

PILLAR 3 DISCLOSURE  
MACQUARIE CAPITAL (EUROPE) LIMITED  
31 MARCH 2014

**Macquarie Capital (Europe) Limited (“MCEL”)** is a UK incorporated company and is authorised by the FCA to undertake investment business activities. This document sets out the Pillar 3 disclosures for the Firm as at 31 March 2014. This is consistent with the basis under which the Firm produces its Financial Statements. MCEL is required to produce its Pillar 3 disclosures as set out in Directive 2013/36/EU and Regulation (EU) No 575/2013. All amounts are in thousands Sterling unless specified otherwise.

Basel III was implemented in the UK from 1 January 2014, through the European Capital Requirements Regulation (CRR), Capital Requirements Directive (CRD IV) and through the PRA’s policy statement PS7/13 available at:

<http://www.bankofengland.co.uk/pr/Pages/publications/implemcrdiv.aspx>

MCEL is required to disclose information as set out in Part 8 of the CRR for Disclosure by Institutions (“CRD IV: Disclosure (Pillar 3)”). The following forms the basis of MCEL’s compliance with these requirements.

The remuneration disclosure for Pillar 3 is outlined in Article 450 of CRD IV. Macquarie’s remuneration disclosures will encompass all Remuneration Codes for EMEA and will be published separately on the Macquarie website.

The disclosures for risk management objectives and policies for Pillar 3 are outlined in CRR Article 435. MCEL is a member of the Macquarie Group, a global provider of banking, financial, advisory, investment and funds management services. All risks arising from MCEL’s activities are managed in accordance with Macquarie’s global risk management framework. This framework has been formally adopted by the MCEL Board. Further information on Macquarie’s Risk Management Framework can be found in Macquarie Group Limited’s 2014 Financial Statements at:

<http://www.macquarie.com.au/mgl/au/about-macquarie-group/investor-relations/financial-disclosure/financial-reports/macquarie-group-limited-mqg>



## MACQUARIE CAPITAL (EUROPE) LIMITED



A Risk Management report is presented at the quarterly Board meetings in order to facilitate the information flow on risk to the management body.

### Disclosures on governance arrangements

Directors of MCEL held the following number of directorships as at 31 March 2014:

David Fass (CEO – Macquarie EMEA, Head Macquarie Capital Advisers) – 9  
Matthew Gummer (CFO EMEA) – 34  
Julian Wentzel (Head Cash Equities Europe) – 4

As per MCEL’s charter, the minimum number of directors is three and the majority of directors must be resident in the United Kingdom. It is intended that the following be members of the MCEL Board:

Head of Macquarie Capital Advisers, Europe; Head of Macquarie Securities – Cash, Europe; CEO EMEA Macquarie Group; and Chief Financial Officer EMEA

MCEL selects its members as per the global workforce diversity policy for the Macquarie Group. The Workforce Diversity policy is intended to define Macquarie’s workforce diversity commitment and the structures in place to ensure it is realised. The principles contained in our Workforce Diversity policy are incorporated into the public “Our Commitment to Workforce Diversity” statement available at:

<https://www.macquarie.com.au/dafiles/Internet/mgl/au/about-macquarie-group/diversity/documents/Ourcommitmentto diversityFINAL.pdf>

MCEL is the vehicle through which the Macquarie Group conducts various regulated activities in Europe. The more prominent activities within MCEL are undertaken by:

- **Macquarie Capital (“MC”)** which focuses on the provision of advisory services in the UK and Continental Europe and acts as an underwriter in primary placements in the UK and Continental Europe.
- **Macquarie Securities Group (“MSG”)** operates an institutional stockbroking business, acting as agent with external clients and the market, and as a market maker for a number of European equities. MSG also undertakes the activity of soliciting clients and

introducing them to other members of the Macquarie Group and provides equity research services to clients.

The primary risks that MCEL faces are operational risk, business risk, group risk and remuneration risk. MCEL's appetite to assume market and credit risks is small and, as a result, MCEL generally puts appropriate risk mitigation mechanisms in place to deal with the most material of these risks. Operational risk is the most significant risk faced by MCEL. A full analysis of this and other relevant risks has been undertaken along with an assessment of the capital required to be held behind these risks.

#### Capital adequacy

The approach to calculating the capital resources requirements within MCEL is made by reference to its categorisation as an Institution per the CRD IV.

MCEL calculates credit risk, counterparty credit risk, free deliveries risk, and market risk (related to position, foreign exchange, and commodities risk requirements) using the standardised approaches, and operational risk under the basic indicator approach, as laid out under the CRD IV rules.

Credit risk arises on the cash balances that MCEL holds, fees receivable and settlement risks arising from MSG activity. Most of these credit risks are transferred to its ultimate parent Macquarie Group Limited ("MGL") via a parental guarantee arrangement. Where available, the credit ratings assigned to counterparties by one or more eligible rated agencies are used in the calculation of risk weighted capital requirements for credit risk. Rating agencies used by Macquarie are Moody's, Standard & Poor's and Fitch. Currently such ratings are available for exposures arising on MGL (an Australian Corporation) as a result of the parental guarantee arrangement and banks (primarily in UK) with which MCEL deposits surplus cash. Any counterparty risk, which MCEL may have exposure to, is managed under existing credit risk policy. As at 31 March 2014, MCEL's credit risk capital requirement amounted to £4.8 million.

The below table provides a geographic distribution and exposure class breakdown of fees receivables that are outside of the parental guarantee arrangement with MGL.

