Pillar 3 Disclosures

1. INTRODUCTION

Finotec Trading UK Limited ('FTUK' or the 'Firm') is incorporated in the UK and is regulated by the Financial Conduct Authority as an Investment Firm. The Firm's activities give it the CRD IV categorisation of a Limited License IFPRU €125k firm. The Firm is a Solo regulated entity.

This Pillar 3 disclosures have been prepared as required under EU Capital Requirement Regulation (CRR) and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any investment decision.

2. RISK MANAGEMENT FRAMEWORK

FTUK's Risk Management Framework fosters continuous monitoring of the risk environment and an integrated evaluation of risk and their interactions, it also ensures a consistent approach to monitoring, managing and mitigating the risks we accept and incur in our business.

FTUK's Management Team ('MT') is the Governing Body of the Firm, it decides the Firm's risk appetite or tolerance for risks and ensures that the Firm has implemented an effective, ongoing risk management process, and maintains an appropriate risk management culture.

Risk within the Firm is managed by use of the following,

- An internal control framework to govern its processes and procedures, and to mitigate risks
- Scenario analysis and stress tests on the most significant risks identified, as they provide vital information of likely risk impact to the business and the Firm's financial position

3. CONSERVATIVE RISK APPETITE

The Risk Appetite Statement is maintained by the Board and is based upon the firm's analysis of risks, directly linked to its business strategy, funding capacity and capital planning.

Business practice

- Zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated
- No appetite for deliberately or knowingly causing detriment to clients, or incurring a breach of the letter of spirit of regulatory requirements
- No appetite for inappropriate market conduct by a member of staff

4. PRINCIPAL RISKS

FTUK divides the risks inherent in its business into three distinct risk types.

- Category 1: risks that are deemed to be material and are primarily mitigated by the effectiveness of the Firm’s oversight and control arrangements
- Category 2: risks that are mitigated by a combination of the Firm’s oversight and control arrangement, but where a capital allocation is deemed to be prudent
- Category 3: risks that are primarily mitigated by some other actions

A schedule of material risks is included in the Risk Matrix. Material risks are key risks that in the judgement of FTUK could result in an impact of 10% or more upon the Firm’s budgeted earnings profile over a 12-month horizon.

The scope of the Firm’s key risks extends to the following:

- Geopolitical risk
- Regulatory demand and changes
- Credit, market and business risk
- Financial crime risk
- Cyber-threat and IT system infrastructure and resilience
- Risks arising from the receipt of services from third parties

5. CAPITAL RESOURCES AND CAPITAL REQUIREMENTS

FTUK has adopted the Standardised Approach to the calculation of its ICAAP capital resources requirement as outlined in the Capital Requirements Regulation (EU) No 575/2013 (‘CRR’).

The ICAAP is prepared annually, approved by the Board of Directors, and amended when necessary, it reflects FTUK’s strategy and consolidates the following:

- Risk Identification, Risk Appetite Statement and FTUK’s Stress Testing Framework
- The Financial Framework encompassing the Three-Year Planning Process, overall financial planning, management information and financial and regulatory capital reporting
- The Capital Management Framework encompassing capital and funding planning, monitoring and control

FTUK is a limited license CRD IV firm, Tier 1 Capital comprises of share capital and audited profit/loss reserve, Pillar 1 Capital requirements are the greater of the following:

- Base capital requirement of €125,000; or
- The sum of its credit and market risk capital requirements; or
- The fixed overhead requirement

As at 30 September 2020, the Firm’s Capital Requirement was £172,014.

6. CREDIT AND COUNTERPARTY RISK

Pillar One

Our capital requirements for credit and counterparty risk under pillar one are calculated in a similar manner for both client exposures and market facing exposures.

For derivative transactions, we use the mark to market method. We calculate an exposure based on the mark to market value of each trade plus an appropriate percentage of the notional principal.

On the client side, this generally results in no capital requirement. The specified percentage of notional principal for major foreign exchange related derivatives is 1%. This aligns with our minimum margin requirement for the most liquid/lowest risk currency pairs. For many currency pairs, our margin requirements are higher than this.

Capital requirements may, of course, arise where a client is on margin call. But generally our clients wish to be in a position to place opening trades with us and keep their accounts margined accordingly.

Segregated clients achieve a degree of protection from credit exposure to us because their money is separated from ours and is only used for the purpose of facilitating their transactions. The flip side to this protection, however, is that they (rather than we) are the beneficial owners of the money in the segregated pool. Consequently, it is they who are exposed to the risk of a default by one of our market side brokers. Presently, we do not have any active retail clients nor do we offer any retail services.

We do, however, have a number of clients whose money is held on a title transfer basis. Their transactions are placed through house accounts and do expose us to Business Credit Risk. Because this risk is militated by the deposit of initial margin, there is inevitably an exposure which gives rise to a pillar one capital requirement.

