Notesco UK Limited

Annual Public Disclosures

Year ended 31 December 2023

July 2024

Contents

1. INTRODUCTION

1.1. Corporate Information

Notesco UK Limited ("the Firm" or "the Company" or "Notesco UK") is a UK Limited Company registered in England and Wales (registration number 08111366) incorporated under the Companies Act 2006 on 19 June 2012 and authorised and regulated by the Financial Conduct Authority (FRN 585561) on 17 June 2013. Its office address is Tower 42, 25 Old Broad Street, London, EC2N 1HN, United Kingdom.

The Company's principal activity is dealing in investments as principal (matched-principal broker), a transaction where the facilitator interposes itself between the buyer and the seller to the transaction in such a way that it is never itself exposed to market risk throughout the execution of the transaction, with both sides executed simultaneously, and where the transaction is concluded at a price where the facilitator makes no profit or loss, other than a previously disclosed commission, fee or charge for the transaction[1].

Notesco UK is regulated by the FCA and the Regulated activities of Notesco UK under the FCA rules include:

- Agreeing to carry on a regulated activity
- Arranging (bringing about) deals in investments
- Dealing in investments as agent
- Dealing in investments as principal (matched principal limitation)
- Making arrangements with a view to transactions in investments

1.2. Pillar 3 Regulatory Framework – Overview

From 1 January 2014 a revised regulatory capital adequacy framework was implemented, the Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD"), where together are referred to as "CRD IV".

The CRD IV is the framework for implementing Basel III in the European Union. CRD IV was implemented in the UK by the FCA Handbook and more specifically the General Prudential Sourcebook ("GENPRU"), the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and the Prudential Sourcebook for Investment Firms ("IFPRU"). In the United Kingdom the Directive has been implemented by the Financial Conduct Authority ("FCA").

The FCA Framework consists of three mutually re-enforcing pillars, as follows:

- Pillar 1 defines the minimum regulatory capital requirements that are required for credit, market and operational risk.

[1] Note: article 4 (1)(38) of MiFID).

- Pillar 2 covers the Supervisory Review & Evaluation Process ("SREP") which assesses the internal capital adequacy processes and whether additional capital is required against risks not covered in Pillar 1.

- Pillar 3 (Market discipline) covers external disclosures that are designed to provide transparent information on regulatory capital adequacy, risk exposures and risk management, and internal control processes.

The Pillar 3 Report sets out both quantitative and qualitative information in accordance with the CRD IV Framework and the aforesaid Directives and Regulations. Pillar 3 remains applicable for an accounting reference date on or before 31 December 2021.

1.3. New Prudential Rules (IFPR)

With effect from 1 January 2022, the Firm must comply with the 'Investment Firm's Prudential Regime (IFPR)' and the public disclosures requirements as set out in MIFIDPRU 8, which replace the previous Pillar 3 requirements of BIPRU 11. The objectives are broadly similar, namely, to inject market discipline on firms by requiring them to disclose information to key stakeholders and counterparties. MIFIDPRU 8 seeks to refine this approach through disclosures on firms' own funds (financial strength), behaviour (investment policy) and culture (risk management, governance, and remuneration).

Based on an initial assessment of the impact, senior management understands that the firm will be classified as a 'Non Small and Non-Interconnected Firm (Non-SNI firm)' and will be subject to a permanent minimum requirement (PMR) of £750,000, due to the firm having the matched principal limitation. The Company will transition towards the PMR of £750,000 throughout a 5-year period as shown below. The Firm is monitoring the developments of the legislation and takes into consideration the consultation papers and the policy statements FCA has published and will be publishing throughout the year.

	DATE RANGE	TP 2.18
Year 1	01.01.2022 - 31.12.22	125,000
Year 2	01.01.2023 - 31.12.23	190,000
Year 3	01.01.2024 - 31.12.24	330,000
Year 4	01.01.2025 - 31.12.25	470,000
Year 5	01.01.2026 - 31.12.26	610,000
Year 6	01.01.2027 - onwards	750,000

1.4. Frequency and Means of Disclosures

The Company publishes its Disclosures report on an annual basis. The Public Disclosures report should be read in conjunction with the audited financial statements of the Company, which contain supplementary information in relation to the requirements of the abovementioned Directives.

