



Pillar 3 Disclosures 2008

Table of Contents

1. Overview
 - 1.1 Background
 - 1.2 Basis and Frequency of Disclosure
 - 1.3 Scope
 - 1.4 Location and Verification

2. Risk Management Objectives and Policies
 - 2.1 Strategies and Processes to Manage Risks
 - 2.2 Structure and Organisation of Risk Management
 - 2.3 Scope and Nature of Risk Reporting

3. Capital Resources
 - 3.1 Tier 1 Capital Resources
 - 3.2 Tier 2 and Tier 3 Capital
 - 3.3 Deductions from Tier 1 and Tier 2 Capital
 - 3.4 Total Capital Resources

4. Capital Adequacy
 - 4.1 Approach to Assessing Adequacy of Capital – ICAAP
 - 4.2 Minimum Capital Requirements (Standardised Credit Risk exposure classes)
 - 4.3 Minimum Capital Requirements: Pillar 1

5. Credit Risk, Market Risk, Operational Risk and other Pillar 3 Disclosures
 - 5.1 Overview
 - 5.2 Credit Risk
 - 5.3 Credit Risk Exposures
 - 5.4 Market Risk
 - 5.5 Operational Risk

CantorCO2e Limited

Pillar 3 Disclosures 2008

1. Overview

1.1 Background

The new Basel 2 Accord has been implemented in the European Union via the Capital Requirements Directive (CRD). Implementation in the UK was in the form of rulebooks introduced by the Financial Services Authority (FSA).

The Directive affects banks and building societies and certain types of investment firms. The new framework consists of three 'pillars'. Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes.

The FSA is adopting a risk-based approach to monitoring and enforcing firms' compliance with the market discipline disclosure requirements. The FSA expects the market to play a key role in monitoring and promoting compliance with the Pillar 3 disclosure requirements.

1.2 Basis and Frequency of Disclosure

This document has been prepared in accordance with the requirements of BIPRU 11 - Disclosure (Pillar 3).

Future disclosures will be on an annual basis and published as soon as practicable after the completion of the annual financial statements, unless the company assesses the need for more frequent disclosure in light of relevant information.

1.3 Scope

CantorCO2e Limited is regulated by the FSA as a BIPRU Limited Licence Firm on an unconsolidated basis. Given this is the first year of disclosures required under the CRD, it is not possible or appropriate to make disclosure of the quantitative data required under FSA BIPRU rules. We intend to make those disclosures that are based on, or related to, year-end accounting data as at 31st December 2008 when we publish our 2009 Pillar 3 documentation.

1.4 Location and Verification

These disclosures have been reviewed by the Board and are published on our website (www.cantorco2e.com). The disclosures have not been subject to external audit.

CantorCO2e Limited

Pillar 3 Disclosures 2008

2. Risk Management Objectives and Policies

2.1 Strategies and Processes to Manage Risks

CantorCO2e Limited's business and activities contain little risk. The principal risks faced are operational risk, credit risk and market risk for Foreign exchange (FX). These principal risks are reviewed and reassessed at least annually as a part of the Internal Capital Adequacy Assessment Process (ICAAP). CantorCO2e Limited's approach to risk management is built on formal governance processes and relies on individual responsibility and collective oversight.

Risk is carefully managed through a process of ongoing identification, measurement and monitoring, subject to prudent risk limits and control.

The responsibility for the overall framework of risk governance and management lies with the Board of Directors. The Board is responsible for determining risk strategy, setting CantorCO2e Limited's risk appetite and ensuring that risk is monitored and controlled effectively. It is also responsible for establishing a clearly defined risk management structure with distinct roles and responsibilities. Within that structure, line managers are responsible for the identification, measurement and management of the risk within their areas of responsibility.

The risk appetite (objectives) of the management team of CantorCO2e Limited may be summarised as:

- protecting the ongoing franchise of the business in terms of the service to customers
- minimising balance sheet credit and liquidity risks
- ensuring regulatory compliance
- maintaining operations with the focus on efficient and cost effective transaction execution and settlement

The Executive Committee has ultimate responsibility for the implementation and monitoring of the firm's Trading Book Policy (TBP), which is approved by the Board every time any significant changes are warranted or at least annually. A copy of the TBP is also sent to the FSA.

2.2 Structure and Organisation of Risk Management

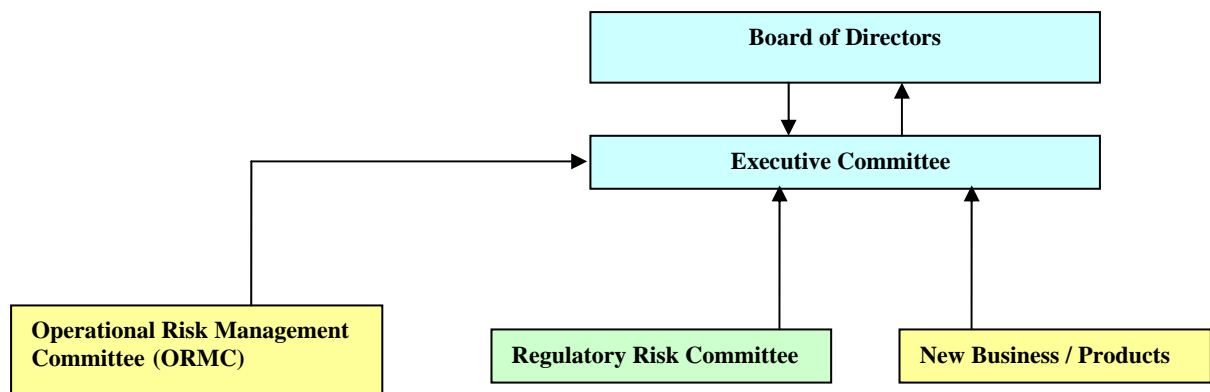
We have a number of committees comprising various areas of senior management, each of which focuses on different areas of risk.

