FxPro UK Limited

Pillar 3 Disclosures 2019

Contents

1 OVERVIEW

1.1 Introduction

1.1.1 The Pillar 3 disclosure is a requirement of the European Union's Capital Requirements Directive (CRD), as implemented in the UK by the Financial Conduct Authority (FCA) and aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to access key information on the Company's capital adequacy, risk assessment and control processes. The required regulatory disclosures are set out in the Articles 431-455 of the Capital Requirements Regulation ("CRR") (Regulation (EU) No. 575/2013).

1.1.2 This document contains the disclosures required under these rules unless it is not applicable to FxPro UK Limited or it is considered as being proprietary or confidential information.

1.1.3 The Pillar 3 disclosures are in addition to minimum capital requirements (Pillar 1) and supervisory review (Pillar 2), also under the CRD.

1.1.4 The Pillar 3 disclosures have been prepared as required under CRD and are not to be relied upon in making any decision about the Company.

1.1.5 The three 'Pillars' which constitute the Capital Requirements Directive are:

- Pillar 1 (minimum capital requirements): sets out the requirements on calculating the minimum capital required for the Firm to be able to cover credit risk, market risk and operational risk;

- Pillar 2 (supervisory review process 'SREP'): sets out a supervisory review process which assesses the internal capital adequacy processes ('ICAAP'), as to whether the Firm's Pillar I capital is adequate to meet those risk exposures and encourages the Firm to develop and use better risk management techniques; and

- Pillar 3 (market discipline): sets out the required disclosures to allow market participants, having a full picture of the risk profile of the Firm, to assess key information relevant to the capital structure, risk exposures, risk assessment processes and hence the capital adequacy of the Firm.

1.2 Frequency of Disclosure

1.2.1 FxPro UK Limited (the "Company") will make Pillar 3 disclosures on an annual basis, or more frequently if there is a material change in the approaches or permissions used to calculate the regulatory capital as provided in Article 433 of the CRR. Disclosure will be made as soon as reasonably practicable after completion of the annual financial statements.

1.3 Scope of Application

1.3.1 The disclosures made here relate to the business and activities of FxPro UK Limited. It should be noted that any disclosures described herein apply to the Company on an individual basis.

1.4 Location and Verification

1.4.1 The disclosures made within this document have been reviewed by the Board of Directors. These Disclosures are not subject to external audit.

1.4.2 The report will be made available for the public on our website at: https://www.fxpro.com/documents/legal-documents.

1.5 About FxPro UK Limited

1.5.1 FxPro UK Limited forms part of the FxPro Group (the "Group"). FxPro UK Limited is an online financial services provider and acts as the principal and market maker to its customers in Contracts for Difference ("CFDs") and Spread Bets on currency pairs, futures on indices, commodities and energy, as well as spot indices, shares and metals. In order to offset the market risk arising from its trading activities in CFDs, the Company operates as a Matched Principal Broker, fully hedging all client trades with its affiliated entity FxPro Financial Services Limited (a member of the FxPro Group, incorporated in Cyprus and regulated by Cyprus Securities and Exchange Commission "CySEC").

1.5.2 FxPro UK Limited is authorised and regulated by the FCA (registration number 509956) as a Limited License firm and is a member of the Financial Services Compensation Scheme (FSCS).

2. GOVERNANCE DISCLOSURES

2.1 Management Body

2.1.1 FxPro UK Limited is committed to having corporate governance, risk management and a control framework appropriate to its size and level of risk within the business.

2.1.2 The Board of Directors has overall responsibility in relation to risk management of the Company such as: (a) identification and evaluation of the risks the Company is exposed to; (b) implementation of objectives and risk strategy together with internal governance; (c) supervision of financial and accounting systems; (d) oversight of the process of disclosures and communication; (e) review and challenge capital and liquidity stress testing.

2.1.3 The Company periodically assesses the effectiveness of governance arrangements. External reviews are also performed such as the annual statutory financial and client money audit.

