 2018 (2017: expense of US\$1,905k) in relation to the grant units.

CANTOR FITZGERALD EUROPE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

8. DIRECTORS' REMUNERATION

The remuneration paid to the directors of the Company comprised:

	2018 US\$000	2017 US\$000
Directors' remuneration	1,141	1,320
Remuneration of the highest paid director	967	1,177
	<u> </u>	<u> </u>

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

	2018 US\$000	2017 US\$000
Other interest receivable	2,068	1,181
	<u>2,068</u>	<u>1,181</u>

10. INTEREST PAYABLE AND SIMILAR EXPENSES

	2018 US\$000	2017 US\$000
Bank interest payable	1,859	1,589
Loans from group undertakings	1,030	3,749
Other interest payable	1,537	1,385
	<u>4,426</u>	<u>6,723</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
11. TAXATION

	2018 US\$000	2017 US\$000
Corporation tax		
Current tax on profits for the year	-	1,652
Adjustments in respect of previous periods	(32)	(36)
Foreign tax adjustment in respect of prior periods	245	-
Total current tax	<u>213</u>	<u>1,616</u>
Deferred tax		
Origination and reversal of timing differences	233	(1,157)
Effect of changes in tax rates	36	75
Total deferred tax	<u>269</u>	<u>(1,082)</u>
Taxation on profit on ordinary activities	<u>482</u>	<u>534</u>

FACTORS AFFECTING TAX CHARGE FOR THE YEAR

The tax assessed for the year is higher than (2017 - lower than) the standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%). The differences are explained below:

	2018 US\$000	2017 US\$000
Profit on ordinary activities before tax	<u>(6,148)</u>	<u>6,691</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19.00% (2017 - 19.25%)	(1,168)	1,288

EFFECTS OF:

Expenses not deductible	625	949
Losses carried forward / (utilised)	32	(551)
Deferred tax (unrecognised) / recognised	233	(1,157)
Adjustment from previous periods	(32)	(36)
Tax rate changes	36	75
Short-term timing differences	511	(34)
Foreign tax	245	-
TOTAL TAX CHARGE FOR THE YEAR	<u>482</u>	<u>534</u>

FACTORS THAT MAY AFFECT FUTURE TAX CHARGES

The effective statutory corporation tax rate for the year ended 31 December 2018 is 19.00% (2017: 19.25%). The Finance Act 2016 which was substantively enacted on 6 September 2016 confirmed that the rate of corporation tax will reduce to 17.00% from 1 April 2020. A 17.00% (2017: 18.00%) rate has been applied to calculate the deferred tax asset as at 31 December 2018.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

12. DEFERRED TAXATION

A deferred tax asset of US\$813k (2017: US\$1,082k) has been recognised in respect of part of the tax losses carried forward as at 31 December 2018 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 17.00% rate and is US\$7,739k (2017: US\$7,100k). Of the total asset not recognised, the amount relating to tax losses is approximately US\$5,994k (2017: US\$5,800k), and the amount relating to capital allowances is approximately US\$185k (2017: US\$200k), and the amount relating to other short-term timing differences is US\$1,560k (2017: US\$1,100k). 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 its dissolution, was registered at 6th Floor, Tower A, 1 CyberCity, Ebene, Republic of Mauritius. Upon dissolution, the Company's investment in the subsidiary of US\$21k was written off. The investment has been fully impaired since 2012.

14. DEBTORS

	2018 US\$000	As restated 2017 US\$000
Trade debtors	207,064	122,569
Amounts owed by group companies	4,358	4,336
Corporation tax recoverable	794	-
Other taxes and social security	161	-
Other debtors	12,530	2,144
Prepayments and accrued income	161	215
Deferred taxation	813	1,082
	<u>225,881</u>	<u>130,346</u>

The 2017 figures, above and in the analysis below, are restated as a result of a change in accounting policy - see note 35. In relation to the deferred tax asset, US\$542k (2017: US\$721k) is considered non-current and to be utilised in more than one year.

Trade debtors are further analysed below:

	2018 US\$000	As restated 2017 US\$000
Mark to market on securities trades pending settlement	473	396
Failed trades to deliver	75,149	23,720
Securities purchased under agreements to resell with related parties	30,696	-
Stock borrows with unrelated parties	9,430	28,763
Derivative balances	17,041	14,812
Receivables from clients, clearers, exchanges and other broker dealers	74,275	54,878
	<u>207,064</u>	<u>122,569</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

15. CURRENT ASSET INVESTMENTS

	2018 US\$000	As restated 2017 US\$000
Long positions	80,649	574,239
Liquid resources	59,533	40,762
	<u>140,182</u>	<u>615,001</u>

The 2017 figures are restated as a result of a change in accounting policy - see note 35.

