

BNY Markets Limited

Strategic report, Directors' report and financial statements

Registered number 3162893

31 December 2018



BNY Markets Limited

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BNY Markets Limited

Board of Directors and other information

Directors

G J Cohen

J Jack (Chair)

M Semedallas

Secretary

BNY Mellon Secretaries (UK) Limited

160 Queen Victoria Street

London

EC4V 4LA

Auditor

KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

Registered Office

One Canada Square

London

E14 5AL

Registered Number

3162893

BNY Markets Limited

Strategic report

In accordance with Section 414A(1) of the Companies Act 2006, we have prepared the Strategic report which includes a review of BNY Markets Limited's ("the Company") business and future developments, a description of the principal risks and uncertainties facing the Company and key performance indicators.

The ultimate parent company is The Bank of New York Mellon Corporation ("BNY Mellon"/"Group").

Business review

The Company has continued to operate as a holding company for minority interests in group and non-group companies, and will continue to operate in this capacity for the foreseeable future.

The Company's key financial and other performance indicators during the year were as follows:

	2018	2017	Change	Change
	\$000	\$000	\$000	%
Administrative expenses	57	3	54	1,800%
Loss before taxation	(2,574)	(1,741)	(833)	48%
Net assets	14,740	17,314	(2,574)	(15)%

The Company reported a pre-tax loss of \$2,574,000 (2017: \$1,741,000 loss) during the year, largely due to interest expense incurred on a loan from another group company. The Company also incurred a small amount of administrative expenses.

Principal risks and uncertainties

The principal risks and uncertainties affecting the business have been considered and addressed in the Directors' report on pages 4 to 6.

Business and future developments

As part of the BNY Mellon Brexit Programme, the Company continues to monitor the UK's withdrawal from the European Union. The programme's analysis and planning has taken into account a range of potential economic scenarios and their impact on the Company's operating model, aligned with regulatory and supervisory guidance which has been communicated industry-wide.

Specific risks to the Company's business include the impact of potential regulatory changes and potential changes to the legal framework in which the Company operates. By working closely with regulators, and establishing a full Communications workstream as part of the wider BNY Mellon Brexit programme, a proactive approach has been taken to mitigate these risks wherever possible.

As Brexit negotiations progress, the BNY Mellon Brexit Programme continues to monitor new developments and any regulatory implications that may impact the Company.

BNY Markets Limited

Strategic report

Approval

By order of the Board



J Jack
Director

BNY Markets Limited
One Canada Square
London
E14 5AL

19 September 2019

Company registered number: 3162893

BNY Markets Limited

Directors' report

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

Principal activity

The Company was not engaged in any business activities during the year but did continue to operate as a holding company for minority investments.

Results and dividends

The loss for the year after taxation amounted to \$2,574,000 (2017: \$1,741,000 loss).

The directors do not recommend a dividend for the year ended 31 December 2018 (2017: \$nil).

Political donations

The Company made no political donations nor incurred any political expenditure during the year.

Risk management

Governance and policies

Policies and procedures are in place to govern and manage the business. Suitable policies and procedures have been adopted by the Company in order to ensure an appropriate level of risk management is directed at the relevant element of the business.

Governance of the Company is ultimately the responsibility of the Board of Directors. The Board is responsible for the ongoing success and development of the Company's business as well as ensuring the Company remains within the corporate risk appetite.

The Board of Directors are responsible for the oversight of the following:

- the risk management activities of the Company;
- the risks inherent in the business of the Company and the control and mitigation processes with respect to such risks; and
- the assessment and review of these risks including strategic, market, credit, operational and liquidity risks.

Key committees are in place to oversee compliance and risk management of the Company to ensure adequate risk management and controls are in place. Each committee has clearly stated terms of reference and reporting lines.

Risk management framework

The BNY Mellon Group risk management framework provides integrated forward-looking risk assessment, management information reporting, risk appetite and capital adequacy process consistency. Risk appetite for the Company is incorporated within the risk appetite of the corporation. An appropriate Risk Management Framework is maintained that promotes a risk aware and transparent culture and the identification, assessment, mitigation, measurement and escalation of risk and control issues.