2.1.4 In relation to SYSC 4.3A.3, the Company can confirm that the management body has sufficient knowledge, skills and experience to perform its duties. The Board comprises of one Executive Director (who is the CEO of FxPro Financial Services Limited) and three Non-Executive Directors. The Executive Director has more than 25 years experience in financial services. The Non-Executive directors have experience in financial services (wealth management) and the non-financial sector, with a strong emphasis on corporate governance.

2.1.5 Non-Executive Directors are required to commit 2 days a month to their duties. Executive Director is given sufficient support to ensure he has the resources to undertake his duties towards the Company. All have undertaken training to ensure they fully understand the business and the FxPro Group.

2.1.6 In relation to other directorships (SYSC 4.3A5 and SYSC 4.3A6), the management body is confident that members of the management body do not hold more directorships than is appropriate given the nature, scale and complexity of the Company's businesses. The number of directorships held by all members remains within the boundaries as outlined in SYSC 4.3A.6.

2.1.7 The Company does not have a nomination committee but as required in SYSC 4.3A10, it does have in place policies and procedures to promote diversity on the management body which include and make use of differences in the skills, experience, background, race and gender between directors. Diversity is taken into consideration in determining the optimum composition of the Board.

2.1.8 The nature, scale and complexity of the business mean that FxPro UK Limited does not have separate committees below the Board level. The Board meets regularly to discuss all aspects of the business including adherence to client money regulations, controls and procedures.

3 CAPITAL RESOURCES

3.1.1 The Company's Capital Resources consist of Tier 1 Capital only.

3.1.2 Own funds represent 33.47% of the total risk exposure amount as at 30 June 2018 as shown in the table below:

Capital Resources Summary	
	GBP
Equity Share Capital	1,400,000
Equity Reserves	2,688,852
Core Tier 1 capital	**4,088,852**
Deductions from Tier 1 Capital	-
Own Funds - Total Capital Resources (CR)	**4,088,852**
Credit and counterparty risk capital requirement	334,473
Market risk capital requirement	174,820
Fixed overheads requirement	420,849
Total Pillar 1 Capital Resources Requirement (CRR)	930,143
Total risk exposure	6,366,173
Excess CR over credit and market risk	3,579,559
Total Capital Adequacy Ratio	**64.23%**

3.1.3 As the Company is a Limited License firm, under Article 95 within the CRR, its Pillar 1 capital requirement is the greater of:

- Its base capital requirement of €125,000 or,
- Sum of its market and credit risk capital requirement or,
- Fixed overhead requirement.

The sum of market and credit risk capital requirement exceeds the base capital requirement and the fixed overhead capital requirement.

The fixed overhead requirement is based on one quarter of the Company's relevant fixed expenditure as per the Company's most recent audited annual report and accounts**.**

3.1.4 The Company also carries out an Internal Adequacy Assessment Programme (ICAAP) to determine if any additional Pillar 2 capital is required. The ICAAP process includes an assessment of specific risks to the Company's business, the likelihood of these risks occurring and controls implemented to mitigate these risks. Based on the ICAAP, additional capital is required for Pillar 2.

3.1.5 In order to manage its capital risk, the Company monitors, constantly, its capital adequacy ratio to ensure that this remains, at all times, above the minimum requirement. Calculations are submitted to the FCA on a quarterly basis.

3.16. The SREP is the process that the FCA uses to ensure that investment companies have sufficient capital to cover all risks that are associated with the services they provide. The SREP process is also used to provide firms with Individual Capital Guidance (ICG) which communicates the level of own funds FxPro is required to hold. FxPro received communication of its most recent Capital Assessment through the SREP in February 2018.

The ICG set out by the FCA in the SREP was the minimum amount of either 271% of the Pillar 1 own funds requirements or 22% of the total risk exposure amount.

