CORE SPREADS

Pillar 3 Disclosure

2021

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Overview

Introduction

The Pillar 3 disclosure is prepared in accordance with the EU's Capital Requirements Directive (CRD) as implemented by the Financial Conduct Authority ("FCA").

The overall purpose of a Pillar 3 disclosure is to encourage the stability of the financial markets by allowing both market participants and other stakeholders to assess key information on the firm's capital adequacy and the firm's control processes.

There are three Pillars which the firm implements for the calculation of regulatory capital.

- Pillar 1 (minimum capital requirements): sets out to ensure the eligible capital for the Own Funds Requirement ("OFR").
- Pillar 2 (minimum capital requirements): sets out to ensure the firm has sufficient capital to support risks not captured by the minimum capital requirements.
- Pillar 3 (market discipline): which declares to market participants and stakeholders the overall adequacy of the firm's regulatory capital.

Frequency of Publication

The disclosures made in this document are applicable to Finsa Europe Ltd ("the firm") which provides spread betting and CFD products.

The Pillar 3 disclosures will be published on at least an annual basis on our brand websites (www.corespreads.com and www.tradenation.com) and our Pillar 3 will be prepared at the same time as our end of year annual report.

Exemptions

The Firm is permitted to omit disclosures where it believes that such information could be regarded as proprietary or confidential and potentially undermine the firm's competitive position if it were to be made public.

Risk management objectives and policies

Corporate governance structure

The directors and Senior Management team at the firm are aware that a strong culture of governance and management brings a structured and cohesive approach to risk. The governing body acknowledges that accountability and conduct, especially through Senior Managers and Certification lie at the heart of our activities.

The Board has put in place an appropriate governance structure:

- To implement appropriate control measures which add value and identify risks;
- To demand an appropriate statement of responsibilities under the Senior Management and Certification Regime (SMCR);

- To ensure that the firm is implementing approved polices and procedures;
- To ensure good governance principles are followed, including definitions of responsibility, accountability and lines of reporting;
- To allow the opportunity for the governing body to be challenged through its risk processes.

Board of Directors

The Board has overall responsibility for the firm. The Board comprises four Executive Directors and one independent Non-Executive Director. The Directors believe that the Board has a balance of skills, experience and knowledge to provide effective strategic leadership and proper governance for the firm as a whole.

The Board is responsible for the management and oversight of the firm, setting strategic targets and determining policy.

The roles of the COO and the CEO are separate, defined in writing and have been approved by the Board. The CEO is responsible for the implementation and execution of the Board approved strategy and policy. The CEO manages the firm's operations on a day-to-day basis and is in frequent contact with the Executive Directors and senior management in addition to attending formal Board meetings. Performance appraisals are included in the performance evaluation process for the CEO, Executive Directors are used by the Remuneration Committee in determining their remuneration.

Remuneration Committee

The Remuneration Committee consists of directors and focuses on director and senior management remuneration, incentives, retention, and overall firm remuneration matters as required.

External Audit Function

The firm uses an external audit for compliance to ensure that there is sufficient system and controls in place to meet its regulatory and reporting requirements.

Compliance & CASS Committees

The Compliance Committee is responsible for overseeing the Firm's compliance function and ensuring that the Firm has sufficient systems and controls in place to fulfil all its regulatory obligations and to meet its reporting requirements.

The CASS Committee is a fundamental part of the Firm's client money governance and oversight procedures. The CASS Committee is chaired by the Financial Controller who is responsible for the firm's CASS obligations and is also approved under the SMCR. The Financial Controller is also responsible for overseeing the controls and procedures in place to protect client money. The CASS Committee also includes the CEO and the Finance Operations Manager who also oversee functions which impact client money. The CASS Committee forms a key part of the oversight of client money in addition to Compliance and the firm's external auditors.

Risk Committee

The Risk Committee is responsible for overall oversight of the Firm's risk exposure. The main role and responsibilities of the Risk Committee:

- Oversight of the firm's risk appetite and tolerance;

- The review and recommendation of the risk appetite statement and risk management framework/register;
- The provision of advice and recommendations to the Board to assist in Board decision making in relation to risk appetite and risk management;
- The review of the ICAAP;
- The oversight of, and making recommendations to the Board on, current risk exposures and future risks.

Senior Management Committee

The corporate governance structure also includes a Senior Management Committee which provides a framework to support and monitor the management of the firm. Senior Management meetings are held 11 times a year and attended by the Executive Directors and senior managers from key functions across the business.

The meetings allow discussion between the Executive Directors and Senior Management on business developments, key projects, regulatory changes and matters arising which may impact the delivery of the firm's strategic objectives.

The Senior Management Committee monitors the key risk areas of the business including financial risk, compliance, financial crime, and liquidity risk. The Senior Management Committee is chaired by the CEO with directors and senior management and specialists attending for their respective areas of expertise.