In addition to our trading book positions and bank accounts, we have a variety of balance sheet exposures including assets, prepayments and other sundry balances. These are all risk weighted at 100% for regulatory capital purposes and effectively subject to an 8% capital requirement

We have therefore set the Pillar One Capital Requirement for Business Risk at £162,565 which breaks down as follows:

Pillar Two

We believe that we have mitigated credit risk to our clients through our rigorous margining processes. We are satisfied that this is borne out by the evidence of our past experience. We do not believe that we require any additional capital to cover client credit risk to our clients,

For counterparty risk to our hedging counterparties, we have also not experienced any losses. Although we believe we have taken reasonable care to minimise the risk of default through rigorous due diligence, we are not in a position to collect margin from our counterparties. Unlike our clients, we therefore have an inescapable exposure to our hedging counterparties. We believe it is prudent to hold capital against this risk despite having never experienced a loss. In the absence of any useful internal data we have adopted the pillar one capital requirement.

We likewise have no experience of losses on other credit exposures. On the same logic as with our hedging counterparties, we have adopted the pillar one capital requirement in the belief that this should be sufficient.

7. MARKET RISK

Pillar One

FTUK is primarily exposed to foreign exchange risk, the firm manages this market risk by constantly monitoring its market risk exposure against its market risk limits.

Pillar One Market Risk was £9,449.

Pillar Two

As it is necessary to hold foreign currencies for operational purposes, for Pillar 2 requirements, we would allow for the full overhead of foreign exchange loss suffered in the preceding year, or a best estimation of loss to be incurred during the current year if this figure is expected to be greater than the previous year. Alternatively, we will adopt the pillar 1 requirement if this proves to be great than losses incurred on exchanged or expected to incur on exchange.

Pillar Two requirement for Market Risk is £6,933.

8. OPERATION RISK

The fixed overhead requirement (FOR) is computed based on the Firm's relevant fixed expenditures (excluding variable costs) as per the Firm's most recent audited annual report and accounts.

Fixed overhead requirement was £130,236

9. CONCENTRATINO RISK

The nature of our business as a consolidator of multiple liquidity sources, inherently avoids concentration risk as all our business is transacted through a single model B clearer. This arrangement provides significant benefits both for us and for our clients.

Clearly, we have exposure here, and as such, this exposure would be dealt with under pillar one, part four of the Capital Requirements Regulation. However, Article 388 specifically dis-applies it to matched principal brokers, such as we are, and as such, we have taken the view that it would not be necessary to hold capital against this risk.

10. OTHER RISKS

Residual Risk - Finotec does not employ and credit risk mitigation techniques so is not exposed to any Residual Risk

Securitization Risk - Finotec has never engaged in the securitization of assets; and indeed has no assets that might be considered suitable for such a purpose. We are satisfied that this risk does not apply to our business.

Business Risk - We have undertaken a number of stress and scenario tests to help us to understand the risk profile of Finotec's business. The results of these exercises are summarised in section 6 – Capital Planning and Stress and Scenario Testing.

11. REMUNERATION DISCLOSURE

The FCA defines Remuneration Code Staff ('Code Staff') in SYSC 19A.3.4 as senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as those detailed above, whose professional activities have a material impact on the firm's risk profile.

The Firm has four Code Staff.

The Managing Board of the Firm will consider the need to add any new joiners to the list of Remuneration Code Staff during the year.

Application

Based on FTUK's profile, we have defined ourselves as a Proportionality Tier Three Investment firm ('Tier Three Firm') and adopted a proportioned approach to our remuneration policy. We have considered our individual needs on an ongoing basis and where appropriate disapplied certain provisions in accordance with FCA and CEBS/EBA guidance. The Managing Board will review any provisions which have been disapplied on at least an annual basis, to ensure that it continues to be appropriate.

Information Concerning the Decision-Making Process

Due to the size of the Firm, we do not consider it appropriate to have a separate remuneration committee. Instead this function is undertaken by the Managing Board. This will be kept under review and should the need arise, the Firm will consider amending this arrangement to provide greater independent review.

The Directors of the Firm are members of the Managing Board and jointly have an equal voting interest in the Firm.

The Managing Board is responsible for ensuring that the remuneration policy is developed to align with its risk tolerance. No external consultants assisted in this review. Any person with a question regarding the policy or disclosures made under this policy should refer to the Directors who are members of the Managing Board.

Information on the Link Between Pay and Performance

A key objective in utilising the Firm’s structure was to align the interests of the Directors with the overall goal of achieving the best performance over the long-term for the Firm.

Aggregated Value of Directors Salaries for the Period to 31 December 2020

All Coded staff have responsibilities that typically fall within job titles that, according to FCA guidance, indicates they are senior personnel whose respective roles impacts the risk profile of the Firm.

As such, to comply with the FCA disclosure requirement, we disclose, as per the unaudited accounts of the Firm, the total Directors salaries for the period to 31 December 2020 was £ 99,369.