4 PRINCIPAL BUSINESS RISKS

The main objective of the Company's risk management framework is to monitor and control the following risk factors:

4.1 Credit Risk

4.1.1 Credit risk is the risk of loss that the Company may incur if its counterparty in a transaction fails to perform its contractual obligations, which would result in a financial loss for the Company.

4.1.2 Credit risk arises from the Company's deposits with financial institutions (including banking institutions) and outstanding receivables. The Company follows the Standardised Approach for the calculation of the Credit Risk capital requirement. In calculating the capital requirements, this involves determining the exposure value, allocating each exposure value to the exposure class depending on the counterparty and applying a risk weight based on the exposure class and the credit quality.

4.1.3 Counterparty credit risk arises from credit exposures arising from open trading positions.

4.1.4 In order to manage its overall credit risk exposure, the Company:

- accepts as counterparty, for the purposes of depositing client funds, only financial institutions (including banking institutions) that are internally assessed as financially stable and in order to diversify its exposure, the Company maintains accounts with a number of European based investment grade banking institutions;
- assesses the credit quality of its counterparties taking into account their financial position, past experience and other related factors (if there is no independent credit rating by a rating agency);
- ensures that Clients fund their accounts prior to the commencement of trading in financial instruments and that sufficient cash margin has been deposited before a market position is opened;
- monitors all trading accounts through an automated process that highlights trading accounts approaching or entering into a Margin Call and Stop-out. The Company has established minimum margin levels below which all positions are automatically closed at market prices in order to prevent the account from going into deficit. As a result of the requirement of sufficient margin to be posted before a trade is opened and from the automated stop-out process adopted by the Company, the client counterparty credit risk is mitigated significantly.

4.1.5 The table below presents the total amount of credit exposures by exposure class and by geographic distribution as at 31 December 2019:

Credit exposures per asset class by region GBP						
Exposure asset class	**Europe**	**MENA**	**Asia**	**Rest of the world**	**Exposure Total**	**RWA Total**
Retail	2,713,689	434,563	32,249	116,240	3,296,741	263,739
Institutions	6,259,888				6,259,888	500,791
Other items	50,192				50,192	4,015
Corporates	177,854				177,854	14,228
Total	**9,201,623**	**434,563**	**32,249**	116,240	**9,784,675**	**782,774**

4.2 Use of External Credit Assessment Institutions (ECAIs) and Expert Credit Agencies (ECAs)

4.2.1 For the purposes of applying the Standardised Approach, the Company uses Moody's external credit ratings. Exposures which do not have an available Moody's credit rating are considered to be unrated.

4.2.2 The analysis of the exposure values in Institutions is shown on the tables below:

Credit exposures by credit institution rating as at 31 December 2019 GBP				
Credit Quality Step *	Moody's Rating	Institutions Risk Weight		Institutions
		Residual Maturity up to 3 months	Residual Maturity up to 3 months	
1	Aaa to Aa3	20%	20%	-
2	A1 to A3	20%	50%	3,696,539
3	Baa1 to Baa3	20%	50%	-
4	Ba1 to Ba3	50%	100%	-
5	B1 to B3	50%	100%	-
6	Caa1 or lower	150%	150%	-
Unrated*	-	100%	100%	317,582
Total				**4,014,121**

*Relates mainly to balances held with a Company's affiliate company, a CySEC regulated entity

4.3 'Past due' and 'Impaired' Receivables

4.3.1 The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

4.3.2 The criteria that the Company uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the Company, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- the probability that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

4.3.3 The Company first assesses whether objective evidence of impairment exists and in such a case the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

4.3.4 If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

4.3.5 The Company did not have any 'past due' or 'impaired' items as at 31 December 2019.

4.4 Market Risk

4.4.1 Market risk is the risk that the fair value of financial assets or financial liabilities will fluctuate as a result of changes in the market prices, currency rates and interest rates. The Company follows the Standardised Approach for Market Risk.

4.4.2 The Company acts, at all times, as the principal to its Clients' trades and does not take proprietary positions based on an expectation of market movement.

