



## **Pillar 3 Disclosures**

**2017**

## Capital Requirements Directive - Pillar 3 Disclosure

### Introduction

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The requirements of the CRD have been outlined by Financial Conduct Authority (FCA) rules and guidance within the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Investment Firms (IFPRU). Pillar 3 also incorporates the provisions of Systems and Controls (SYSC 19) related to remuneration.

On 26 June 2013 the European Parliament and Council approved the Capital Requirements Regulation (“CRR”) and Capital Requirements Directive (“CRD”), which together comprised CRD IV. This came in to force from 1 January 2015 with the CRR directly binding on all EU member states while the CRD needed to be incorporated into national law by the same date. CRD IV replaced the then existing capital requirements for banks, building societies and a number of investment firms and, for firms within its scope, remained applicable at a solo (entity), sub-consolidated and consolidated basis.

Under CRD IV, Valutrades Limited (“the firm”) was classed an IFPRU 125k firm (as defined by the FCA) as at 31 December 2017 and complied with the EU CRR and the FCA’s IFPRU handbook. CRD IV introduced a stricter definition of capital resources, increased capital requirements, increased reporting obligations (COREP), binding liquidity ratios and new requirements on remuneration.

As at 31 December 2017, the Firm remained comfortably in excess of its minimum capital requirements under CRD IV. This document has been developed and published by Valutrades Limited (“the Firm”) in order to provide material information for market participants to assess key information about the Company’s risk management objectives and controls, its remuneration policies and its capital position.

### Overview

The Capital Requirements Directive IV (“CRD”) of the European Union created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. The rules are set out in the CRD under three pillars:

- Pillar 1 sets out the minimum capital resource requirement firms are required to maintain to meet credit & counterparty credit, market and operational risks.
- Pillar 2 requires firms to assess firm-specific risks not covered by Pillar 1 and, where necessary, maintain additional capital.
- Pillar 3 requires firms to disclose information regarding their risk assessment process and capital resources with the aim to encourage market discipline by

allowing market participants to assess key information on risk exposure and the risk assessment process.

The rules in the PRA and FCA Prudential Sourcebook for Investment Firms ("IFPRU") set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 disclosure obligations.

### **Frequency**

The Firm will make Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date ("ARD") which is currently 31 December.

### **Variation of permissions during 2018**

The firm underwent a variation of permissions in July 2018 to become a principal dealer classed as an IFPRU730K firm, a higher regulatory prudential category. As such, the firm's capital structure was amended accordingly, and this new capital structure and associated risk exposures will be reflected in the firm's Pillar 3 disclosure as at 31 December 2018.

### **Media and Location**

The disclosure is published on our website within the document library.

### **Verification**

The information contained in this document has not been audited by the Firm's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgment on Valutrades Limited.

### **Materiality and Confidentiality**

The rules provide that we may omit one or more of the required disclosures if we believe that the information is immaterial. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Where the Firm has considered a disclosure to be immaterial. We have stated this in the document.

In addition, we may also omit one or more of the required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

### **Corporate Background**

## The Firm

The Firm is incorporated in the UK and is authorised and regulated by the FCA to provide execution only trading services. Valutrades Limited is permitted to deal with all customer types - retail, professional and eligible counterparties. The firm may hold and control client money. The Firm's activities gave it a prudential categorisation of an IFPRU €125k "Limited Licence" firm as at 31 December 2017. The prudential categorisation subsequently changed to IFPRU730K in July 2018 during the current financial year.

The Firm is considered a Proportionality level three firm for the purposes of the FCA's Remuneration Code. This allows it to disapply many of the technical requirements of the Code and proportionately applies the Code's rules and principles in establishing its Remuneration Policy.

## Scope of Disclosure

The scope of this Pillar 3 disclosure applies to Valutrades Limited; the disclosure is produced on an individual basis.

## Risk Management and Risk Categories

### Risk Management

The Firm's Chief Risk Officer ('CRO') is ultimately responsible for the overall risk management approach of the Firm and for approving and monitoring risk strategies, setting limits, applying principles and ensuring appropriate risk reduction strategies and procedures are coordinated and Implemented.

The Firm had exposure to the following risks as at 31 December 2017:

- Credit Risk
- Liquidity Risk
- Operational Risk
- Foreign Exchange Risk

## Risk Management by Category as at 31 December 2017

### Market Risk –Trading

All transactions were executed on a Matched Principal basis by Valutrades Limited. No orders were executed where the client did not have sufficient collateral within their client account. Valutrades Limited therefore never entered into a transaction that was not netted off to the client and as such Valutrades Limited was acting as

a Matched Principal only, taking no market positions themselves and therefore having no market risk exposure on the trading book.

### **Credit Risk**

The Firm has credit risk with banks with which it deposits funds and market counterparties. The firm sets limits as to the maximum exposure for each counterparty and where possible requests for its funds to receive client money protection to reduce exposure to credit risk. The Firm's credit risk is also the risk that clients will cause a financial loss for the Firm by failing to discharge their financial obligations to it.

The Firm has negligible client credit risk as it requires clients to place a margin or deposit in their account for all trades before they are permitted to deal with the Firm. The Firm has a formal margin policy and clients must top up their margin to pre-set levels if they fall below these, or the Firm may enforce the liquidation of one or more of their open positions.

The Firm does not extend credit over and above clients being permitted to trade at the Firm's pre-set margin levels, nor does it accept financial instruments other than cash by way of collateral. This further mitigates any credit risk to the Firm.