The Board adopts a prudent approach to all elements of risk to which the Company is exposed in line with the risk appetite of the corporation.

Principal risks relevant to the Company are discussed below.

BNY Markets Limited

Directors' report - continued

Risk management - continued

Strategic risk

Strategic risk is defined as the risk arising from adverse business decisions, poor implementation of business decisions, or lack of responsiveness to changes in the financial industry and operating environment. Strategic and/or Business risks may also arise from the acceptance of new businesses, the introduction or modification of products, strategic finance and risk management decisions, business process changes, complex transactions, acquisitions/ divestitures/ joint ventures and major capital expenditures/ investments.

Market risk

Market risk is the risk to a company's financial condition arising as a result of adverse movements in the markets, such as foreign currency exchange rates, interest rates and equity and commodity prices.

Credit risk

Credit risk is the risk that an obligor/issuer is unable or unwilling to satisfy an obligation when it falls due. Credit risk can originate from on-balance sheet obligations such as deposits, loans, commitments, securities and other assets by failing to make the required repayments.

Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events (including legal risk but excluding strategic and reputation risk).

Operational risk may arise from errors in transaction processing, breaches of internal control systems and compliance requirements, internal or external fraud, damage to physical assets, and/or business disruption due to systems failures or other events. Operational risk can also arise from potential legal or regulatory actions as a consequence of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations.

Liquidity risk

Liquidity risk is the inability to access funding, convert assets to cash quickly and efficiently, or to roll over or issue new debt, especially during periods of market stress, at a reasonable cost in order to meet short term (up to one year) obligations.

Directors

The directors who served during the year and up to the date of the report were as follows:

	Appointed	Resigned
K Braithwaite	-	29 August 2018
J Cay	-	12 March 2019
G J Cohen	-	-
J Jack	-	-
M Semedalas	26 March 2019	-

Directors' indemnity provision

The articles of association of the Company provide that in certain circumstances the directors are entitled to be indemnified out of the assets of the Company against claims from third parties in respect of certain liabilities arising in connection with the performance of their functions, in accordance with the provisions of the Companies Act 2006. Indemnity provisions of this nature have been in place during the year but have not been utilised by the directors (2017: not utilised).

BNY Markets Limited

Directors' report - continued

Disclosure of information to auditor

The directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware, and each director has taken all the steps that he or she ought to have taken as a director to make himself or herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Post balance sheet events

On 13 May 2019, BNY Markets Limited made a strategic equity investment of £2.65m in return for shares (equivalent to a 7.14% total equity stake) in a company called Fnality International Limited, a company engaged in the development of a system to support peer-to-peer transfer of digital cash settlement assets.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board



J Jack
Director

BNY Markets Limited
One Canada Square
London
E14 5AL

19 September 2019

Company registered number: 3162893

BNY Markets Limited

Statement of directors' responsibilities in respect of the Strategic report, the Directors' report and the financial statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including Financial Reporting Standard 101: Reduced Disclosure Framework ("FRS 101").

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, including FRS 101, subject to any material departures disclosed and explained in the financial statements;
- assess the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of BNY Markets Limited

Opinion

We have audited the financial statements of BNY Markets Limited for the year ended 31 December 2018 which comprise the Statement of profit and loss and other comprehensive income, Balance sheet, Statement of changes in equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state 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 UK accounting standards, including FRS 101: *Reduced Disclosure Framework*; 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 are described below. We have fulfilled our ethical responsibilities under, and are independent of the Company in accordance with, UK ethical requirements including the Financial Reporting Council's ("FRC") Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the directors, related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Company's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for an entity and this is particularly the case in relation to Brexit.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Company or to cease its operations, and as they have concluded that the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the Company's business model, including the impact of Brexit, and analysed how those risks might affect the Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Company will continue in operation.

