Equiti Capital UK Limited

Pillar 3 Disclosures

Year ended 31st December 2019

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Contents

Introduction ... 3

Frequency and Location ... 3

Scope of Application ... 3

Risk Appetite Statement ... 4

Governance framework ... 5

Capital Resources ... 6

Principal Risks ... 7

Credit Risk ... 7

Market Risk ... 8

Operational Risk ... 8

Liquidity Risk ... 8

Capital Adequacy ... 9

Internal Capital Adequacy Assessment Process ... 9

Remuneration ... 10

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Introduction

Equiti Capital UK Limited is a UK-based multi-asset brokerage, providing execution-only trading services to professional and institutional clients. We offer leveraged derivative products in the form of Contracts for Difference (CFDs) in spot foreign exchange, metals, equity indices and commodities. The firm is authorised and regulated by the Financial Conduct Authority (FCA) and in August 2018 was granted a full-scope IFPRU €730K licence.

The disclosures contained herein have been prepared in accordance with the European Union's Capital Requirements Directive (CRD) and Capital Requirements Regulation (CRR), collectively known as "CRD IV", as implemented by the FCA. The legislative package sets out the prudential rules for banks, building societies and investment firms and is based on the Basel Committee's final capital framework for strengthening capital standards (Basel III), structured around three distinct "Pillars":

- Pillar 1: Minimum capital requirements
- Pillar 2: Supervisory review process
- Pillar 3: Market discipline

The aim of Pillar 3 is to encourage market discipline by developing a harmonised set of disclosure requirements which allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. The rules are set out within Articles 431 – 455 of the CRR and this document contains the disclosures required under these rules unless they have been assessed as not material or are of a proprietary or confidential nature to the firm.

Frequency and Location

The disclosures are required to be made on an annual basis at a minimum and, if appropriate, some disclosures will be made more frequently. The quantitative disclosures are made as at 31 December 2019. They are published in conjunction with the consolidated financial statements of Equiti UK Capital Limited for the year ended 31 December 2019.

These disclosures are not required to be, and have not been, audited by our independent auditors. The disclosures made here have been reviewed by the Board and are available on our website using the following link:

https://www.equiticapital.co.uk/legal-documents/#pillar-3-disclosures

Scope of Application

The firm is a wholly owned subsidiary of Equiti Group Limited. Although much of the risk management framework is equally applicable to Equiti Group as a whole, the scope of these disclosures is limited to Equiti Capital UK Limited and its consolidated subsidiaries, referred to in this document as "Equiti UK", "the firm", "we", "us" and "our".

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Risk Appetite Statement

In the ordinary course of serving clients, Equiti UK engages in derivative transactions, commits capital and otherwise incurs risk as an inherent part of its business activities. However, we would not initiate risk in size or form which would materially impair our capital and liquidity position or our ability to generate sustainable revenues.

Any new business or significant changes to existing activities are reviewed and approved in this context. The acceptable levels and types of risks we are willing to take in pursuit of our strategy is termed our 'risk appetite'. We do not seek to eliminate risk altogether, but rather to consciously recognise the trade-off between risk and return and to monitor our current and future risk profile against the overarching needs of the business model.

The Board has determined an overall risk capacity and allocated this across each major risk area to set the parameters for our tolerance framework. Any breaches under this framework are escalated to ARC and the Board, if appropriate, together with plans to mitigate the residual risk of such activities.

The Board has considered the nature and extent of the principal risks that the firm is willing to take and believes that the risk management framework and the associated risk policies, procedures and systems in place are comprehensive and effective with regard to profile and strategy. It will review and monitor its risk appetite at least annually to ensure that it remains appropriate and consistent with internal policies.

For further information on the formal process to evaluate risks and set an appropriate level of regulatory capital, please refer to page 9 of this document ("Internal Capital Adequacy Assessment Process").

Governance framework

A sound corporate governance framework is essential to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the firm. As an FCA regulated firm, we are committed to the implementation of good corporate governance and to being accountable and transparent for our decisions and activities.

The Equiti UK Board is responsible for the management and oversight of the firm, setting strategic aims and determining policy. It has the oversight of risk management and is responsible for ensuring maintenance of effective systems and controls for managing internal and external risks that may materially affect the entity's operations.

The Board delegates the responsibility to the Audit and Risk Committee (ARC) to ensure that formal and transparent arrangements are in place for the consideration, monitoring and oversight of financial reporting, internal controls and risk management.

