



# **IronFX Global UK Limited**

**Pillar 3 Disclosures**  
**(Including Remuneration Code)**  
**Year ended 31 December 2014**

**March 2015**

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## 1. Introduction

IronFX Global UK Limited (hereinafter called the “Company”) is an investment firm regulated by the Financial Conduct Authority (hereinafter the “FCA”) under the license number 585561.

The Basel II Accord, implemented by the European Union through the Capital Requirements Directive (“CRD”), details the standard regulatory capital framework for the financial services industry within the EU.

Up until 31 December 2013 the guidelines contained in the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”) regulated these activities.

From 1 January 2014, with the implementation of the Capital Requirement Directive IV (CRV IV), regulations under BIPRU are replaced by:

- The Capital Requirements Regulation (“CRR”)
- IFPRU sourcebook of the FCA handbook
- Additional standards released by the European Banking Authority

The Directive is based on three pillars:

- Pillar 1 sets out the minimum regulatory capital requirements that are required for credit, market and operational risk.
- Pillar 2 covers the Supervisory Review Process which assesses the internal capital adequacy processes. Investments firms have to evaluate and assess whether a bank should hold additional capital against risks not covered in Pillar 1; and
- Pillar 3 (Market discipline) covers transparency and the obligation of firm’s to disclose meaningful information to the market related to their risks, capital and generally risk management.

The Company’s Disclosures below have been prepared using 31 December 2014 data in accordance with the Directive. IronFX UK will make the disclosures on an annual basis, or more frequently if there are material changes that would affect calculations of regulatory capital requirement. Disclosure will be made as soon as reasonably practicable after completion of the annual financial statements.

## 2. Risk Management Objectives and Policies

Risk constitutes an unavoidable characteristic of the business of the Company, and the development of a robust risk management framework is considered of high importance, not least because of the regulatory status of the Company. The identification and classification of risks begins from the definition of the vision and business objectives, which clearly provide guidance and direction, defining the approach that the Company adopts in order to successfully confront and respond to different risks inherent in its operations and functions.

## **2.1 Risk Management Policy**

The risk management policy of the directors is to set a framework for the Company that is aimed towards identifying the risks confronted by the Company and the principles guiding its approach to managing those risks. The analysis refers to those risks identified and the strategies employed for their mitigation or, where possible, elimination.

Importantly, the approach of the Company's management and the resulting policy adopted regarding the issue of risk is exemplified throughout.

The directors consider 3 main aspects as part of their considerations. Firstly, the main risks confronted by the Company and the mitigation strategies that are implemented. Secondly, the risk management procedures that may be used by the Company for assessing exposures when this will be applicable for the Company. Thirdly, the most significant investment risks that most investors are exposed to by investing in the financial markets are discussed.

The overarching principal of the directors is to have a policy that is able to identify and assess the business risks in achieving the Company's, and wider group's, strategic objectives, establishing appropriate internal controls to manage those risks and ensuring that appropriate monitoring and reporting systems are in place. These controls are to be continually reviewed.

Throughout 2014 the directors have had regard to the ever growing business in the UK and also to a variation in its regulatory permissions that were extended in October 2014 to dealing in investments as agent and dealing in investments as principal (matched principal broker). While the existing controls were considered appropriate for the Company's extended operations, the directors have been mindful to the growing business and its change in operations in 2014, continually seeks to improve its risk management.

## **2.2 Credit / Counterparty Risk**

Credit Risk is defined as the risk that a counterparty will fail to discharge their obligation and cause the Company to incur a financial loss. Credit risk arises primarily on the Company's own funds deposited with bank institutions and amounts due on client positions.

### Credit Risk Monitoring and Mitigation

Credit risk is monitored by management and the risk committee on an ongoing basis.

The Company addresses credit risk in a number of ways including:

- (a) aiming to maintain a diversified client portfolio thus avoiding high concentration and exposure to a small number of clients;
- (b) depositing the Company's own funds as well as client funds only in highly rated banking institutions;
- (c) ensuring that clients cannot begin to trade unless money has been deposited into clients' account; and
- (d) ensuring that the necessary margin is tied for any open positions.

Furthermore, the credit risk that arises from client positions is further reduced by the Company's policies and tools, which include manual and automatic stop loss limits in order to prevent any open positions exceeding the Company's pre-set margin.

