



# FOREX CAPITAL MARKETS LIMITED ("FXCM Ltd.")

## Pillar 3 - Disclosure

31<sup>st</sup> December 2014



## Table of Contents

1. Overview & Introduction .....	4
2. Legal Structure.....	5
2.1 FXCM Ltd. History .....	5
2.2 FXCM Group.....	6
3. Scope and Frequency of Disclosures.....	7
4. Risk Management Objectives & Policies .....	7
4.1 Governance Framework.....	7
4.2 Governance Structure .....	8
4.2.1 Boards of Directors (the Board) .....	8
4.2.2 Remuneration Committee (committee of the Board) .....	8
4.2.3 Executive Committee (committee of the Board) .....	9
4.2.4 CASS (Client Money & Assets) Committee (committee of the Board) .....	9
4.2.5 Risk Management Committee (committee of the Board).....	9
4.2.6 ICAAP Committee (sub-committee of Risk Management Committee).....	9
4.2.7 Credit Committee (sub-committee of Risk Management Committee).....	10
4.2.8 Audit Committee (committee of the Board) .....	10
4.3 Risk Appetite .....	10
4.3.1 Credit Risk.....	10
4.3.1.1 Balances held with third parties and affiliates .....	11
4.3.1.2 Credit extended to clients .....	11
4.3.1.3 Off-balance sheet counterparty risk .....	11
4.3.1.4 Defaulted client losses .....	11
4.3.2 Market Risk .....	12
4.3.2.1 FX and CFD Business.....	12
4.3.2.2 Currency mismatch risk.....	13
4.3.2.3 Interest Rate Risk .....	14
4.3.3 Operational Risk .....	14
4.3.4 Business Risk.....	15
4.3.5 Governance .....	15
4.3.6 Regulatory .....	15
4.3.7 Liquidity Risk .....	15
4.3.8 Country Risk .....	17
4.3.9 Conduct Risk Management:.....	19
4.3.10 Summary .....	19
5. Internal Capital Adequacy Assessment Process (ICAAP) .....	20
6. Capital Resources .....	20
7. Remuneration Disclosure .....	22
7.1 Decision Making Process for Determining Remuneration Policy .....	23

---

7.2	Code Staff Criteria.....	23
7.3	Link between Pay and Performance .....	24
8.	Frequency, location and verification of disclosure .....	24

---

## 1. Overview & Introduction

This pillar 3 disclosure has been prepared based on the Capital Requirements Directive (CRD IV) and subsequent European Union Capital Requirements Regulation (EU CRR), which took effect in the UK on 1 January 2014. The relevant Articles are 431 to 455 of the EU CRR, which specify the pillar 3 disclosure requirements for an IFPRU Investment Firm.

Forex Capital Markets Limited ("FXCM Ltd.") is a private limited company, incorporated under the laws of England and Wales, and is authorised and regulated by the Financial Conduct Authority (FCA). FXCM Ltd.'s US parent is not consolidated for prudential purposes, as prudential consolidation is only applicable to EU entities. As such, this pillar 3 disclosure relates to FXCM Ltd. on a solo basis.

The regulatory rules relating to FXCM Ltd. can be found in The Prudential Sourcebook for Investment Firms (IFPRU). IFPRU divides investment firms into one of four categories namely an IFPRU 50K, 125K, 730K or a collective portfolio management investment firm.

FXCM Ltd. falls within the category of an IFPRU 730K firm. Such a firm is so defined because it has the permission 'Dealing as Principal' and it falls outside all of the other categories of an IFPRU firm.

CRD IV, inter alia, introduced new corporate governance arrangements which impact FXCM Ltd. These requirements have more impact if a firm is considered to be a significant IFPRU firm. In this context a firm is considered to fall within the definition of significant if it either;

- (a) has total assets exceeding £530m or;
- (b) has total liabilities exceeding £380m or;
- (c) receives annual fees and commissions in relation to regulated activities exceeding £160m or;
- (d) the client money it receives or holds exceeds £425m or;
- (e) the client assets that it holds in the course of regulated activity exceeds £7.8b.

FXCM Ltd. does not satisfy any of these conditions and is therefore not a significant IFPRU firm.