The Audit and Risk Committee is responsible for establishing and maintaining risk policies and procedures underpinning the firm's risk governance framework, which aims to:

- Identify material risks and exposures
- Ensure adequate mitigation and controls are in place to reduce risks
- Conduct periodic 'deep dives' into key risk areas
- Ensure that we meet regulatory requirements and guidance

ARC is chaired by one of the firm's non-executive directors and its membership includes the UK Chief Executive Officer, Chief Operating Officer and UK Head of Compliance.

With regard to general business operations, the UK Executive Committee (EXCO) is the senior executive group which manages current and potential risks, including risks to the achievement of our strategy. It uses a structure of appointed sub-committees in order to delegate some tasks and increase the level of assurance of risks being captured and monitored. This allows for challenge to be made on risk decisions and a documented approach to key risk items and their respective escalation points.

Capital Resources

Equiti UK's capital resources consist entirely of Common Equity Tier 1 capital (CET1), which is calculated as common shareholders' equity, adjusted for specific deductions for disallowed items. We do not currently have any Tier 2 or Tier 3 capital instruments. As of 31 December 2019, the firm and its regulated subsidiaries had capital levels in excess of their minimum regulatory requirements.

The UK group's risk and capital position is predominantly comprised of that of Equiti Capital UK Limited. Its consolidated subsidiaries have minimal balance sheet activity and are not deemed as material subsidiaries for the purposes of these disclosures.

The table below shows the firm's standalone capital resources as of 31 December 2019, which include the audited accounts from that period.

	$'000
Capital Resources	
Permanent Share Capital	1,841
Share Premium	19,132
Capital Contribution	898
Audited Retained Earnings	(1,209)
CET1 Before Deductions	**20,662**
Deductions from CET1	(456)
CET1 After Deductions	**20,206**
Minimum Capital Requirements	
Operational risk capital requirement	1,855
Credit risk capital requirement	3,138
Counterparty credit risk capital requirement	107
Market risk capital requirement	656
Pillar 1 Minimum Capital Requirement	**5,756**
Capital Surplus	**14,450**

The regulatory minimum capital requirements above have been calculated in accordance with CRD IV and the FCA rulebook. As at 31 December 2019, Equiti UK had a capital ratio of 28% against a regulatory minimum of 8%. The firm is not subject to any of the regulatory capital buffers as an SME.

Capital is an important mitigant against the principal risks faced by the firm. These are discussed further in the next chapter.

Principal Risks

The Board is responsible for overseeing and managing the principal risks of the business. We seek to mitigate our risks through the application of limits and controls and regular monitoring of risk levels and, where appropriate, consider the use of hedging instruments. A risk register is maintained to ensure we continue to identify, document and monitor risks and have adequate controls in place to mitigate the residual risks of our business activities.

The firm has risk management policies, practices and reporting in place for each category of risk, including those risks for which regulatory capital is deemed an appropriate mitigant and those risks for which it is not. These key risks are managed by ARC and EXCO. Each type of key risk is summarised below.

Credit Risk

Credit risk is the potential for financial losses to the firm due to the default or deterioration in credit quality of a client or counterparty. Credit risk arises predominantly from client debtors and cash placed with banks and brokers.

We mitigate the probability of client default by limiting client activity to those clients of good standing with fully funded accounts. Clients may only trade with the availability of credited, free funds sitting on their Equiti UK account. It is feasible that clients may go into deficit in a fast-moving market or for various other reasons. In order to further mitigate this risk, we have systems in place to electronically monitor exposure and staff to further protect both the client and us from an account going overdrawn.

The firm selects multiple counterparties from top tier banks to brokers around the world to diversify credit risk and we perform a rigourous assessment for all new counterparties. The firm actively monitors the credit ratings from recognised External Credit Assessment Institutions (ECAIs) to validate the credit risk of all institutional counterparties and does not trade with entities rated below BBB-. Credit worthiness is also monitored daily using credit default swap spreads, share price changes, news releases and other information to ensure timely action can be taken in advance of any default.

The firm has elected to adopt the standardised approach in order to calculate the minimum credit risk capital requirement. Under the standardised approach, firms must calculate the capital requirement as 8% of the exposure value, risk-weighted according to the CRR by exposure class and contractual maturity.

Counterparty credit risk is also calculated on open positions held with clients and brokers, measured under the Mark to Market method per CRR Article 274.

Market Risk

Market risk is the risk of loss in the value of inventory, as well as certain other financial assets and liabilities, due to changes in market conditions. We currently act as agent or matched principal on all trades so that the market risk arising from client activities is hedged fully with our counterparties. This applies across all asset classes traded.

We conduct regular monitoring and assessments of exposures, processes and counterparties used to cover market risk in order to ensure risk-neutrality. Both automated and manual validation checks are carried out intra-day on exposures and counterparty accounts.