#### Credit Risk calculation

The Company follows the Standardised Approach for the calculation of the capital requirements for credit risk, although the capital identified to be held is considered minimal compared to the fixed overhead required.

### **2.3 Operational Risk**

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

Operational risk is divided into the following sub-categories of risks relating among others to:

- Internal fraud; External fraud; Marketing & Advertising; Regulatory reporting; Internal procedures and controls; Client communication damage to physical assets business disruption & systems failures; Chinese walls; Employment practices and workplace safety; Conflicts of interest; Client & Business Practice; Legal risk.

#### Operational risk mitigation

The Company has established various techniques for the mitigation of operational risk. These techniques include the following:

- Maintaining board oversight. The Board of Directors reviews significant strategic decisions made by management and monitors their activities.
- The board must ensure the accuracy of any statements made during the marketing and advertising processes and ensure that the information addressed to the client is fair, clear and not misleading.
- The compliance officer ensures that proper information/reports are sent in a timely manner.
- Management formally communicates duties and responsibilities to employees through regular meetings, seminars and trainings.
- Several policies and procedures have been established and followed in an attempt to identify and minimise any fraudulent activities.
- The Company has a detailed business contingency plan in place with recovery procedures and actions to be followed in the case of damage to any vital of the Company's structure.
- The Company has a conflicts of interest policy.

The Fixed Overhead requirement is used to determine the risk associated with operations, ensuring that conservable there is sufficient capital to meet at least 3 months expenses in the event that there was no income.

For this purpose, looking at the last 12 month's audited financial statements, being the year ended 31 December 2013, but this was not representative of the outstanding balance and therefore the basis for the FOR was determined by looking forward for future anticipated expenditure.

## **2.4 Market Risk**

The Company defines Market Risk as the risk of adverse movements in the level of interest rates, in the rate of exchange between currencies and the current prices of securities, commodities and other financial instruments. Accordingly, these movements may affect the Company's profitability.

### Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fluctuations of market interest affect the prices of securities.

The Company's management monitors the interest rate fluctuations and acts accordingly however it does not consider interest risk as significant since it does not hold any material interest bearing assets and liabilities. Furthermore, the interest rates applying to the UK is minimal and the impact of any fluctuations is considered minimal.

### Foreign Exchange Risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

As the Company's principal activity is trading in foreign currencies, it is exposed to foreign currency risk as a result of the existence of open currency positions in the currencies in which it performs transactions with its customers. The Company maintains position limits for its open positions for each currency, in order to mitigate these risks. The open positions up to a limit are monitored on a continuous basis by the Company's traders.

Furthermore, the Company is exposed to foreign exchange risk as certain transactions and balances are in Sterling and therefore it has currency risk exposure to fluctuations in exchange rates. These fluctuations do not have a material impact on the financial statements at 31 December 2014, and will be continually reviewed by the directors as the business grows.

The directors are responsible for managing the company's exposure to foreign currency risk by monitoring the exposure on all foreign currency denominated assets and liabilities.

### Price risk

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk and currency risk). The management of the Company continuously monitor market prices and act accordingly in order to maintain price risk at acceptable levels.

### Market risk mitigation

Below are procedures that have been identified by the Company and are used for market risk mitigation purposes:

- The directors are responsible for the monitoring of the Company's risk exposure; any deviation ought to be reported and where appropriate action must be taken.
- The risk management is monitored directly by the Board of Directors.
- The trading activity is recorded so as to allow the risk committee to review and monitor the Company's exposure in real time. This is operated at group level also, where the Company's parent acts a counterparty to trades.
- Aggregate net exposures are monitored as they develop from the opening and/or closing of positions by clients. If risk exceeds desired levels, appropriate actions should be taken to hedge risk until intended levels are achieved.

### Market Risk calculation

The Company uses the Standardised Approach to calculate the capital requirements of market risk.

#### **2.5 Liquidity Risk**

Liquidity risk is the risk that the Company will encounter difficulty in meeting payment obligations and potential payment obligations as and when they fall due without incurring unacceptable losses. Ultimate responsibility for liquidity risk management rests with the directors, who will manage the company's short, medium and long-term funding and liquidity management requirements.