Independent auditor's report to the members of BNY Markets Limited

Other information

The directors are responsible for the other information, which comprises the Strategic report and the Directors' report. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the Strategic report and the Directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their 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; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; 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 they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Independent auditor's report to the members of BNY Markets Limited

The purpose of our audit work and to whom we owe our responsibilities

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.

Alison Allen

Alison Allen (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London, E14 5GL

24 September 2019

BNY Markets Limited

Statement of profit and loss and other comprehensive income for the year ended 31 December 2018

	Note	2018 \$000	2017 \$000
Administrative expenses	2	(57)	(3)
Operating loss		(57)	(3)
Impairment of fixed asset investment		-	(265)
Interest receivable and similar income	5	7	4
Interest payable and similar charges	6	(2,524)	(1,477)
Loss before tax		(2,574)	(1,741)
Taxation on loss	7	-	-
Total loss for the year		<u>(2,574)</u>	<u>(1,741)</u>

Notes 1 to 16 are integral to these financial statements.

All items dealt with in arriving at the Company's results for the financial year and prior year relate to continuing operations.

The Company has not prepared a separate statement of other comprehensive income as all the income and losses are reflected in the Statement of profit and loss and other comprehensive income.

BNY Markets Limited

Balance sheet at 31 December 2018

	Note	2018 \$000	2017* \$000
Fixed assets			
Investments in associate	8	60,279	60,279
Other assets		<u>1</u>	<u>1</u>
		<u>60,280</u>	<u>60,280</u>
Current assets			
Debtors	9	-	68
Cash at bank and in hand	10	<u>14,961</u>	<u>18,726</u>
		14,961	18,794
Creditors: amounts falling due within one year	11	<u>(223)</u>	<u>(1,482)</u>
Net current assets		14,738	17,312
 Total assets less current liabilities		 75,018	 77,592
 Creditors: amounts falling due after more than one year	12	 <u>(60,278)</u>	 <u>(60,278)</u>
Net assets		<u>14,740</u>	<u>17,314</u>
 Capital and reserves			
Called up share capital	13	34	34
Profit and loss account		<u>14,706</u>	<u>17,280</u>
Shareholders' funds		<u>14,740</u>	<u>17,314</u>

*Certain prior year balances have been reclassified to be consistent with current year presentation. Please see note 8 for further information.

Notes 1 to 16 are integral to these financial statements.

These financial statements were approved by the Board of Directors and were signed on its behalf by:



J Jack
Director

19 September 2019

Company registered number: 3162893

BNY Markets Limited

Statement of changes in equity

31 December 2018

	Called up share capital	Profit and loss account	Total equity
	\$000	\$000	\$000
Balance at 1 January 2017	34	19,021	19,055
Total loss for the year	-	(1,741)	(1,741)
Balance at 31 December 2017	34	17,280	17,314

	Called up share capital	Profit and loss account	Total equity
	\$000	\$000	\$000
Balance at 1 January 2018	34	17,280	17,314
Total loss for the year	-	(2,574)	(2,574)
Balance at 31 December 2018	34	14,706	14,740

Notes 1 to 16 are integral to these financial statements.

BNY Markets Limited

Notes to the financial statements for the year ended 31 December 2018

1 Accounting policies

1.1 Basis of preparation and statement of compliance with FRS 101

The Company is a private company limited by shares incorporated and domiciled in the UK and registered in England and Wales. The registered address is given on page 1.

These financial statements were prepared in accordance with FRS 101.

The Company's ultimate parent undertaking, The Bank of New York Mellon Corporation includes the Company and all its subsidiary undertakings in its consolidated financial statements. The consolidated financial statements of The Bank of New York Mellon Corporation are prepared in accordance with U.S. Generally Accepted Accounting Principles, which are *equivalent* to International Financial Reporting Standards as adopted by the EU ("adopted IFRSs"). The Bank of New York Mellon Corporation's consolidated financial statements are available at [https://www.bnymellon.com/us/en/investor relations/](https://www.bnymellon.com/us/en/investor_relations/). Accordingly the Company is a *qualifying entity* for the purpose of FRS 101 disclosure exemptions.