Board of Directors / Executive Committee

The Executive Committee is responsible for the overall risk management approach and for approving the risk strategies and principles. It has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. It is responsible for the fundamental risk issues and manages and monitors relevant risk decisions. The Executive Committee is supported by a number of risk committees including the European Regulatory Risk Committee and the Operational Risk Management Committee ("ORMC").

The company has various control functions that have line responsibility for managing the company's risks. These include Risk Management, Internal Audit, Operations, Treasury and Finance.

The company's current Risk Governance structure is summarised below:



2.3 Scope and Nature of Risk Reporting

Risk Governance

The Board has delegated the identification, assessment, monitoring and controlling of credit and market risks for the whole of CantorCO2e Limited to the Director of Risk Management (DRM).

The DRM reports to the board via the Executive Committee. In relation to credit risks, the DRM's responsibilities are to:

- review the risk management process
- review country risks and counterparty risks
- approve the list of instrument categories to be traded
- approve credit risk factors to apply for the estimate of counterparty risk

The DRM reports to the Co-Chief Executives. An Executive Committee convenes once a month whereby the DRM will provide an analysis of the company's key risks.

CantorCO2e Limited's Internal Audit department provides independent assurance to senior management and the Board on the effectiveness of risk management practices and the adequacy of the internal control environment. Internal Audit achieves this through the application of a risk based audit methodology incorporating planning, execution, reporting and a process for follow up and clearance of agreed management actions.

CantorCO2e Limited
Pillar 3 Disclosures 2008

3. Capital Resources

[In line with FSA BIPRU rules, these disclosures are to be made with the publication of the 2011 Pillar 3 documentation]

CantorCO2e Limited
Pillar 3 Disclosures 2008

4. Capital Adequacy

[In line with FSA BIPRU rules, these disclosures are to be made with the publication of the 2011 Pillar 3 documentation]

CantorCO2e Limited

Pillar 3 Disclosures 2008

5. Credit Risk, Market Risk, Operational Risk and other Pillar 3 Disclosures

5.1 Overview

CantorCO2e Limited is an Exempt Commodity Firm until 31st December 2010. Therefore it is currently exempt from most of the Capital Adequacy rules set out in FSA's GENPRU and BIPRU, including:

- Credit Risk
- Market Risk
- Operational Risk

However, included below is a synopsis of the risks faced by CantorCO2e Limited.

5.2 Credit Risk

Risks arising from changes in credit quality and the recoverability of amounts due from counterparties are prevalent across CantorCO2e Limited's activities. Adverse changes in the credit quality of counterparties or a general deterioration in economic conditions could affect the recoverability and value of assets and therefore the company's financial performance. Comprehensive risk management methods and processes have been established to measure, mitigate and manage credit risk.

CantorCO2e Limited is exposed to credit risk in the event of non-performance by counterparties in respect of its give up business.

Name Give-up business

The credit risk exposure from the name give-up brokerage business arises from the risk of not collecting commissions that have been billed to a counterparty. There are no limits in place with respect to the maximum amount of commission that can be outstanding with a given counterparty. However, outstanding receivables are aggressively monitored and followed up on a daily basis by the brokerage receivables department.

The Credit department obtains information to assess the credit quality of the prospective counterparty as part of the client approval process. In the majority of cases, the Credit department will obtain a report from a recognised credit agency to verify internal findings. Once the relevant information is collated, the details are passed to the Credit Committee for approval.

5.3 Credit Risk Exposures

[In line with FSA BIPRU rules, these disclosures are to be made with the publication of the 2011 Pillar 3 documentation]

5.4 Market Risk

As CantorCO2e Limited is regulated by the FSA as a BIPRU Limited Licence Firm, it only has permissions for arranging deals in investments and making arrangements with a view to transactions in investments and therefore the only exposure to market risk is Foreign Exchange Risk on its assets and liabilities. The company monitors this exposure on a daily basis and acts accordingly to mitigate losses.

5.5 Operational Risk

Operational risk is risk arising from execution of a company's business functions. More specifically Basel 2 defines operational risk as the loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The company cannot expect to eliminate all operational risks, but by initiating a rigorous control framework and by monitoring and responding to potential risks, the company is able to manage the risks. Controls include effective segregation of duties, access controls, authorisation controls, reconciliation procedures and various assessment processes, including the use of internal audit.

To facilitate the management of operational risk throughout CantorCO2e Limited, the Executive Committee has set up the ORMC which meets once a month.