Long positions represent the Company's trading positions and hedges for certain CFD client trades. They comprise 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:

	2018 US\$000	2017 US\$000
Non-segregated cash at bank and at hand	31,997	130,704
Client segregated cash	565	571
	<u>32,562</u>	<u>131,275</u>

17. CREDITORS: Amounts falling due within one year

	2018 US\$000	As restated 2017 US\$000
Bank overdrafts	26,913	25,513
Trade creditors	161,990	638,531
Amounts owed to group undertakings	8,768	3,834
Corporation tax	-	234
Other taxation and social security	6,210	2,568
Other creditors	368	358
Accruals and deferred income	32,194	33,351
Short positions	60,598	64,333
	<u>297,041</u>	<u>768,722</u>

The 2017 figures, above and in the analysis below, are restated as a result of a change in accounting policy - see note 35.

CANTOR FITZGERALD EUROPE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

CREDITORS: Amounts falling due within one year (continued)

Trade creditors are further analysed below:

	2018 US\$000	As restated 2017 US\$000
Mark to market on securities trades pending settlement	1,051	68
Failed trades to receive	76,940	37,814
Stock loans with unrelated parties	21,400	23,664
Derivative balances	11,485	19,189
Payables to customers, clearers, exchanges and other broker dealers	51,114	557,796
	<u>161,990</u>	<u>638,531</u>

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

	2018 US\$000	2017 US\$000
Amounts owed to group undertakings	-	64,100
	<u>-</u>	<u>64,100</u>

	2018 US\$000	2017 US\$000
Received from and date issued / repayable		
Cantor Fitzgerald L.P. - 31 October 2009 / 31 December 2021	-	7,000
Cantor Fitzgerald L.P. - 31 December 2009 / 31 December 2021	-	17,000
Cantor Fitzgerald L.P. - 29 September 2011 / 31 December 2021	-	16,000
Cantor Fitzgerald L.P. - 13 December 2011 / 31 December 2021	-	15,000
Cantor Fitzgerald L.P. - 20 December 2012 / 31 December 2021	-	8,000
Cantor Fitzgerald L.P. - 24 May 2013 / 31 December 2021	-	1,100
	<u>-</u>	<u>64,100</u>

On 1 April 2018, the Company repaid all tranches of the subordinated loans to CFLP following the issue of ordinary shares to its parent entities (see note 21).

In 2017, the Company extended the repayment date of all tranches of its subordinated debt with CFLP, totaling US\$64,100k from 30 September 2021 to 31 December 2021. The interest rate charged on the loans was 450 basis points above the 3 month LIBOR. The subordinated loans were classified as qualifying capital for FCA financial resources requirements. In 2017 there were no repayments of the subordinated loans.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

19. PROVISIONS & CONTINGENT LIABILITIES

	Litigation Provision US\$000
At 1 January 2018	506
Charged to profit or loss	314
AT 31 DECEMBER 2018	820

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 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

	2018 US\$000	2017 US\$000
Within 1 year	93	170
Between 2 and 5 years	77	182
Total	170	352

21. SHARE CAPITAL

	2018 US\$000	2017 US\$000
Allotted, called up and fully paid		
65,423,162 (2017 - 57,716,432) Ordinary shares of £ 1 each	101,237	90,426

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) owed to CFLP.

On 28 December 2018, the Company cancelled and extinguished 37,987,596 ordinary shares of £1 each, equivalent to US\$53,289k. The shares were cancelled against the profit and loss reserve account.

CANTOR FITZGERALD EUROPE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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:

	2018 US\$000	2017 US\$000
Due to		
Entities with control over the Company	1,439	64,141
Group undertakings	7,329	3,793
	<u>8,768</u>	<u>67,934</u>
	2018 US\$000	2017 US\$000
Due from		
Entities with control over the Company	70	87
Group undertakings	4,288	4,249
	<u>4,358</u>	<u>4,336</u>

In 2017, included in amounts due to entities with control over the Company are subordinated loans from CFLP of \$64,100k. The details of these loans are disclosed in note 18. The loans were repaid on 1 April 2018. All other amounts owed to group undertakings are unsecured, non-interest bearing and repayable on demand. In addition to the above balances at 31 December 2018, the Company has accrued interest payable of US\$25,209k (2017: US\$24,179k) in relation to loans from entities with control over the Company.