The Company's Disclosures report for the year can be found at: https://www.ironfx.co.uk/en/download-center/legal-documentation

1.5. Verification

The Disclosures were reviewed and approved by the Board of Directors (the "Board" or "BoD"), evaluating the adequacy of existing risk management arrangements of the Company, while providing assurance that the risk management systems in place are adequate with regards to the Company's business profile, strategy and operations.

1.6. Scope of Application of Disclosures

The Disclosures are made on an individual basis and relate to the business activities of Notesco UK Limited. Institutions may omit information that is not material if certain conditions are met. Information in disclosures shall be regarded as material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Furthermore, institutions may omit information that is proprietary or confidential if certain conditions are also met. In this respect, information shall be regarded as proprietary to an institution if disclosing it publicly would undermine the institution's competitive position. Information shall be regarded as confidential if there are obligations to customers or other counterparty relationships binding an institution to confidentiality.

2. INTERNAL GOVERNANCE ARRANGEMENTS

2.1. Management function

The Company's Board constitutes the ultimate administrative body of the company and is responsible for monitoring and supervising its operations. At the same time, it embraces the need of having adequate internal processes and procedures to facilitate successful corporate governance, risk management and a robust control framework, in line with the requirements under SYSC 4.3A.1R

2.2. Risk Management

The Board of Directors has the overall responsibility in risk managing the Company by:

- Assessing and managing the Company's risks;
- Ensuring the adequacy and effectiveness of controls in place for managing the risks;
- Reviewing the applicable risk limits and recommending amendments if required.
- Identifying additional risks that the Company is exposed to;
- Addressing control failures and suggesting remedial action.

2.3. Corporate governance

The importance of internal corporate governance is also a key focus area for the Board to enable effective supervision of the internal departments and systems, while ensuring adherence with its regulatory compliance. In addition, the Board oversees, reviews and challenges capital and liquidity stress testing while taking appropriate actions to mitigate any deficiencies.

2.4. Diversity and Composition

As per the guidance of SYSC[2] 4.3A.3, the Company ensures that the management body has sufficient knowledge, skills and experience to perform its duties while attending relevant trainings and seeking professional advice where needed. And most importantly that it acts with honesty, integrity and independence of mind.

The Board comprises of one Executive Director with vast experience in the financial services industry and one Non-Executive director. The management ensures that the number of directorships held by all its members are in line with the directions outlined as per SYSC 4.3A.6, while any executive and non-executive directorships held within the same group are outside the scope of MIFIDPRU 8.3.1R(2)

As the Company has not established yet a nomination committee and as required under SYSC 4.3A10 when such a committee is not in place, the Company ensures to have appropriate policies and procedures

[2] Senior Management Arrangements, Systems and Controls sourcebook (FCA) (https://www.handbook.fca.org.uk/handbook/SYSC/4/3A.html)

to promote diversity within the management body. Emphasis is given on periodical reviews and evaluations of its skills, knowledge, experience, structure, size, composition and performance amongst many.

3. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk taking constitutes a major business characteristic of the Company, and the development of a robust risk management framework is considered of high importance. The identification and classification of risks begins from the definition of the vision and business objectives, which clearly provides 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.

3.1. Risk Management Framework and Governance

<u>Risk Management Policy</u>

The Risk Management Policy aims to elucidate the approach taken by the Company towards the risks confronted and the principles guiding its approach. The risk management policy refers to the risks confronted by the Company and the strategies employed for their mitigation or elimination. Importantly, the approach of the Company's management and the resulting policy adopted regarding the issue of risk is exemplified throughout this report.

<u>Risk Appetite Statement</u>

The Board ensures that the Company manages to pursue its strategic and business objectives while monitoring the risks the Company is exposed to, so that they are within the predefined risk appetite/tolerance levels. The risk appetite of the Company is a result of its Internal Capital Adequacy Assessment Process ("ICAAP"). Each identified specific risk is classified into its general risk category and risk type and is given a risk profile (Low/Medium/High) based on the overall score received after quantification of the specific risk. The specific risk is quantified by considering the expected impact of a specific risk and its likelihood of occurrence.