### **Liquidity Risk**

Liquidity risk is the risk that the Firm will encounter difficulty in meeting its financial obligations. The Firm's approach to liquidity is to ensure that as far as possible it will always have sufficient liquidity to meet its clients' and brokers' margin requirements and liabilities when they fall due. This is achieved by ongoing monitoring of the Firm's available working capital as compared with the amounts due to clients and counterparties, as settled daily to their respective P&Ls.

Any failure by the Firm to meet its payment obligations could result in market counterparties closing the Firm's hedging positions or failure to meet client withdrawal requests, either of which would have material adverse consequences for the Firm's business. The cash position of the Firm is therefore monitored closely and contingency plans are always in place to meet unexpected demands.

### **Operational Risk**

The Firm's operational risk is the risk that the Firm will derive losses through inherent failure in its processes, personnel, technology or infrastructure or by external forces impacting on any of these. These risks are countered through regular assessment of the likelihood of these risks as part of the Firm's ongoing

internal risk management procedures, including maintaining a fully up-to-date risk register and ICAAP, and contingency planning for how to deal with such risks arising. The Firm's ICAAP also details expected costs which would be associated with risks which cannot be fully mitigated, and these are taken into account when planning the Firm's capital.

### **Foreign Exchange Risk**

The Firm operates globally and uses pounds sterling as its functional currency and is thus exposed to foreign exchange risk on the non-trading book arising from various currency combinations. Foreign currency-denominated assets and liabilities together with expected cash flows give rise to foreign exchange exposures. Due to changes in global markets currency combinations will also change within a financial year.

## **Capital**

### **Capital Management**

The Firm's objectives when managing capital are to safeguard the Firm's ability to continue as a going concern and to ensure there is always adequate capital to meet trading requirements, margin requirements, ongoing working capital requirements and the FCA's capital requirements.

In order to maintain or adjust the capital structure, the Firm may issue new shares to its shareholders.

Capital is managed through budgeting, forecasting and monthly entity and consolidated capital reporting.

### **Capital Resources**

The Firm regards its capital position to include all financial assets and liabilities; therefore the year end capital position was £844,808.

### **Capital Adequacy**

As the firm was an IFPRU €125,000 Firm as at 31 December 2017, it has calculated its capital resources in accordance with GENPRU 2.2. The firm's Pillar 1 capital resource requirements is the higher of the base capital requirements and the variable capital resource requirements.

Base Capital requirement	€125,000 (conservative sterling equivalent £110,912)
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Variable capital resource requirement	The higher of:
(1)	The sum of the Credit Risk Capital Requirement and the Market Risk Capital Requirement;
	-or-
(2)	The fixed overhead requirement

### Capital Requirement

	<b>£</b>
Ordinary Share Capital	4,408,005
Retained Earnings	
£3,521,278	
Core Tier One Capital	
£844,808	
Own Funds	£844,808
Fixed Overhead Requirement	
£286,892	
Total Risk Exposure Amount (TREA)	
£3,586,144	
Surplus Capital over Minimum Requirement	
£557,916	

Based on an assessment of risks, it is the opinion of the Directors that the processes and procedures and governance structure of the firm are suitable to remove any additional capital requirement held above the Pillar 1 assessment as at 31 December 2017.

There is a surplus of reserves above the capital resource requirement deemed necessary to cover the risks identified.

### Remuneration

#### Remuneration Disclosure

Under the FCA's Remuneration Code, Valutrades Limited has determined that it is a Level 3 firm, which allows it to disapply many of the technical requirements of the Code and

proportionately apply the Code's rules and principles in establishing Its Remuneration Policy.

### **Decision making Process for Remuneration Policy**

Due to the Firm's size and scale, the Remuneration Policy was determined and administered by the Firm's Directors.

The Firm's currently pays discretionary variable remuneration, but only to a limited extent. Not all employees' remuneration is fixed. Variable, discretionary and periodic bonuses are agreed where necessary by the Firm's Directors.

### **Code Staff Criteria**

The following groups of employees have been identified as meeting the FCA's criteria for Code Staff:

- Any employee holding a significant influence function

### **The Link between Pay and Performance for Code Staff**

Code staff remuneration is made up of fixed (basic salary), plus discretionary bonuses.

### **Aggregate Quantitative Information on Remuneration for Code Staff**

For the year ending 31st December 2017, there were two Code Staff employed across the year (as defined above).

Both were senior management. Aggregate remuneration expenditure in respect of Code Staff was £204,356.

Remuneration expenditure was divided between fixed and variable remuneration as follows:

- Fixed remuneration: £196,047
- Variable remuneration: £8,309
- Number of beneficiaries: 2

Fixed remuneration consists of basic salaries only while variable remuneration consists of bonus payments.

### **Technical criteria on disclosure not relevant to The Firm**

### **Risk exposures IRB approach**

These disclosures are not required as the Firm has not adopted the Internal Ratings Based (IRB) approach to Credit Risk and therefore is not affected.

#### **Credit risk and dilution risk**

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed.

#### **Firms calculating risk weighted exposure amounts In accordance with the standardised approach**

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights.

#### **Firms calculating Risk Weighted Exposure amounts using the IRB Approach**

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected.

#### **Use of VaR model for calculation of market risk capital requirement**

This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.

#### **Non-trading book exposures in equities**

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

#### **Exposures to Interest Rate Risk in the Non-Trading Book**

Although the Firm has cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

#### **Securitisation**

This disclosure is not required as the Firm does not securitise its assets.