The CRD IV framework consists of three 'pillars':

- **Pillar 1** requires FXCM Ltd. to establish minimum capital requirements in respect of credit, market and operational risk exposures. FXCM Ltd. calculates pillar 1 capital requirements using the standardised approach. For operational risk, FXCM Ltd. adopts the basic indicator approach.
- **Pillar 2** requires FXCM Ltd. to assess whether its Pillar 1 Capital is adequate to meet risk exposures and to calculate the amount of capital that should be held against those exposures. This process forms the basis of the Internal Capital Adequacy Assessment Process ("ICAAP") required by the FCA. The amount of capital FXCM Ltd. is required to hold is the greater of the Pillar 1 and Pillar 2 values.
- **Pillar 3** requires FXCM Ltd. to publicly disclose specific information about the underlying risk management controls and capital position.

FXCM Ltd.'s functional currency is US Dollars ("USD"). This Pillar 3 disclosure is presented in USD following a decision to change the presentational currency from GBP during the year ended 31 December 2014. The presentational currency has been changed to USD to eliminate inconsistencies with reporting within the wider FXCM Group.

---

## 2. Legal Structure

### 2.1 FXCM Ltd. History

FXCM Ltd. was established on 15 September 2000 as Nervus (859) Limited and soon thereafter changed its name to Forex Capital Markets Limited on 24 November 2000. After establishing its headquarters in London, FXCM Ltd. became authorised and regulated by the Financial Services Authority in 2002 with a principal product offering of rolling spot forex contracts. FXCM Ltd. quickly began to expand its European reach by opening a number of branch offices throughout Europe. FXCM Ltd. opened its first branch office in Paris, France in 2008 followed soon thereafter by branches in Germany and Italy. FXCM Ltd. also has branches in Greece and Hungary established and operated through tied agent relationships. In 2009, FXCM Ltd. expanded its products by offering contracts for difference and spread bets to its client base.

FXCM Ltd. is a private limited company, incorporated under the laws of England and Wales, and is authorised and regulated by the FCA as a Full Scope IFPRU Investment firm.

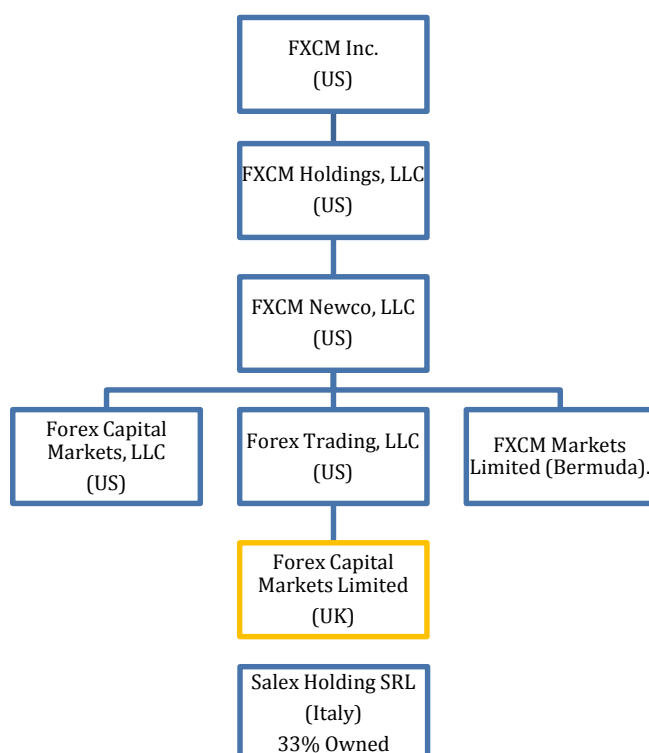
FXCM Ltd. is a subsidiary of Forex Trading LLC (“FXT”) and an indirect subsidiary of FXCM Newco LLC (“Newco”) and FXCM Holdings LLC (“Holdings”). FXCM Ltd. has branch offices located in the following countries:

- a) France: Located in Paris, this office operates as a sales office responsible for soliciting local clients and providing customer service in France. It is registered with the Autorité de Contrôle Prudentiel (“ACP”) as a branch of FXCM Ltd. It is regulated by the ACP in the area of Anti-Money Laundering and by the Autorité des Marchés Financiers (“AMF”) in the area of Rules of Conduct and Principles of Implementation.
- b) Germany: Located in Berlin, this office operates as a sales office responsible for soliciting local clients and providing customer service in Germany. It is registered with the Bundesanstalt für Finanzdienstleistungsaufsicht (“BaFin”) as a branch of FXCM Ltd.
- c) Greece: Located in Athens, this office operates as a sales office responsible for soliciting local clients and providing customer service in Greece. This office is operated through a tied agent relationship with a company titled Stentor Group SA. It is registered with the Hellenic Capital Markets Commission (“HCMC”) as a branch of FXCM Ltd.
- d) Italy: Located in Milan, this office operates as a sales office responsible for soliciting local clients and providing customer service in Italy. It is registered with the Commissione Nazionale per le Società e la Borsa (“CONSOB”) as a branch of FXCM Ltd.
- e) Hungary: Located in Budapest, this office operates as a sales office responsible for soliciting local clients and providing customer service in Hungarian. This office is operated through a tied agent relationship with a company titled CEMP Trade KFT.

---

## 2.2 FXCM Group

FXCM Ltd. is a member of the FXCM Group. An extract from this structure chart is shown below:



FXCM Inc., a publicly traded company listed on the New York Stock Exchange (NYSE: FXCM), is the ultimate holding company of FXCM Ltd. and its sole asset is a controlling equity interest in Holdings. Holdings is a subordinate holding company and indirect parent of FXCM Ltd.

FXCM Inc. is controlled by a Board of Directors which is responsible for:

- setting the strategic direction for the FXCM Group;
- determining and managing the executive team controlling the subsidiary companies and their boards;
- determining the Risk Appetite of the FXCM Group; and
- approving major new initiatives that exceed the authorisation levels delegated to subsidiary companies' boards.

The entities in the FXCM Group may make intra-group transfers of funds from time to time, or as the need arises, this is reviewed annually (or more frequently if required) as part of the Internal Capital Adequacy Assessment Process (ICAAP).

FXCM Ltd. is not subject to material practical or legal impediment to the prompt transfer of own funds or repayment of liabilities among the parent undertaking and its subsidiaries. However the ability of FXCM Ltd. to transfer funds may be limited by the regulatory capital and liquidity requirements, and the requirement to meet large exposure limits as applicable.

Salex Holdings SRL is not consolidated for prudential purposes and is not subject to own funds requirements.

---

FXCM Ltd. manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, FXCM Ltd. may adjust the dividend payment to FXCM Inc. (through FXT, Newco and Holdings), return capital or issue new shares. No changes were made in the objectives, policies or processes during the year ended 31 December 2014.

FXCM Ltd. has taken advantage of the exemption from preparing consolidated financial statements contained in section 401 of the Companies Act 2006 as FXCM Ltd. and its parent are wholly owned subsidiaries of the ultimate parent (FXCM Inc.) for which consolidated financial statements are prepared. FXCM Ltd. make no use of derogations from prudential or liquidity requirements.

### 3. Scope and Frequency of Disclosures

The Pillar 3 disclosures are made in respect of FXCM Ltd. Following assessment of the FCA's frequency of publication criteria, Articles 433 and 434 of the CRR refers, the Board expects the Pillar 3 disclosures will be made at least annually and published on the FXCM Ltd. website ([www.fxcm.co.uk](http://www.fxcm.co.uk)) as soon as practicable after the publication of the Firms' Annual Reports. FXCM Ltd.'s Pillar 3 disclosures are not subject to external audit unless they are equivalent disclosures to those prepared under UK GAAP and included in the Firms' Annual Reports.