This process is implemented to assure the Board that the Company currently operates and will continue to operate within its current and future aggregate risk limit as represented by its current and projected Internal Capital. In case that the aggregate risk limit is expected to exceed the Company's expected risk tolerance (as represented by its projected regulatory own funds), the Board plans ahead by securing the injection of additional capital and/or the establishment of additional risk controls.

The management of all risks that are significant to the Company are discussed below.

3.2. Credit Risk Management

Credit Risk is defined as the risk of loss that the Company will incur if a counterparty fails to perform its contractual obligations. Credit risk arises primarily on the Company's own funds deposited with institutions, amounts due from related parties and other receivables. The Company does not bear any credit risk in relation to the client money because it is not required to compensate clients from losses suffered due to the default of the bank at which the client money is deposited.

Credit risk is monitored by management on an ongoing basis. The Company addresses credit risk in a number of ways, including the ones set out below:

- The Company aims to maintain a diversified client portfolio, so as to avoid high concentration and exposure to a few number of clients.
- The Company's own funds as well as the client funds are deposited solely at highly rated banking institutions in different jurisdictions.
- The Company's clients begin to trade once money have been deposited into the clients' account.
- There are additional in-house plug-ins for protection of negative balances.
- The Company uses prime brokers and establishes agreements with counterparties that are considered highly rated. The Company conducts its own research in those institutions to verify that they are indeed financially sound and healthy.
- The Company follows the Standardised Approach for calculating the capital requirements for credit risk.

3.3. 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 numerous risk categories, relating among others to the following:

- Internal and 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

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

- Maintaining a four-eye structure and implementing 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 ensures that the information addressed to the client is fair, clear and not misleading.
- The compliance officer ensures that proper information/reports are sent in due time to FCA.
- 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 minimize any fraudulent activities.
- An online web-based screening program called World-Check is used in an attempt to improve the know-your-client's procedures and to minimize fraud activities;
- The Company uses third parties for the implementation of customer identification and due diligence procedures, which have access to governmental data for clients from specific countries and can verify the validity of client's information by providing, passport number and address.
- Instant online reporting is available to clients to minimize the risk of mismarking the clients' positions;
- The Company has a comprehensive and detailed business contingency plan in place, with recovery procedures and actions to be followed in case damage is deemed vital to the Company's structure.
- The Company has an updated Conflicts of Interest Policy to ensure that any conflicts are identified and resolved in a consistent and appropriate manner.
- Financial accounts are audited by a reputable audit firm.

The Fixed Overhead Requirement (FOR) and K-Factor requirements are used to determine the risks associated with operations, ensuring that there is sufficient capital to meet expenses in the event that there was no income or delay in receivables.

3.4. 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. The company is exposed to the following sub-categories of market risk:

- <u>Interest Rate Risk</u>

  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 rate risk as significant since it does not hold any material interest bearing assets and liabilities.

- <u>Foreign Exchange Risk</u>

  Foreign currency risk is the risk that the value of financial instruments will fluctuate due to unfavourable 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 as at 31 December 2023 and are continuously reviewed by the directors.

- <u>Price risk</u>

  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 maintain price risk at acceptable levels.

For the mitigation and management of market risk, the following procedures are established by the Company:

- The Board is responsible for monitoring the Company's risk exposure; any deviation ought to be reported and where appropriate action must be taken.
- Hedging is also performed naturally from opposite positions that clients take.
- Trading with thousands of clients from multiple locations achieves a natural diversification of its risk benefiting from a significant degree of natural hedging between the clients.

- 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.

3.5. Liquidity Risk

Liquidity risk is the risk that the Company may encounter difficulty in meeting its payment obligations and potential payment obligations, as and when they fall due. 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.

The Company also follows the guidelines of MIFIDPRU 6.2, while ensuring that basic liquid assets always exceed the one third of the amount of its FOR requirement.