Departmental Responsibilities

Each control function provides additional assurance to Board and Senior Management Committee by compiling periodic reports for the appropriate committee and the Board to review.

- The Finance function is responsible for maintaining accurate financial books and records of the firm through the application of adequate processes and controls. Its responsibilities also include adherence to local regulations, including compliance with client money rules, and regulatory and tax submissions where required.
- The Finance function is also responsible for identifying, monitoring and reporting market and counterparty risk for the firm. This includes calculating of Pillar 1 capital requirements, as well as running various stress scenarios to calculate any potential Pillar 2 regulatory capital requirements.
- The Technology function is responsible for providing assurance on the level of technology risk within the firm and the effectiveness of the controls put in place by the business. This includes developing and undertaking robust monitoring activity as well as responsibility for oversight and governance of Information Security, and Business Continuity.
- The Data Protection function is responsible for technical and procedural controls implemented to protect the personal information provided by the clients and to minimise the occurrence of information security and data protection breaches.
- The Compliance function is responsible for regulatory risk policy and requirements, including assessment of all business procedures and controls to ensure regulatory rules are followed. This includes developing and undertaking robust compliance monitoring activity and on-going liaison with the regulator. The Compliance function is also responsible for mitigating, formulating and advising on financial crime policy and requirements, including assessment of all business procedures and controls to ensure regulatory rules and industry best practice are followed.

- The Customer Success function is responsible for handling client enquiries, providing support and ensuring adherence to our treating customers fairly framework.
- The Marketing function provides external information to clients through social media platforms, our website and provides intelligence on client activity through these platforms.
- The Risk function is responsible for managing and monitoring day-to-day client trading activity positions and intra-day and overnight market risk. The Risk function is also responsible for the Firm's overall counterparty risk exposure.

Business Functions

In addition to the departmental functions, risk management is a key consideration throughout the firm. Each function designs, implements and monitors suitable risk mitigation controls so that risks remain within Board-approved risk appetite limits. The Firm's Risk Management Framework covers risk across the business.

Risk appetite statement

As set out in the annual report and financial statement the Firm's strategic goals *are:*

- Increase the client base in established markets;
- Expand into new markets and grow our existing regions;
- Maintain a robust product offering;
- Refine and enhance our existing technology for the client journey; and
- Continue to grow the business as key player in the retail CFD sector.

Risks to the firm

The firm defines and categorises its principal risks into the following:

- Credit and Counterparty Risk: This is managed by on-screen real-time assessments and through setting margin requirements and a risk policy that ensures that company risk limits are appropriate managed and controlled.
- Market Risk. The firm's market risk policy sets out how the business manages its market risk exposure. This is assessed monthly and incorporates a methodology for setting market position limits, consistent with the firm's appetite for the markets we participate in.
- Liquidity Risk – insufficient liquid funds maintained to adequately fund trading counterparties.
- Operational Risk – Technology. Key performance indicators, incidents and outages are raised to a technology forum, comprising of IT and risk experts. To manage cyber risk and external threats to our systems and data, the Firm has a specific log system and key man risk approach and policy.
- Operational Risk – Other (including Finance, Compliance, Employee Matters). The firm through its daily monitoring Management looks to mitigate process risk through the maintenance of policy and procedure documents, training, risk and control self-assessments that identify key controls and highlight areas for improvement, and the production and review of appropriate management information. In addition to SMCR responsibilities, the firm operates a clear set of controls and a range of indicators to manage, monitor and mitigate people risk. This includes an annual employee performance check-ins, measurement and analysis of employee turnover, talent identification, succession and development planning and internal recruitment.

- Business Risk - The Firm seeks to mitigate the impact of adverse market conditions risk through detailed review of daily revenue analysis, monthly financial information and other.

  Key Performance Indicators (KPIs), and regular reforecasts of its expected financial performance reflecting the latest and expected market conditions. The Firm uses these forecasts to determine actions necessary to manage performance, with consideration given to changes market conditions.

Capital Resources

Table 1: Regulatory Capital

***Regulatory Capital Breakdown as of 31st December –2020**	**£000s**
Share Capital	3,536
Retained Earnings	1,860
Deductions	(18)
Common Equity Tier 1 (CET1) Capital	**5,378**
Risk Weighted Assets (RWA) Exposure:	
Credit Risk	2,760
Market Risk	4,996
Operational Risk	10,702
Total RWA Exposure	**18,458**
CET1 Capital / Total RWA Exposure	**29.14%**

**Please note that this section is updated during the second quarter of every year and contains the current year's data as at 31st December, prior to the signing of annual statutory accounts for the year ended 30 November.*

Capital Management

The firm's objectives for managing capital are set out as follows:

- to comply with the capital requirements as set by the FCA to which the firm is subject;
- to ensure that the firm is able to operate as a going concern and to satisfy any imposed capital requirements;
- to ensure that the firm maintains a strong capital base on which to deliver its objectives and to meet requirements;

Common Equity Tier 1 Capital

Common Equity Tier 1 Capital comprises share capital, share premium, other audited reserves and retained earnings.