Therefore, in preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of adopted IFRSs, but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

In these financial statements, the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A Statement of Cash Flows and related notes;
- Comparative period reconciliations for share capital;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management; and
- Disclosures in respect of compensation of Key Management Personnel.

As the consolidated financial statements of The Bank of New York Mellon Corporation include equivalent disclosures, the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- Certain disclosures required by IFRS 13 *Fair Value Measurement* and the disclosures required by IFRS 7 *Financial Instrument Disclosures*.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 1.15.

BNY Markets Limited

Notes to the financial statements - continued for the year ended 31 December 2018

1 Accounting policies - continued

1.2 Changes in accounting policies

The Company has initially applied IFRS 9 and IFRS 15 from 1 January 2018.

IFRS 9 *Financial Instruments*

The requirements of IFRS 9 represent a significant change from IAS 39 *Financial Instruments: Recognition and Measurement*. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Company's accounting policies resulting from its adoption of IFRS 9 are summarised below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit and loss ("FVTPL"). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an expected credit loss ("ECL") model. The new impairment model also applies to certain loan commitments and financial guarantee contracts, but not to equity investments.

The new impairment model applies to debt instruments and financial guarantee contracts issued that are not measured at FVTPL. ECLs on instruments classified as FVOCI are recognised in OCI rather than reducing the value of the instrument.

Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - If a debt security had low credit risk at the date of initial application of IFRS 9, then the Company has assumed that credit risk on the asset had not increased significantly since its initial recognition.

Effect of applying IFRS 9

Introduction of these changes had no material impact on the accounting for financial assets nor on retained earnings for the Company.

BNY Markets Limited

Notes to the financial statements - continued for the year ended 31 December 2018

1 Accounting policies - continued

1.2 Changes in accounting policies - continued

IFRS 15 Revenue from contracts with customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. Under IFRS 15, revenue is recognized when a customer obtains control of the goods or services. Determining the timing of the transfer of control – at a point in time or over time – requires judgement.

The Company has adopted IFRS 15 using the cumulative effect method (without practical expedients), with the effect of initially applying this standard recognised at the date of initial application (1 January 2018). Accordingly, the information presented for 2017 has not been restated – i.e. it is presented, as previously reported, under IAS 18, IAS 11 and related interpretations. Additionally, the disclosure requirements in IFRS 15 have not generally been applied to comparative information.

Introduction of these changes had no material impact on the accounting for revenue nor on retained earnings for the Company.

1.3 Exemption from preparation of group financial statements

As noted in section 1.1 above, the Company's ultimate parent company includes the Company in its consolidated financial statements, which are prepared under a basis equivalent to adopted IFRS. Accordingly, the Company is exempt by virtue of section 401 of the Companies Act 2006 from the requirement to prepare group financial statements. Therefore, these financial statements present information about the Company as an individual undertaking and not about its group.

1.4 Measurement convention

These financial statements are prepared on the historical cost basis.

1.5 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 2 to 3. In addition, the Directors' report on pages 4 to 6 includes the Company's objectives, policies and processes for managing its capital, its financial risk management objective and its exposures to credit and liquidity risk.

The Company has adequate liquidity and capital. The directors perform an annual going concern review that considers, under a stress test scenario, the Company's ability to meet its financial obligations as they fall due, for a period of at least twelve months after the date that the financial statements are signed. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook.

Based on the above assessment of the Company's financial position, liquidity and capital, the directors have concluded that the Company has adequate resources to continue in operational existence for the foreseeable future (for a period of at least twelve months after the date that the financial statements are signed). Accordingly, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

1.6 Related party transactions

As the Company is a wholly owned indirect subsidiary of the ultimate parent company, The Bank of New York Mellon Corporation, it has taken advantage of the exemption contained in IAS 24 and has therefore not disclosed transactions with entities which form part of the Group. Balances with other members of the Group are disclosed within notes 5, 6, 8, 10, 11 and 12.