3.6. Capital Risk

Capital risk is the risk that the Company is unable to continue as a going concern and meet the regulatory Own Funds requirement as applied by the FCA, particularly with regards 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 2023 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 remained at similar levels when compared to 2022 and is expected to reflect the ongoing cost basis for at least the foreseeable future.

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

3.7. Regulatory risk

Regulatory risk is the risk that the Company may fail to report on time certain information/reports to any local or regulatory body, including but not limited to FCA. Notesco UK established the following procedures for the mitigation of regulatory risk:

- The Company has documented procedures and policies in place, based on the requirements of relevant Laws and Directives issued by FCA; these can be found in the Procedures Manual.
- Each person (i.e. Compliance Officer, CASS Oversight Manager, External Auditor, etc.) is responsible to timely prepare and send the reports to FCA or any other local authority;
- The Compliance Officer acts as a second eye to ensure that all the Company's reports are sent by the relevant persons to FCA on time, after undergone a thorough review.

3.8. Fraud Risk

Fraud Risk may arise both internally and externally, is the risk that results from amongst other things, misappropriation of assets, corruption and fraudulent financial statements.

- In order to manage its Fraud Risk, the Company applies strong governance policies and practices.
- Ensures ethical behaviour within the Company and staff, according to the Code of Ethics and other related policies.
- Oversees the qualifications, independence and performance of its external auditors.
- The auditors present to the Board of Directors the Company's financial results prior to their publication.

Also the Company:

- Ensures the accuracy of the financial statements and any announcements in relation to the financial performance of the Company.
- Monitors and assess the adequacy and effectiveness of the Company's internal systems and controls, based on data and information produced by external auditors and/or other competent authorities.
- Establishes procedures for the identification of related party transactions and ensures the review, approval or ratification of such transactions through the route outlined in the Related Party Transactions Policy.

4. OWN FUNDS

The FCA's Own Funds rules require the Firm to hold sufficient regulatory capital to meet both minimum capital rules, largely based on expenses, and additional capital to mitigate the risks the business faces, based on internal calculations.

At the end of December 2023, the Firm has determined the total Own funds capital requirement to be $159,129 and with current regulatory capital of $2,971,307, the Firm has an overall capital surplus of $2,177,021 after taking into account the Early warning indicator (10%) applied on the existing individual capital guidance (ICG).

The regulatory capital available to the Firm is comprised of the total share capital together with the audited reserves, less any interim net losses (if applicable) in the year to date. This calculation is as below:

COMPOSITION OF REGULATORY OWN FUNDS		
Common Equity Tier 1 capital	**USD ($)**	**USD ($)**
Fully paid up capital instruments	**2,417,015**	
Retained earnings	**564,580**	
		2,981,595
(-) TOTAL DEDUCTIONS FROM COMMON EUITY TIER 1 CAPITAL		**10,288**
		2,971,307
COMMON EQUITY TIER 1 CAPITAL		
TIER 1 CAPITAL - SUM OF:		
COMMON EQUITY TIER 1 CAPITAL		**2,971,307**
ADDITIONAL TIER 1 CAPITAL		**0**
OWN FUNDS - SUM OF:		
TIER 1 CAPITAL		**2,971,307**
TIER 2 CAPITAL		**0**
OWN FUNDS / TOTAL CAPITAL		**2,971,307**

The reconciliation of Regulatory own funds to the Audited Financial Statements is presented below:

Own funds: Reconciliation of regulatory own funds to balance sheet in the audited financial statements	
	Balance Sheet as in Audited Financial Statements **31/12/2023** **USD ($)**
Assets	
Deferred Tax asset	10,288
Trade and other Receivables	782,251
Cash and Cash equivalents	2,769,700
	3,562,239
Total Assets	**3,562,239**
Liabilities	
Trade and Other Payables	547,617
Current Tax liabilities	33,027
	580,644
Total Liabilities	**580,644**
Total Net Assets	**2,981,595**
Shareholders' Equity	
Caled up Share Capital	2,417,015
Retained Earnings	564,580
	2,981,595
Total Shareholders' Equity	**2,981,595**

5. OWN FUNDS REQUIREMENTS

Notesco UK is categorised by the FCA as a Non-Small Non-Interconnected Firm (Non-SNI firm)' and will be subject to a permanent minimum requirement (PMR) of £750,000 once the transition period ends.