## 4. Risk Management Objectives & Policies

### 4.1 Governance Framework

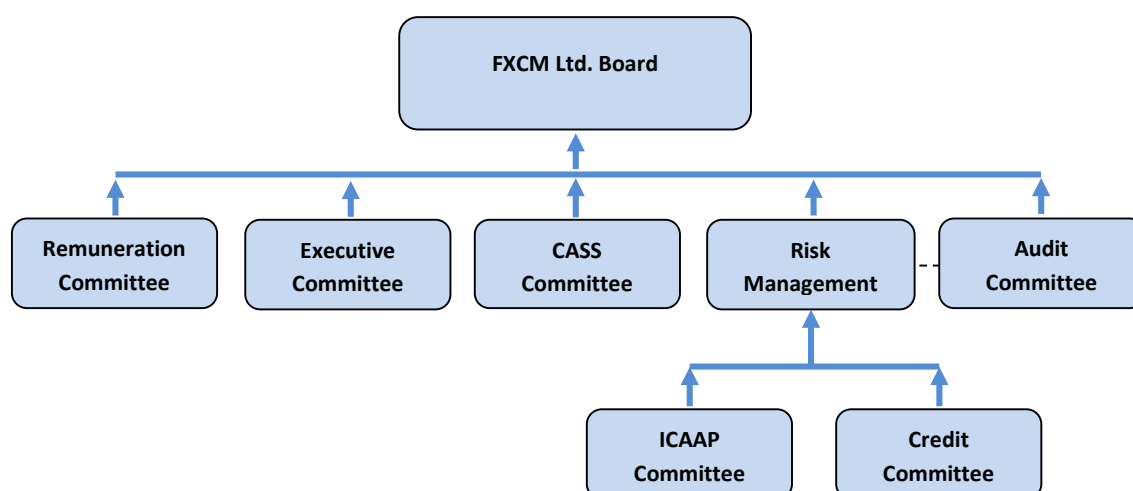
FXCM Ltd. is committed to having corporate governance, risk management and a control framework appropriate to the size of the business and level of risk within the business. FXCM Ltd.'s governance structure is designed to oversee all FXCM Ltd.'s operations, including FXCM Ltd.'s branch offices.

The Governance Structure is described in the diagram below and the responsibilities of the Board of Directors, Remuneration Committee, Executive Committee, CASS (Client Money & Assets) Committee, Risk Management Committee, Audit Committee, ICAAP Committee and Credit Committee are described below:

---

## 4.2 Governance Structure

Below is a diagram of the governance structure employed by FXCM Ltd.:



### 4.2.1 Boards of Directors (the Board)

The Board comprises three independent Non-executive Directors and three Executive Directors, one of whom is the chairman.

In the recruitment of Non-Executive Directors, FXCM specifically targets candidates with industry, legal, and accounting/audit expertise. Candidates are sourced from professional networks of the Executive Team, our external advisors and auditors, the UK Institute of Directors, and professional placement agencies.

The responsibilities of the FXCM Ltd. Board include:

- Discussion and determination of long term objectives and strategy, including extension of FXCM Ltd.'s activities into new business or geographic areas;
- Establish the FXCM Ltd.'s risk appetite, review, challenge and approve the content of the risk management framework;
- Review performance in light of strategy, objectives and business plans and ensuring that any necessary corrective action is taken; and
- Approval of any changes relating to the capital structure.

### 4.2.2 Remuneration Committee (committee of the Board)

The responsibilities of the Remuneration Committee include:

- Determining and agreeing with the Board the framework of remuneration for all staff and executives within its remit and;
- Monitoring the level and structure of remuneration for senior and executive management.



---

#### **4.2.3 Executive Committee (committee of the Board)**

The responsibilities of the Executive Committee include:

- Formulating, reviewing, communicating and managing the delivery of FXCM Ltd.'s strategy and business plan;
- Ensuring there is an effective management structure and organisation within FXCM Ltd. which is consistent with the effective delivery of FXCM Ltd.'s Business Plan; and
- Ensuring FXCM Ltd. maintain good corporate governance and reviews any matters to be referred to the Board.

#### **4.2.4 CASS (Client Money & Assets) Committee (committee of the Board)**

The responsibilities of the CASS Committee include:

- Ensuring that the client money regulations are being adhered to; and
- Reviewing and evaluating all the client money controls and procedures.