The company aims to maintain high levels of liquidity at all times and the directors will regularly monitor cash flow and management accounts to ensure that the company maintains adequate working capital, therefore the directors do not consider liquidity risk to be significant.

#### **2.6 Capital Risk**

Capital risk is that the Company is unable to continue as a going concern and meet the regulatory Own Funds requirement of the FCA, particularly with regard to the ever growing business and increasing cost base.

The Company is currently capitalised at a level comfortably in excess of the minimum regulatory capital required at the end of 31 December 2014 and it has always been the prudent decision to maintain a healthy capital surplus to cover any unforeseen rises in costs in the future

The directors monitor management accounts on a frequent basis to ensure that an appropriate level of capital and cash resources are maintained to meet regulatory requirements. The cost base of the Company has increased throughout 2014 to a level at 31 December 2014 which is thought to be reflective of the ongoing cost basis for at least the foreseeable future.

Therefore the directors are comfortable that the current capitalisation of the Company is appropriate for the operation of the business, but are also aware that further capital would be made available in the event that it is thought prudent to capitalise the Company further for regulatory purposes.

### 3. Own Funds

The own funds of the Company are shown below:

	31/12/2014
	US\$'000
<b>Original Own Funds (Tier 1)</b>	
Share Capital	2,417
Reserves	267
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<b>Total Own Funds</b>	<b>2,684</b>
	<hr/> <hr/>

The Company does not currently have any capital instruments falling within Tier 2.

### 4. Minimum Required Own Funds for Credit, Market and Operational risk

The different methods used to assess the adequacy of the capital for the different categories of risks are described above. The table below represents the minimum capital requirements as at 31 December 2014. The capital requirements for market risk relate only to foreign exchange risk.

	Capital Requirements 31/12/2014 US\$'000
<b>Credit Risk</b>	
<i>Standardised approach</i>	213
<b>Market Risk</b>	
<i>Standardised approach</i>	128
<b>Operational Risk</b>	
<i>Fixed Overhead Requirement</i>	1,865

Credit risk and market risk are considered to be minimal compared to the Fixed Overhead Requirement, which is considered to set the regulatory capital requirement of the Company. Ordinarily this would be based on one quarter of the fixed overheads of a Company that is derived at using the latest audited financial statements.

However, due to the cost base increasing in the second half of 2014, the directors consider that a forward looking assessment of 3 month's fixed expenditure is a more appropriate and prudent approach in light of the current business operations. A regulatory capital requirement of USD 1,865,000 has therefore been arrived at.



## **5. Pillar 2 considerations**

Under the Pillar 2 requirements of the FCA capital requirements, the Company has undertaken an assessment of the adequacy of capital based upon all the risks to which the business is exposed ("ICAAP"). As at 31 December 2014, this analysis concluded that the Company did not require any additional Pillar 2 capital and that its Fixed Overhead Requirement is the applicable Financial Resources Requirement and that its own funds are sufficient to support its operations over the next year, and no additional capital injections are necessary.

The Fixed Overhead Requirement under Pillar 1 is itself considered to be a prudent looking forward assessment that has factored in a prudent buffer to absorb any unexpected increases in risk.

## **6. Remuneration Code**

The Company is within scope of the FCA's Remuneration Code (the "Code"), which governs the application of remuneration policies and practices within the Company in order to promote sound and effective risk management. The regulations allow for a proportional approach to be taken in the application of the Code.

Whilst appreciating the contribution that can be made by a remuneration committee, the Company considers that such a body would not be proportionate to the size and complexity of the UK business at this stage, although one does exist at group level who set the policies that the Company then adopts.

The role of setting remuneration policy is undertaken instead by the board of directors and the Company's parent, with input and the monitoring of the application of the policy provided by management. The policy is reviewed at least annually, using all available information, for example risk metrics and financial performance reports.

Remuneration for Code Staff consists of fixed salaries and variable bonus commission components.

Salaries are set in line with market rates in order to retain and if necessary attract appropriately skilled staff. Bonus commission awards are discretionary and not guaranteed. They take into consideration both success in meeting individual targets, and the overall results of the Company.

Individual targets will not relate solely to financial criteria, but will also look at skills acquisition, compliance with regulatory obligations, and adherence to effective risk management over both the short and long term time horizon.

Total remuneration paid amounted to USD 3,517,694, including USD 544,588 variable.