During the year ended 31 December 2018 the net service arrangements expense with BGC Group entities was US\$13,675k (2017: US\$13,889k). 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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:

	2018 US\$000	2017 US\$000
Amount due from / (to)		
Entities with control over the Company	19	55
Group undertakings	489	2,159
	<u>508</u>	<u>2,214</u>
	2018 US\$000	2017 US\$000
Gross contract or underlying notional amount		
Entities with control over the Company	8,155	3,835
Group undertakings	529,155	524,648
	<u>537,310</u>	<u>528,483</u>

The Company also enters into securities borrowing, lending and repurchase and reverse repurchase agreements with BGC Group and Cantor Group entities. At 31 December 2018 the Company had securities purchased under agreements to resell with group undertakings of US\$30,696k (2017: US\$Nil).

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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
2018		
CFDs	92,851	5,378
Foreign exchange derivatives swaps	1,049,988	177
Foreign exchange derivatives forwards	105,117	1
Total derivatives	1,247,956	5,556

	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)

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

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

RISK MANAGEMENT (CONTINUED)

Cash, Client Segregated Funds and Money Market Funds

The principal risk is credit and liquidity risk 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.

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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 being able to collect 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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). The 2017 figures are restated as a result of a change in accounting policy - see note 35.

	Gross maximum exposure 2018 US\$000	As restated Gross maximum exposure 2017 US\$000
On balance sheet items		
Trade debtors	207,064	122,569
Amounts owed by group undertakings	4,358	4,336
Corporation tax recoverable	794	-
Other taxes and social security	161	-
Other debtors	12,530	2,144
Long positions and liquid resources	140,182	615,001
Cash and cash equivalents	32,562	131,275
	<u>397,651</u>	<u>875,325</u>

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 2018, the long positions and liquid resources of US\$140,182k (2017: US\$615,001k) include securities owned and pledged as collateral amounting to US\$21,400k (2017: US\$23,664k).

At 31 December 2018, securities and cash amounting to US\$3,285k (2017: US\$3,376k) 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.

CANTOR FITZGERALD EUROPE

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

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. These positions are held with highly rated financial institutions.

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 (2017: US\$Nil). Past due balances are analysed below.

	2018 US\$000	2017 US\$000
Net Receivables / (Payables) - Matched Principal Ageing Analysis		
Less than 1 month	6,347	(14,424)
1 month to less than 2 months	(6,977)	337
2 months to less than 3 months	2	59
3 months and over	186	(66)
	<u>(442)</u>	<u>(14,094)</u>

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\$17,230k and fail to receive transactions totalling US\$16,940k as at the date of signing the financial statements had not yet been settled. As at the signing of the 2017 financial statements, fail to deliver transactions totalling US\$197k and fail to receive transactions totalling US\$72k that existed as at 31 December 2017 had not yet been settled.

	2018 US\$000	2017 US\$000
Receivables - Name Give-Up Basis and Corporate Finance Ageing Commissions Analysis (Net of Allowances for Credit Losses)		
Less than 1 month	7,810	2,265
1 month to less than 2 months	485	459
2 months to less than 3 months	302	194
3 months and over	1,548	1,526
	<u>10,145</u>	<u>4,444</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

RISK MANAGEMENT - CREDIT RISK (CONTINUED)

At 31 December 2018, US\$23k (2017: US\$237k) of trade debtors were considered to be impaired. During the year, an impairment of US\$23k (2017: US\$97k) was charged to the profit and loss account, US\$20k (2017: US\$113k) of the allowance for credit losses was reversed and US\$217k (2017: US\$19k) 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 2018 or 31 December 2017.

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 2018, the gross exposure to market risk arising from such positions amounted to US\$20,005k (2017: US\$35,168k).