BNY Markets Limited

Notes to the financial statements - continued **for the year ended 31 December 2018**

1 Accounting policies - continued

1.7 Foreign currency

The Company's functional currency is USD. The Company's presentational currency is also USD. Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are reported net in the Statement of profit and loss and other comprehensive income within interest receivable or payable as appropriate.

Non monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Any resulting exchange differences are reported net in the Statement of profit and loss and other comprehensive income within interest receivable or payable as appropriate.

1.8 Segmental reporting

A segment is a distinguishable component of the Company which is specific to either the type of product or service (business segment), or to products and services provided within a particular economic environment (geographical segment), where the risks and rewards are different from those of other segments.

Currently, the directors consider that the Company's services comprise one business segment and that it operates in the UK market which is not geographically segmented.

Profit and loss before taxation and tax on profit or (loss) are generated in the UK market. The number of employees on a full time equivalent basis is zero.

1.9 Interest receivable and interest payable

Interest payable and similar charges include interest payable, and net foreign exchange losses that are recognised in the Statement of profit and loss and other comprehensive income (see foreign currency accounting policy note 1.7). Interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest receivable and interest payable is recognised in the Statement of profit and loss and other comprehensive income as it accrues, using the effective interest method.

1.10 Taxation

Income tax comprises current tax. Income tax is recognised in the Statement of profit and loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case the tax is recognised in the same statement as the related item appears.

Current tax is the expected tax payable or receivable on the taxable profit or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

BNY Markets Limited

Notes to the financial statements - continued **for the year ended 31 December 2018**

1 Accounting policies - continued

1.11 Non-derivative financial assets - classification and measurement

Non-derivative financial instruments comprise cash and cash equivalents, loans and borrowings and trade and other creditors.

Financial assets are measured at amortised cost if meeting both of the following conditions and are not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Such financial assets include trade and other debtors.

Financial assets are measured at FVOCI only if meeting both of the following conditions:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specific dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A financial asset is classified into one of these categories on initial recognition. However, for financial assets held at initial application, the business model assessment is based on facts and circumstances at that date. Also, IFRS 9 permits new elective designations at FVTPL or FVOCI to be made on the date of initial application depending on the facts and circumstances at that date.

A financial liability is initially recognised at fair value and in the case of loans and borrowings and trade and other creditors, net of directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortised cost or FVTPL. Loans and borrowings and trade and other creditors are measured at amortised cost using the effective interest rate method.

Business model assessment

Certain financial assets, for example, deposits with central banks and financial institutions, always will be held for collection of contractual cash flows as the nature of the asset means that it cannot be sold. For other financial assets, the Company makes an assessment of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. Information that is considered includes:

- the stated policies and objectives for the portfolio;
- how the performance of the portfolio is evaluated and reported to management;
- how managers of the business are compensated; and
- the frequency and volume of historical and expected sales.

The Company generally does not hold assets for trading.

Assessment of whether cash flows are solely payments of principal and interest

‘Principal’ for these purposes is defined as the fair value of the financial asset at initial recognition. ‘Interest’ is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks (e.g. liquidity risk and administrative costs), as well as profit margin.

BNY Markets Limited

Notes to the financial statements - continued for the year ended 31 December 2018

1 Accounting policies - continued

1.11 Non-derivative financial assets - classification and measurement - continued

In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains contractual terms that would change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Company's claim to cash flows from specified assets; and
- features that modify consideration for the time value of money – e.g. periodic reset of interest rates.

Policy applicable before 1 January 2018

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts are repayable on demand.

Trade and other creditors

Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method.