4.4.3 A Service Level Agreement ("SLA") has been signed with FxPro Financial Services Limited, under which each and every client transaction is automatically fully hedged by off-set trades between the Company and FxPro Financial Services Limited. As a result, the Company is not exposed to any significant Market Risk from its client trading.

4.4.4 A minor market risk capital requirement arises from foreign exchange risk from receivables and payables denominated in currencies other than GBP. The Firm's exposure to foreign exchange risk at any point in time depends primarily on short-term market conditions and trading activities. Management of the Company monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

4.5 Liquidity Risk

4.5.1 Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due and arises when the maturity of assets and liabilities does not match. The Company does not have any long term debt as at 31 December 2019.

4.5.2 In order to manage liquidity risk, the Executive Directors in cooperation with the finance department monitor rolling forecasts of the Company's liquidity requirements based on expected cash flows in order to ensure that it has sufficient cash to meet its operational needs, under normal and abnormal (stressed) market conditions. They also ensure that the Company has sufficient cash on demand to meet any operational expenses that arise.

4.6 Operational Risk

4.6.1 Operational risk is defined as the risk of loss arising from inadequate or failed internal processes and procedures, people and systems, or from external factors. 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.

4.6.2 An operational risk management framework has been designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner. The Company has data recovery programmes and backup systems in place in order to be able to carry its core operations and cooperates with multiple service providers in order to mitigate the risks from any failure of a third party provider.

4.6.3 A Disaster Recovery Plan and a Business Continuity Plan (BCP) are in place such that:

- Key personnel and management can physically relocate and carry out business, as normal;
- The BCP centre is appropriately equipped in order for the Company to maintain its competitive advantage and systems integrity, including but not limited to internet connectivity from multiple service providers;
- The Business Continuity Centre (BCC) is equipped with a fast, secure and stable telephony and network connectivity and has extended provisions for power supply to prevent loss of services during any power outages; and
- A Disaster Recovery Plan that details the recovery process of the IT infrastructure in the event of a disaster has been developed, documented and frequently tested.

4.7 Fraud

4.7.1 Regular internal audit reviews are performed to ensure that employees comply with the Company's internal procedures. An Anti-fraud policy facilitates the development of controls for the prevention and detection of fraud against the Company.

4.8 Strategic Risk

4.8.1 The Company is exposed to strategic risk that could result due to poor strategic business decisions taken and implemented. Strategic risk can also be a result of changes in the sector the Company operates in or the business environment in general.

4.8.2 The Company assesses, as often as required, the Company's strategic direction taking into account its objectives and updates the Company's budget accordingly. The Board's approval is required for any projects that might have an impact to the Company's short and long term-business plans. The Board is updated on milestones and other goals achieved/ not achieved so that actual results can be measured in comparison to forecasts.

4.9 Reputational Risk

4.9.1 Reputation risk is the risk of loss of reputation arising from the negative publicity relating to the Company's operations (whether justified or unjustified) that may result in a reduction of its clientele, reduction in revenue and legal claims against the Company.

4.9.2 A comprehensive business contingency and disaster recovery plan has been prepared with recovery procedures and actions to be followed in the case of damage to any vital part of the Company's structure.

4.10 Regulatory Risk

4.10.1 Regulatory risk is the risk that changes in the regulatory environment may have an impact on the ability of the firm to continue to operate in the same manner and that some regulatory risks may even have a significant impact on the firm's business.

4.10.2 Recent regulatory publications by FCA and the ESMA temporary restrictions indicate that a number of material changes are made on how CFD Brokers are allowed to operate. These changes include caps on the amount of leverage which can be offered, changes to margin call levels and also the introduction of Negative Balance Protection as a regulatory requirement.

4.10.3 FxPro UK maintains regular contact with both the FCA and our compliance consultants to ensure that we are always in line with the existing regulations and that we are operating in a compliant manner.