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
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:

	2018 US\$000	2017 US\$000
Value at Risk for the year ended 31 December		
Average	397	370
Minimum	214	198
Maximum	558	548
Standard deviation	76	65
At 31 December	214	332

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
2018			
Cash and cash equivalents	32,562	-	32,562
Securities purchased under agreements to resell	30,696	-	30,696
Securities borrowed	9,430	-	9,430
US treasury bills	59,533	-	59,533
Bank overdrafts	(26,913)	-	(26,913)
Securities loaned	(21,400)	-	(21,400)
Other financial assets and liabilities	-	21,957	21,957
	<u>83,908</u>	<u>21,957</u>	<u>105,865</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

RISK MANAGEMENT - INTEREST RATE RISK (CONTINUED)

	Less than 1 year US\$000	Non-interest bearing US\$000	Total US\$000
2017			
Cash and cash equivalents	131,275	-	131,275
Securities borrowed	28,763	-	28,763
US treasury bills	40,762	-	40,762
Gilts	403	-	403
Bank overdrafts	(25,513)	-	(25,513)
Securities loaned	(23,664)	-	(23,664)
Subordinated loan	(64,100)	-	(64,100)
Other financial assets and liabilities	-	(42,521)	(42,521)
	<u>87,926</u>	<u>(42,521)</u>	<u>45,405</u>

Other financial assets and liabilities include trade and other debtors and creditors, non interest bearing long and short inventory, accruals 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 (2017: decrease) in the profit before tax for the year and decrease (2017: decrease) in equity of US\$733k (2017: US\$421k).

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. 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.

**NOTES TO THE FINANCIAL STATEMENTS
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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	Total US\$000
2018		
Bank loans and overdrafts	26,913	26,913
Trade creditors	161,990	161,990
Amounts owed to group undertakings	8,768	8,768
Other creditors	368	368
Accruals	32,194	32,194
Short positions	60,598	60,598
	<u>290,831</u>	<u>290,831</u>

	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	638,531	-	638,531
Amounts owed to group undertakings	3,834	-	3,834
Other creditors	358	-	358
Accruals	33,351	-	33,351
Short positions	64,333	-	64,333
Subordinated loan	-	64,100	64,100
	<u>765,920</u>	<u>64,100</u>	<u>830,020</u>

The only material financial liability with a remaining contractual maturity longer than one year was the subordinated debts to a fellow group entity, CFLP. The subordinated debts were repaid on 1 April 2018. 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.

**NOTES TO THE FINANCIAL STATEMENTS
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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 2018, 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\$1,676k (2017: favourably affected by US\$2,527k).

Taking the Euro denominated balance sheet as at 31 December 2018, 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\$218k (2017: favourably affected by US\$66k).

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 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.

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.

**NOTES TO THE FINANCIAL STATEMENTS
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31. RISK MANAGEMENT - REGULATORY ENVIRONMENT RISK

The Company operates in a highly regulated industry. 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 must also comply with UK and Israeli legislation and taxation authority requirements in respect of certain direct, indirect and employment taxes.

Changes in the regulatory framework such as MiFID II as well as the UK's impending Brexit may have an impact on the financial performance of the business and are closely monitored by the Company, including any regulatory risks. The implementation of the European Market Infrastructure Regulations ("EMIR") has resulted in greater reporting of information in relation to business activities. The Board monitor these and other regulatory developments through its various functions, including the ORCC, to ensure management action is taken in response to regulatory developments and any risks associated with non-compliance are closely monitored.

The Company has no tolerance for knowing and deliberate breaches of applicable laws, regulatory requirements or corporate policies. The Company accepts that unintentional or inadvertent breaches may occur from time to time and it is not possible to eliminate all instances of breaches. The Company expects internal systems and controls (including training of staff and documentation of policies and procedures) to be designed and implemented with the aim of detecting, preventing and therefore minimising (both in terms of frequency and impact) the occurrence of breaches. The Company has negligible tolerance for repeated breaches which are based on materially similar fact patterns. The Board expects to be notified of any breaches, or if there is any material/elevated risk in this regard.

Furthermore, the Company expects that monitoring, surveillance and self-reporting will promptly identify issues which may have regulatory consequences. Where material exceptions are identified, the Board expects to be informed of the issue and any remediation actions to be taken on a timely basis. The Board will ensure that the remedial action taken is appropriate so that the issues highlighted are satisfactorily addressed. Where necessary this will involve adjusting the internal control framework so that it is kept in line with the regulatory risk profile. The Company is only prepared to conduct business in jurisdictions within which it has obtained the necessary regulatory approvals.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

32. 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:

	2018 US\$000	2017 US\$000
Shareholders' funds	100,764	43,294
Subordinated debt	-	64,100
	<u>100,764</u>	<u>107,394</u>

**NOTES TO THE FINANCIAL STATEMENTS
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33. FAIR VALUE

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

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

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

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

	Carrying Amounts 2018 US\$000	Fair Values 2018 US\$000	Carrying Amounts 2017 US\$000	Fair Values 2017 US\$000
Financial assets				
Trade debtors	207,064	207,064	122,569	122,569
Amounts owed by group undertakings	4,358	4,358	4,336	4,336
Other debtors	12,530	12,530	2,144	2,144
Long positions and liquid resources	140,182	140,182	615,001	615,001
	<u>364,134</u>	<u>364,134</u>	<u>744,050</u>	<u>744,050</u>
	Carrying Amounts 2018 US\$000	Fair Values 2018 US\$000	Carrying Amounts 2017 US\$000	Fair Values 2017 US\$000
Financial liabilities				
Bank loans and overdrafts	26,913	26,913	25,513	25,513
Trade creditors	161,990	161,990	638,531	638,531
Amounts owed to group undertakings	8,768	8,768	3,834	3,834
Other creditors	368	368	358	358
Accruals	32,194	32,194	33,351	33,351
Short positions	60,598	60,598	64,333	64,333
Subordinated debt	-	-	64,100	64,100
	<u>290,831</u>	<u>290,831</u>	<u>830,020</u>	<u>830,020</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

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 and accruals

Other includes debtors / creditors, accruals, 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
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 2018

	Level 1 US\$000	Level 2 US\$000	Total US\$000
Financial assets			
Derivative forward foreign exchange forwards	-	237	237
Derivative forward foreign exchange swaps	-	2,038	2,038
Derivative CFDs	-	14,766	14,766
Long positions and liquid resources	140,182	-	140,182
	<u>140,182</u>	<u>17,041</u>	<u>157,223</u>

	Level 1 US\$000	Level 2 US\$000	Total US\$000
Financial liabilities			
Derivative forward foreign exchange forwards	-	236	236
Derivative forward foreign exchange swaps	-	1,861	1,861
Derivative CFDs	-	9,388	9,388
Short positions	60,598	-	60,598
	<u>60,598</u>	<u>11,485</u>	<u>72,083</u>

**NOTES TO THE FINANCIAL STATEMENTS
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FAIR VALUE (CONTINUED)**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	615,001	-	615,001
	<u>615,001</u>	<u>14,812</u>	<u>629,813</u>

	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	64,333	-	64,333
	<u>64,333</u>	<u>19,189</u>	<u>83,522</u>

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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**

34. 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.

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018**
35. CHANGE IN ACCOUNTING POLICY

	Trade Date 31 December 2018 US\$000	Effect of transition 31 December 2018 US\$000	31 December 2018 US\$000	As previously stated 31 December 2017 US\$000	Effect of transition 31 December 2017 US\$000	Restated 31 December 2017 US\$000
Debtors	517,460	(291,579)	225,881	361,386	(231,040)	130,346
Current asset investments	127,530	12,652	140,182	656,706	(41,705)	615,001
Cash at bank and in hand	32,562	-	32,562	131,275	-	131,275
Creditors: Amounts falling due within one year	(575,968)	278,927	(297,041)	(1,041,467)	272,745	(768,722)
Total assets less current liabilities	101,584	-	101,584	107,900	-	107,900
Creditors: Amounts falling due after more than one year	-	-	-	(64,100)	-	(64,100)
Provision for liabilities	(820)	-	(820)	(506)	-	(506)
Net assets / shareholders' funds	100,764	-	100,764	43,294	-	43,294

Change from trade date accounting to settlement date for regular way purchases/sales

The Company applies the recognition and measurement provisions of IAS 39 in accounting for all of its financial instruments. IAS 39 permits financial instruments recognised in regular way purchase/sales transactions to be recognised or derecognised, either as at the trade date or as at the settlement date. In 2018, the CFE board have changed the accounting policy, for recognition and derecognition, for all financial instruments held for trading from trade date accounting to settlement date accounting.

The change in accounting policy is determined to provide more reliable and relevant information to users of the financial statements. The CFE board considers, trade date accounting inflates the assets and liabilities of the balance sheet for matched principal transactions with opposing settlement balances being recognised in trade debtors and trade creditors. This can result in users of the financial statements mistaking the leverage implicit in the business.

The effect of the change in accounting policy can be seen in the above tables. The impact of the change in accounting policy is to reduce trade debtors by US\$291,579k (2017: US\$231,040k), increase inventory by US\$12,652k (2017: decrease US\$41,705k), decrease trade creditors by US\$290,248k (2017: US\$271,907k) and increase short positions by US\$11,321k (2017: decrease US\$838k).

The change in accounting policy has no impact on profit or loss.