1.12 Impairment of financial assets (including trade and other debtors)

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an ECL model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Company generally recognises loss allowances at an amount equal to 12-month ECL (Stage 1, the portion of ECL that results from default events that are possible within 12 months after the reporting date) unless there has been significant increase in credit risk since origination of the instrument, in which case ECLs are recognised on a lifetime loss basis (Stage 2). Exposures that are in default are regarded as credit impaired (Stage 3) and are also measured on a lifetime ECL basis.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses and are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive);
- Financial assets that are credit-impaired at the reporting date – the difference between the gross carrying amount and the present value of estimated future cash flows; and
- Financial guarantee contracts – the expected payments to reimburse the holder less any amounts that the Company expects to recover.

The Company has determined that the application of IFRS 9's impairment requirements had no material impact on the allowance for impairment as at 1 January 2018.

BNY Markets Limited

Notes to the financial statements - continued for the year ended 31 December 2018

1 Accounting policies - continued

1.12 Impairment of financial assets (including trade and other debtors) - continued

The Company maintains an allowance for doubtful accounts for the estimated non-collection of accounts receivable. Uncollectability is presumed 180 days after invoice issue date unless there are known customer - specific reasons for the delay in settlement.

Policy applicable before 1 January 2018

A financial asset not carried at FVTPL is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

1.13 Investments in associate

Investments in associates are carried at cost less impairment.

1.14 Impairment of non-financial assets

The carrying amounts of the Company's assets are assessed annually for impairment when events or changes in circumstances indicate that the carrying amount of the fixed assets may not be recoverable. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the Statement of profit and loss and other comprehensive income.

1.15 Accounting estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions about future conditions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

Management believes that the Company's critical accounting policies for which judgement is necessarily applied are those which relate to impairment of investments in associates. Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in the notes to the financial statements.

2 Administrative expenses and auditor's remuneration

Auditor's remuneration:

	2018	2017
	\$000	\$000
Amounts receivable by the Company's auditor and its associates in respect of:		
Audit of these financial statements pursuant to legislation	3	3

3 Staff numbers and costs

The Company had no employees during the year ended 31 December 2018 (2017: nil).

BNY Markets Limited

Notes to the financial statements - continued for the year ended 31 December 2018

4 Directors' emoluments

The aggregate amount of remuneration paid to or receivable by directors in respect of qualifying services is disclosed below. Qualifying services include services as a director of the Company, as a director of any of its subsidiary undertakings or otherwise in connection with the management of the affairs of the Company or any of its subsidiary undertakings. The amounts are disclosed irrespective of which BNY Mellon Group company actually makes the payment to the directors.

	2018	2017*
	\$000	\$000
Directors' emoluments	10	8
Amounts receivable under long term incentive schemes	3	2
Company contributions to money purchase pension plans	-	1
	<u>13</u>	<u>11</u>

The aggregate of emoluments and amounts receivable under long term incentive schemes of the highest paid director was \$3,919 (2017: \$4,021), and Company pension contributions of \$207 (2017: \$200) were made to a money purchase scheme on his behalf. During the year, the highest paid director received shares under a long term incentive scheme.

	Number of Directors	
	2018	2017*
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	4	4
The number of directors who exercised share options was	-	2
The number of directors in respect of whose services shares were received or receivable under long term incentive schemes was	4	2

*The Company has restated certain prior year numbers relating to Directors' remuneration to disclose amounts paid in the year and amounts which became receivable under long-term incentive schemes as at year end. The charge to administrative expenses in the Statement of profit and loss and other comprehensive income has continued to be recognised on an accruals basis. The number of Directors disclosed for each item in the above table has also been restated where applicable to reflect this change.

