



Pillar 3 Disclosures

BATS Europe

September 2011

Version 1.0

Introduction

The Capital Requirements Directive (CRD) establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the CRD has been implemented by the Financial Services Authority (FSA) in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The FSA Framework consists of three 'Pillars':

- **Pillar 1** sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- **Pillar 2** requires the firm to assess whether its Pillar 1 capital is adequate to meet its risk and is subject to annual review by the FSA;
- **Pillar 3** requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This document has been produced by BATS Trading Limited (BATS) to meet its Pillar 3 obligations.

Scope and Application of Directive Requirements

BATS is authorised and regulated by the FSA as a standalone BIPRU limited activity firm with the permission to operate a Multilateral Trading Facility. In addition, BATS has the appropriate regulatory permissions to route orders, which are not executed on its order books, to other execution venues.

The Pillar 3 disclosures are made by BATS on a solo basis.

Frequency of Publication

BATS makes Pillar 3 disclosures annually.

Location of Disclosures

Disclosures are published on BATS' website (www.batstrading.co.uk).

Materiality and Appropriateness of Disclosures

The Board of BATS regard information as material if its omission or misstatement could change or influence the decision of a user relying on the information for the purpose of making economic decisions. All disclosures are reviewed and approved by the Board of BATS.

Verification

Disclosures are only subject to external verification to the extent they are equivalent to disclosures made under accounting requirements. Internal verification of our disclosures is performed by BATS' Compliance and Finance functions.

Risk Management

Risk Management Approach

BATS is committed to managing applicable risks to the business and maintaining an effective internal control structure which includes robust monitoring and regular reporting of such risks. BATS places a high priority on risk management through its functional structure, governance processes, monitoring and reporting activities and its emphasis on staff integrity and values.

Risk governance processes involve regular reviews by senior management to identify and monitor key risks, in addition to independent oversight and challenge by the Audit, Risk and Compliance Committee.

Consideration is given to the level and types of risk that the Board regards as appropriate for it to accept in order to fulfill the firm's business objectives and operate within the scope of its regulatory permissions.

Risk Governance

Governance of risk management within BATS is based on a 'three lines of defence' model, as follows:

1. First line of defence (business management and staff) – responsible for identifying and assessing the risks faced in the business and ensuring that appropriate controls are established and maintained.
2. Second line of defence (Compliance Department) – responsible for establishing an effective policy framework for risk management to support the business.
3. Third line of defence (Internal and External audit) – provides independent and objective assurance on the effectiveness of risk management, control and governance processes.

Risk Appetite

BATS has, in line with its service offering, a low level of risk appetite. BATS' exposure to credit and market risk is limited; it does not provide financial advice, fund management or hold client monies and has minimal credit exposure. The limited credit risk primarily relates to fee income due from participants for whom BATS provides services. The main business is the service which offers to bring together multiple third-party buying and selling interests in financial instruments where BATS' system matches opposing buy and sell orders. BATS typically charges a fee for removing liquidity and participants receive a rebate for adding liquidity. For its order routing service, BATS predominantly acts as agent and does not take principal positions. BATS does not, therefore, take any credit or large exposure risk in relation to settlements or accept any associated

market risk. Market risk is limited to BATS' exposure to any cash amounts held by BATS in a foreign currency. All foreign currency is converted to GBP on a regular basis.

Operational risk occurs as a consequence of undertaking its core business activities and BATS seeks to minimise these risks by putting in place robust internal risk and business controls. BATS uses its Compliance Department and internal audit function to reinforce and oversee the operation of these controls. BATS also aims to minimise operational risk at all times through a strong and well resourced control and operational structure.

Capital Resources & Adequacy

Capital Resources

Capital Resources	£000's
Tier 1 Capital	4,673
Deductions	-
Tier 2 Capital	-
Deductions	-
Capital Resources (as at 31 Dec 2010)	4,673
Tier 3 Capital	-
Deductions	-
Total Capital	4,673

Tier 1 Capital comprises: ordinary share capital, share premium, profit & loss reserves and stock option reserves.

Assessment of Capital Adequacy

Given BATS' status as BIPRU €730k limited activity firm, its Pillar 1 capital requirement is determined by the higher of:

- €730,000; or
- the sum of the Credit risk, Market risk and the Fixed Overhead Requirement.

Market risk resulting from foreign exchange is calculated in accordance with the standardised approach given in BIPRU 7. This has not been disclosed on the grounds of immateriality.

Credit risk is calculated in accordance with the standardised approach given in BIPRU 3. This has not been disclosed on the grounds of immateriality.

The Fixed Overhead Requirement is based on three months expenditure calculated in accordance with GENPRU 2.1.53. BATS' Fixed Overhead Requirement is £1.935m.

The capital planning and managing framework has been built into BATS' budgeting and forecasting sessions. BATS' budget process is completed annually whilst the forecasting process is completed quarterly. As part of these forward looking processes, stress testing is carried out over a number of scenarios to ensure there is an adequate capital base even under stressed market conditions. These forecasts are reported quarterly to the Board.

BATS undertakes the Internal Capital Adequacy Assessment Process (ICAAP) at least annually, and this is submitted to the Board for review.

As at 31 December 2010, and throughout the year, BATS has complied with its capital resources requirement.