As a consequence of this, Notesco UK adheres to capital rules contained in MIFIDPRU 4.3, which state that a MIFIDPRU Investment firm must at all times maintain own funds that are at least equal to its own funds requirement.

The own funds requirement of a non-SNI MIFIDPRU investment firm is the highest of:

- its permanent minimum capital requirement under MIFIDPRU 4.4, which was GBP 190,000 for 2023 (circa USD 242,000).
- its fixed overheads requirement under MIFIDPRU 4.5, which was USD 120,691 for 2023.
- its K-factor requirement under MIFIDPRU 4.6, which was USD 196,452 for 2023.

The Fixed Overhead Requirement (FOR) is calculated in accordance with FCA rules, based on the previous year's audited expenditure, unless there is a material change in the current year unaudited expenses. As at 31 December 2023 the FOR is set at USD 120,691 based on the audited financial statements for the year ended 31 December 2022.

In addition to this minimum level capital, Notesco UK must also hold sufficient additional capital (as deemed necessary) based on the risks faced by the business. The Internal Capital Adequacy and Risk Assessment Process (ICARA) is designed to help the Firm's consideration of the business risks, their mitigation, and at the same time to determine the level of additional risk-based capital that it shall hold, in order to mitigate those risks. Based on the 2023 ICARA the entity was not required to hold additional capital, while taking every effort to account and recognise its existing risk appetite.

A detailed summary of own funds requirements as at 31 December 2023 is as follows:

Base Capital Requirements					
			GBP	**Rate**	**USD**
A = PMR	**Permanent Minimum Capital (PMC) (use of TP2.18)**	**Year 1**	190,000	1.27303	**241,876**
SURPLUS / (DEFICIT)					
K-Factor requirement					**USD**
	K-factors capital requirement				
	K-CMH				6,175
	Additional K-factor due to dealing on own account				
	K-NPR				190,170
	K-DTF				107
B = sum of K factors					**196,452**
C = FOR	**Fixed Overheads Requirement**				**120,691**
Higher of A, B, C	**Capital Requirement**				**241,876**

5.1. Liquidity

The Firm's follows the guidelines of MIFIDPRU 6.2 and its liquidity is measured by the amount of cash held at bank. At 31 December 2023, this amounted to $181,982 comprising of cash and cash held in banking institutions, out of which $75,486 in GBP currency.

The Firm does not operate a formal capital allocation process; instead the capital is used concurrently to mitigate all of the risks faced by the business.

6. Other Considerations

6.1. Geopolitical situation in Eastern Europe (War in Ukraine)

The geopolitical situation in Eastern Europe intensified on 24 February 2022 with the commencement of the conflict between Russia and Ukraine. In addition to the impact of the events on entities that have operations in Russia, Ukraine, or Belarus or that conduct business with their counterparties, the conflict is increasingly affecting economies and financial markets globally and exacerbating ongoing economic challenges.

The impact on the Company largely depends on the nature and duration of uncertain and unpredictable events, such as further military action, additional sanctions, and reactions to ongoing developments by global financial markets.

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty at this stage, due to the pace at which the conflict prevails and the high level of uncertainties arising from the inability to reliably predict the outcome.

The Company has limited direct exposure to Russia, Ukraine, and Belarus and as such does not expect significant impact from direct exposures to these countries.

7. Remuneration

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 sets the policies that the Company then adopts.

The role of setting remuneration policy is undertaken instead by the board of directors at group level, 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, such as risk metrics and financial performance reports.

The remuneration of key management personnel and employees is that of fixed salaries only.

The Company does not consider any of its senior management or employees as a material risk taker, whereas collective/group decision making is the approach followed to promote sound and effective risk management.

Salaries are set in line with market rates in order to retain and if necessary attract appropriately skilled individuals.

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 fixed remuneration paid to key management personnel and employees amounted to $163,673.