5 Interest receivable and similar income

	2018	2017
	\$000	\$000
Net foreign exchange gain	-	1
Receivable from Group undertakings	<u>7</u>	<u>3</u>
Total interest receivable and similar income	<u>7</u>	<u>4</u>

BNY Markets Limited

Notes to the financial statements - continued for the year ended 31 December 2018

6 Interest payable and similar charges

	2018	2017
	\$000	\$000
Net foreign exchange loss	4	-
Payable to Group undertakings	2,520	1,477
Total interest payable and similar charges	<u>2,524</u>	<u>1,477</u>

7 Taxation

Factors affecting total tax charge for the current period

The charge for the year can be reconciled to the income per the Statement of profit and loss and other comprehensive income as follows:

	2018	2017
	\$000	\$000
Loss for the year	<u>(2,574)</u>	<u>(1,741)</u>
Loss excluding taxation	(2,574)	(1,741)
Tax using the UK corporation tax rate of 19.00% (2017: 19.25%)	(489)	(335)
Non-deductible expenses	485	335
Effects of group relief/other reliefs	4	-
Total tax expense	<u>-</u>	<u>-</u>

A reduction in the UK corporation tax rate from 20% to 19% (effective 1 April 2017) was substantively enacted on 26 October 2015 and a further reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the Company's future tax charge accordingly.

8 Investments in associate

	\$000
Cost or valuation	
At 1 January 2018	<u>60,279</u>
At 31 December 2018	<u>60,279</u>
Net book value	
At 31 December 2018	<u>60,279</u>
At 31 December 2017*	<u>60,279</u>

*Prior year balances have been reclassified to be consistent with current year presentation.

Management have conducted an impairment assessment of the carrying value of the investment based on the net asset value and have concluded that no impairments exist at the balance sheet date.

BNY Markets Limited

Notes to the financial statements - continued for the year ended 31 December 2018

8 Investments in associate - continued

The Company has the following investment in group undertakings:

Name of associate	Country of incorporation	Registered office	Principal activity	Class of shares held	Ownership 2018	Ownership 2017
Pershing Holdings (UK) Limited	England and Wales	Royal Liver Building, Pier Head, Liverpool, England, L3 1LL	Holding company	Ordinary £1	25%	25%

9 Debtors

	2018 \$000	2017 \$000
Tax recoverable	-	68
Due within one year	-	68

10 Cash at bank and in hand

	2018 \$000	2017 \$000
Cash at bank and in hand	14,961	18,726
	14,961	18,726

Cash at bank included \$14,961,000 (2017: \$18,726,000) of funds on deposit with a UK regulated banking entity within the BNY Mellon group.

11 Creditors: amounts falling due within one year

	2018 \$000	2017 \$000
Amounts owed to group undertakings	220	-
Accruals and deferred income	3	1,482
	223	1,482

BNY Markets Limited

Notes to the financial statements - continued for the year ended 31 December 2018

12 Creditors: amounts falling due after more than one year

	2018	2017
	\$000	\$000
Amounts owed to group undertakings	60,278	60,278
	<u>60,278</u>	<u>60,278</u>

13 Capital and reserves

Share capital

	2018	2017
	\$000	\$000
Allotted, called up and fully paid		
20,000 ordinary shares of £1 each	34	34

20,000 ordinary shares of £1 each are translated at GBP£1=US\$1.6985.

14 Subsequent event

On 13 May 2019, BNY Markets Limited made a strategic equity investment of £2.65m in return for shares (equivalent to a 7.14% total equity stake) in a company called Fnality International Limited, a company engaged in the development of a system to support peer-to-peer transfer of digital cash settlement assets.

15 Transactions involving directors, officers and others

At 31 December 2018 there were no loans or other transactions made to directors, officers or other related parties of the Company (2017: \$nil).

16 Ultimate parent company and parent company of larger group

The immediate parent undertaking of the Company is BNY Capital Markets Holdings Inc., a company incorporated in the United States of America. BNY Capital Markets Holdings Inc.'s registered address is 240 Greenwich Street, New York, NY 10286.

The largest and smallest group in which the results of the Company are consolidated is that headed by The Bank of New York Mellon Corporation, incorporated in the United States of America.

The ultimate parent company as at 31 December 2018 was The Bank of New York Mellon Corporation, incorporated in the United States of America. The consolidated accounts of the ultimate parent company may be obtained from:

The Secretary
The Bank of New York Mellon Corporation
240 Greenwich Street
New York, NY
10286
USA