4.10.4 Whilst we do expect some of the new regulatory measures to have an impact on FxPro UK's profitability, which is derived primarily from European countries, we also believe that we are sufficiently capitalized to handle a reduction in trading volumes albeit with a negative impact on our revenue.

4.10.5 FxPro UK maintains a proactive approach towards its management of Regulatory Risk, ensuring that it is always up-to-date and compliant with regulatory changes. This is achieved through:

- Having a 3-lines of defence risk governance policy: Frontline staff, compliance and internal audit. As FxPro UK outsources a number of its operations to FxPro FS, the management of FxPro UK, in line with the outsourcing policy, are responsible for monitoring the outsourced function as the first line of defence.
- Proactively engaging with regulators in any consultation, policy statement and/or regulatory events.
- Strengthening the cooperation between the compliance teams across FxPro Group with the aim of establishing group policies on the basis of the most appropriate framework.
- Staying current with all news and events that can have an impact on our business from a regulatory point of view.
- Engaging with compliance consultants to provide the BoD with independent external opinion on certain regulatory matters and initiatives.

4.11 Group Risk

4.11.1 Group risk is the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risk which may affect the financial position of the whole group, including reputational contagion.

4.11.2 FxPro UK operates closely and is dependent, to an extent, on its sister company FxPro FS, to maintain orderly operations of its business. FxPro UK outsources a number of its business, operational and technology requirements to FxPro FS and also hedges its client orders with FxPro FS. Furthermore, the revenue of FxPro UK is dependent on remuneration from FxPro FS via rebates based on the USD volume hedged with FxPro FS.

4.11.3 FxPro UK has a number of oversight and audit procedures in place to ensure its relationship and exposure with FxPro FS is managed accordingly and the group risk is reduced through the following:

- An SLA is in place between both entities allowing FxPro UK to audit FxPro FS on a regular basis.
- FxPro UK has real-time access to FxPro FS monitoring systems to monitor performance and to ensure FxPro FS is operating to the expected levels.
- FxPro UK has an outsourcing policy in place to which all FxPro UK employees must adhere to.
- FxPro UK monitors and reviews all policies and procedures of FxPro FS which are directly or indirectly related to the outsourced functions carried out by FxPro FS. FxPro UK will review such documentation on an annual basis. This includes but is not limited to:

    - Best Execution policies, procedures & statistics;
    - CASS reconciliations;
    - IT policies & procedures;
    - Risk Management policies & procedures;
    - Breach registers.

5 REMUNERATION

5.1.1 The Company seeks to attract and retain employees, who are motivated by its culture, high ethical business standards and reputation and support the Company's business strategy.

5.1.2 The Company's remuneration policy promotes staff retention and loyalty with all variable remuneration paid rewards based upon individual performance and business success and profitability.

5.1.3 The remuneration governance is operated through regular meetings between the Board of Directors, Human Resource and a number of senior managers.

5.1.4 The Company is required to comply with the FCA Remuneration Code ('The Code') requirements within the FCA's handbook of rules and guidance in accordance with Article 450 of the CRR. Under the Code, the Company is classified as a Proportionality Level 3 Code Firm according to which Code Staff are defined as the Company's employees whose professional activities could have a material impact on the Company's risk profile, and who fall into the Code Staff categories set by the FCA Code. Code Staff have been identified and made aware of the implications of their status.

5.1.5 The Code requires the Company to consider its processes and procedures for those senior staff that control the Company and/or could affect its risk profile. For the period up to 31 December 2019 the Company identified the persons classified as Code Staff and the disclosure of the aggregate remuneration of the Code Staff can be found below:

	Total no of staff	Fixed Remuneration	Variable Remuneration	Total
Other Code Staff	3	178,545	-	178,545
Total	**3**	**178,545**	**-**	**178,545**

5.1.6 The Non-Executive Directors of the Board are being paid on a monthly basis for their appointment.

6 FURTHER INFORMATION

Questions regarding this Report should be addressed to the Compliance Department.

Compliance Department

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