Equiti UK's residual market risk as such is limited to foreign exchange risk in the non-trading book, where movements in spot rates may affect the value of financial assets and liabilities denominated in currencies other than the functional currency. Effective, 1 January 2019, the firm changed its functional currency from GBP to USD, as a significant portion of the firm's revenues, expense and cash flows are denominated in USD. Market risk capital requirements are calculated in accordance with Position Risk Requirements for foreign exchange risk under CRR Article 352.

Operational Risk

Operational risk is the risk of an adverse outcome arising from inadequate or failed internal processes, people and systems or from external events.

Business continuity, fraud (internal and external), dealing errors, administrative errors, Information Technology failure and regulatory action have been identified as the key elements of operational risk to which Equiti UK is exposed. Not all of these risks can be effectively eliminated, however the Board believes that these risks are adequately controlled by key personnel and a rigorous control framework centred around the ARC.

We utilise many internally developed and third-party programs to monitor our computer systems, platforms and related technologies and to promptly address issues that arise. The firm has also established disaster recovery facilities to ensure the continuance of operations with only limited interruptions in the event that primary systems are damaged

Equiti UK has adopted the Basic Indicator Approach to operational risk and calculates capital requirements in accordance with CRR Article 315.

Liquidity Risk

Liquidity risk is the risk that we do not have sufficient financial resources available to meet our contractual obligations as they fall due, or may only access these resources at excessive cost.

Liquidity is of critical importance to us and the liquidity position is monitored daily to ensure we hold sufficient resources to cover our obligations under both normal and stressed operating

conditions. Retail client money is held by the firm in trust for its clients and is therefore excluded from available resources.

The firm is subject to the requirements of the FCA's "Individual Liquidity Adequacy Standards" regime. Included in our liquidity risk management framework is the identification of potential vulnerabilities through the use of stress testing scenarios and the maintenance of a contingency funding plan to assist senior managers to assess and prioritise actions in a liquidity stress event.

As there is no rules-based requirement to hold capital for liquidity risk, this is covered as part of the internal assessment process described in the next chapter.

Capital Adequacy

Our capital management framework is designed to ensure the firm holds an appropriate level and composition of capital, relative to the risks faced by the business, under normal and stressed conditions. This is determined by considering multiple factors including current and future regulatory capital requirements, our Internal Capital Adequacy Assessment Process (ICAAP), the use of stress testing, subsidiary capital requirements, the business environment and conditions in the financial markets.

We monitor capital adequacy daily to ensure compliance with the FCA's overall capital resources rule. On a daily basis, senior management are kept apprised of the firm's capital ratios and of any developments affecting regulatory capital. Any material new business activities or changes to existing activities are approved on a range of factors, including the impact to regulatory capital.

Internal Capital Adequacy Assessment Process

We perform a formal internal assessment of capital adequacy annually or more frequently if required by the Board to inform strategic planning. The objective of the ICAAP is to be a comprehensive assessment of the risks to which the firm is exposed and covers risks against which capital is a mitigant, in addition to those risks for which mitigants other than capital are considered to be appropriate.

Capital adequacy is evaluated from a range of different perspectives to ensure continuity of our operating model, including under various stressed market conditions and plausible idiosyncratic events severely impacting profitability. The results of stress testing are reviewed in the context of the overall risk framework, in particular liquidity adequacy, and used to supplement our overall evaluation of capital adequacy.

The ICAAP is an integral part of the firm's overall governance framework and is formally overseen and approved by the Board. The internal document and underlying risk processes are reviewed and challenged by ARC.

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Remuneration

This note has been prepared in accordance with the criteria set out in CRR Article 450, where aggregate remuneration comprises base salaries, bonuses, pension contributions and benefits in kind.

Our remuneration governance is operated in line with the FCA's Remuneration Code through regular meetings of the Board of Directors. The firm's remuneration policy promotes staff retention and loyalty and variable remuneration rewards excellence based upon both individual and team success, with long term company profitability underpinning all aspects of this philosophy.

Diversity representation across the UK workforce and at Executive Committee level is monitored and reported to the Nominations and Remuneration Committee and ultimately the UK Board on a regular basis. 25% of the members of the EXCO were women as at the date of publication of these disclosures.

The table below shows the aggregate value of remuneration paid to those employees whose professional activities have a material impact on our risk profile (known as "Code staff" in the Remuneration Code). For the period ended 31 December 2019, 15 employees were classified as Code Staff and the following disclosure divides these between those in a supervisory function and other employees whose activities materially affect the risk profile of the firm.

	Total fixed £	Total Variable £	Number of beneficiaries
Senior Managers	1,334,818	392,162	5
Other Code Staff	1,245,284	468,639	10