Internal Capital Adequacy Assessment Process (ICAAP)

The firm undertakes an internal assessment of capital requirements via the ICAAP review document at least every three years or if a new significant risk has emerged.

The soundness, effectiveness and comprehensiveness of the ICAAP are challenged and approved by the Board. The ICAAP is the process of identification, measurement, management and monitoring of the adequacy and allocation of internal capital. Based on this the firm determines the Pillar 2 requirement, which presents the firm's view of the additional amount of capital it should hold against risks not fully covered by the Pillar 1 requirements over a three-year planning horizon.

The on-going review of the ICAAP throughout the year is delegated to the Senior Management Committee with assistance from the Risk Committee which ensures that it is updated with regard to all identified risks and is embedded in the risk management process of the firm.

The ICAAP may be reviewed by the FCA, who can review through a Supervisory Review and Evaluation Process (SREP). Following a SREP the FCA may impose an Internal Capital Guidance ("ICG") value which stipulates the amount and quality of additional capital resources that the FCA believes the firm should hold under the overall financial adequacy rule.

Capital Adequacy Live Monitoring ("CALM")

Pillar 1 risks (including market and counterparty risk) and the firm's overall capital adequacy position is monitored daily on a real-time live data basis via the CALM process, the outcome of which is documented between 5pm and 6pm each working day. The Risk team and Finance team approve the CALM report on a daily basis in order to evidence management of the firm's capital position and adequacy, to ensure that it holds sufficient capital to conduct its business compliantly, and to meet minimum requirements.

Remuneration disclosure

The Firm is required to comply with the Remuneration Code ("the Code") requirements within the FCA's handbook guidance. These rules recognise that not all the Code's principles apply to firms equally and therefore introduce a concept of proportionality, internal organisation (including legal structure) and the nature, scope and complexity of its activities.

Decision making process for determining remuneration policy

The Remuneration Committee consists of the Board of Directors and meetings are held at least once a year. The remit of the Remuneration Committee includes:

- Consideration and periodic recommendation to the Board of the remuneration policy (including incentives linked to the firm's performance measured, amongst other things, by financial results adjusted for risks) relating to the Executive Directors and other senior managers, and is designed to ensure that such policy attracts and retains high calibre Directors and Senior Management;
- Ensuring that the policy applies to the firm as a whole;
- Ensuring that the committee obtains independent advice from external legal council when necessary;
- Ensuring that sound risk management has been incorporated into the remuneration policy.
- The CEO, COO and the Financial Controller, together with other board members, providing input into the design of remuneration packages.
- The Remuneration Committee also helps identify and set targets to be used in incentives and to assess performance derived from employee appraisals.

Code Staff

The code requires the firm to identify individuals whose professional activities have a material risk on its risk profile. The following criteria have been identified as meeting the FCA's requirements for Code Staff:

- The firm's Senior Management Function
- The firm's Significant Influence Functions

Pay and Performance Links

- The firm's remuneration policy supports the firm's business strategy, which encourages and rewards for growth and shareholder interest. It is based on building long-term relationships with clients and employees and managing the financial consequences of business decisions across the entire economic cycle and stakeholders.
- Overall, the policy is designed to provide packages which attract and retain directors, senior management and employees of the highest calibre and motivate them to perform to the highest standards.
- All employees are eligible to participate in the annual incentive which is a discretionary bonus scheme.
- Remuneration packages are delivered via a combination of fixed and variable elements, which includes base salary, pension and other benefits, an annual discretionary bonus and a long-term incentive (for Directors, senior management and other identified staff only).
- All employees receive a fixed salary that reflects their market value, responsibility, and contribution to the firm. The firm aims to pay market competitive salaries with variable remuneration awards. All employees are eligible to be considered for a variable remuneration award through a discretionary annual bonus unless they participate in another specific incentive. Any bonus payment is subject to the achievement of firm targets, business unit and individual objectives, and risk criteria.

Ratio between fixed and variable remuneration

The Committee applies a balance between fixed and variable remuneration. The remuneration policies are constructed in a manner which do not encourage unnecessary risk taking.

Senior Managers and Certification Regime ("SMCR")

The firm has adopted the SMCR. The senior management team are responsible for implementing and upholding the SMCR and obtaining FCA approval for senior managers. The Firm will ensure that any individuals that hold Senior Management Functions ("SMFs") are authorised by the FCA.

SMCR Framework

- **Senior Managers Regime** – covers the senior employees within the firm who perform SMFs; these individuals need to be approved by the FCA.
- **Certification Regime** – covers employees who are not Senior Managers but who carry out "significant harm" functions, known as Certification Functions.
- **Conduct Rules** – these are the expected standards of behaviour applicable to individuals carrying out financial services activities in firms; they comprise Individual and Senior Manager Conduct Rules.