**Geographic and Sectoral Breakdown of External Fees  
Receivable as at 31 March 2014**

| <b>Exposure Class</b> | <b>Geographic Location</b> | <b>Exposure<br/>£'000</b> |
|-----------------------|----------------------------|---------------------------|
| Corporate             | Africa                     | 616                       |
| Corporate             | Americas                   | 197                       |
| Corporate             | Asia                       | 597                       |
| Corporate             | Europe                     | 13,978                    |
|                       | <b>Total</b>               | <b>15,388</b>             |

MCEL also takes on market risk as a result of the market making business in MSG and is managed within pre-approved book limits. The firm also attracts additional market risk requirement on balances denominated in foreign currencies. As at 31 March 2014, MCEL's market risk capital requirement amounted to £1.5 million.

MCEL operates within a global framework which is applied consistently across all business lines within the Macquarie Group for the identification, monitoring, management and reporting of operational risk. Within this framework, senior management is required to consider and evaluate those scenarios that could result in significant operational loss. This approach forms the basis of the assessment of MCEL's operational risk capital adequacy which is made under the adoption of the basic indicator approach. As at 31 March 2014 MCEL's operational risk capital requirement was £13.5 million.

# MACQUARIE CAPITAL (EUROPE) LIMITED



MCEL's capital resources and capital resource requirements as at 31 March 2014 comprised the following elements:

|                                                       | 31-Mar-14<br>£'000 | 31-Mar-13<br>£'000 | 31-Mar-12<br>£'000 |
|-------------------------------------------------------|--------------------|--------------------|--------------------|
| <b>Capital resources</b>                              |                    |                    |                    |
| Tier 1                                                |                    |                    |                    |
| Ordinary share capital (including share premium)      | 110,900            | 85,900             | 65,900             |
| Audited retained earnings and reserves                | (62,164)           | (38,797)           | (12,571)           |
| Audited current year profits and movement in reserves | (11,302)           | (23,367)           | (26,227)           |
| Total Tier 1 capital                                  | 37,434             | 23,736             | 27,103             |
| Tier 2                                                |                    |                    |                    |
| Perpetual subordinated debt                           | -                  | 10,000             | 10,000             |
| Total Tier 2 capital                                  | -                  | 10,000             | 10,000             |
| Deductions from capital                               |                    |                    |                    |
| Intangible assets                                     | -                  | -                  | (3,830)            |
| Total Tier 1 & Tier 2 capital after deductions        | 37,434             | 33,408             | 32,767             |
| <b>Capital resources requirement</b>                  |                    |                    |                    |
| Credit risk                                           | 4,792              | 2,429              | 2,567              |
| Market risk                                           |                    |                    |                    |
| - Equity PRR                                          | 2                  | 20                 | 130                |
| - Forex PRR                                           | 1,463              | 1,329              | 2,618              |
| Operational risk                                      | 13,454             | 13,236             | 9,524              |
| Pillar 2 requirement                                  | 4,500              | -                  | -                  |
| Total capital resources requirement                   | 24,211             | 17,014             | 14,839             |
| <b>Surplus</b>                                        | <b>13,223</b>      | <b>16,394</b>      | <b>17,928</b>      |

As at 31 March 2014, management considered MCEL's Pillar 1 operational risk capital requirement to be inadequate to absorb the full extent of the largest stressed operational risk loss scenario. It was therefore considered necessary to hold an additional Pillar 2 add-on for operational risk amounting to £4.5m. Assessments of the Pillar 2 requirement are supported by appropriate stress testing and scenario analysis and are reviewed and approved at least annually by the MCEL Board. MCEL has held capital resources in excess of both its Pillar 1 and Pillar 2 capital requirements at all times in the past financial year.

#### Credit risk mitigation

MCEL transfers most of the credit risks arising as a result of its business activities to MGL via a parental guarantee arrangement. The external credit ratings of MCEL's exposures to corporates, institutions and sovereigns have been mapped to credit quality steps to determine the appropriate risk weights according to FCA guidance.

MCEL complies with Macquarie Group policy with regards to on and off balance sheet netting arrangements.

The tables below illustrate the balance sheet exposure values by risk weight, before and after application of credit risk mitigation. Exposures assigned a risk weight of 150% are past due fees receivable.

#### **Exposures before and after credit risk mitigation as at 31 March 2014**

| Risk weight | Exposure pre-credit<br>risk mitigation | Exposure post-credit<br>risk mitigation |
|-------------|----------------------------------------|-----------------------------------------|
|             | <b>£'000</b>                           | <b>£'000</b>                            |
| 0%          | 1,971                                  | 0                                       |
| 20%         | 44,502                                 | 2,290                                   |
| 50%         | 5,893                                  | 9,478                                   |
| 100%        | 54,318                                 | 42,135                                  |
| 250%        | 2,397                                  | 5,994                                   |
| 1250%       | 1,075                                  | 0                                       |

**Exposures before and after credit risk mitigation as at 31 March 2013**

| Risk weight | Exposure pre-credit<br>risk mitigation<br><b>£'000</b> | Exposure post-credit<br>risk mitigation<br><b>£'000</b> |
|-------------|--------------------------------------------------------|---------------------------------------------------------|
| 0%          | 1,207                                                  | 1,207                                                   |
| 20%         | 21,813                                                 | 21,813                                                  |
| 50%         | 311                                                    | 17,111                                                  |
| 100%        | 33,044                                                 | 16,244                                                  |
| 150%        | 797                                                    | 797                                                     |

**Exposures before and after credit risk mitigation as at 31 March 2012**

| Risk weight | Exposure pre-credit<br>risk mitigation<br><b>£'000</b> | Exposure post-credit<br>risk mitigation<br><b>£'000</b> |
|-------------|--------------------------------------------------------|---------------------------------------------------------|
| 0%          | 1,762                                                  | 1,762                                                   |
| 20%         | 25,463                                                 | 25,463                                                  |
| 50%         | 1,827                                                  | 24,702                                                  |
| 100%        | 37,517                                                 | 14,642                                                  |