#### **4.2.5 Risk Management Committee (committee of the Board)**

The responsibilities of the Risk Management Committee include:

- Maintaining and having oversight of FXCM Ltd.'s Risk Policy framework and Risk Management framework;
- Reviewing and monitoring FXCM Ltd.'s risk profile. This is undertaken through the on-going process of Risk Identification, Impact & Probability Assessment, Risk Rating and Reporting of material risks to the Board;
- Setting out clearly articulated statements of risk appetite and tolerance which include, where appropriate, quantitative measures alongside qualitative statements and to monitor compliance with risk appetite and making recommendations to the Board;
- To consider FXCM Ltd.'s risk profile relative to current and future strategy and FXCM Ltd.'s risk appetite and identification of any risk trends, concentrations or exposures and any requirement for policy;
- To have oversight of the ICAAP Committee, the ICAAP processes, oversee the implementation of these processes and the provision for recommendations to review and update of these processes taking into account FXCM Ltd.'s capital adequacy and the external risk environment; and
- To have oversight of the Credit Committee; oversee the implementation of Credit Risk Management processes and the provision for recommendations to review and update of these processes.

#### **4.2.6 ICAAP Committee (sub-committee of Risk Management Committee)**

The responsibilities of the ICAAP Committee include:

- Ensuring there are robust quarterly assessments of capital and liquidity adequacy; (This will be presented as a full update of the ICAAP document each June (or whenever there is significant change to FXCM Ltd.'s business practices, operations and regulatory requirements) and the rest of the reviews would simply take the form of appending proposed changes to the ICAAP document) and

- 
- Ensuring the ICAAP correctly assesses FXCM Ltd.'s processes for attributing internal capital to risk ("Pillar 2 regulatory capital").

#### **4.2.7 Credit Committee (sub-committee of Risk Management Committee)**

The responsibilities of the Credit Committee include:

- Ensuring that new lines of credit and extensions of credit are within FXCM Ltd.'s risk appetite; and
- Determining how further extensions of credit will affect FXCM Ltd.'s overall credit risk profile.

#### **4.2.8 Audit Committee (committee of the Board)**

The main objective of the Committee is to help the FXCM Ltd. Board oversee the external financial reporting and system of internal control for FXCM Ltd. It performs this role mainly by ensuring that:

- The annual report and accounts, related internal control disclosures and any other publicly available financial information are reviewed and scrutinised;
- The external and internal audit arrangements are appropriate and effective;
- The management's self-assessment of risk across the enterprise appears reasonable and its response appropriate and;
- The findings of reviews undertaken by the Compliance and Risk functions are being suitably addressed.

### **4.3 Risk Appetite**

Risk appetite is defined as FXCM Ltd.'s willingness to accept risks in pursuit of its objectives. Risk appetite is assessed against the business's key drivers of success, which form the basis for the risk appetite. The establishment of the risk appetite is intended to guide employees in their actions and ability to accept and manage risks. Through the risk management framework, FXCM Ltd. has established and communicated its risk appetite.

Risk appetite is set out by the Board of FXCM Ltd.

The following section sets out these risks, the controls around them and the risk appetite set by the Board for each risk.

#### **4.3.1 Credit Risk**

FXCM Ltd. has credit risk arising from deposits held at third parties and from credit extended to a limited number of FXCM Ltd. clients that meet specified credit criteria. There are strict controls around these risks.

A sub-set of credit risk is counterparty risk, which arises from off-balance sheet activity when dealing in OTC derivatives. Counterparty risk may be defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

FXCM Ltd. also considers the impact of credit risk arising from client balances going into a negative position.

---

#### 4.3.1.1 Balances held with third parties and affiliates

FXCM Ltd.'s policy is to only deposit cash (Client Money and Operational Money) balances with third parties which have at least a credit rating equivalent to the FCA's credit quality step 5 rating. Any exceptions from the above must be documented and approved by the Risk Officer.

FXCM Ltd.'s policy is to deposit 75% of all funds (Client Money and Operational Money) with third parties with credit rating equivalent to the FCA's credit quality step 3 and above.

Diversification is a critical part of risk mitigation; therefore to protect Client Money and comply with Regulatory rules, FXCM Ltd. manages the risk of default or failure of a third party by keeping no more than 40% of cash (Client Money and Operational Money) at a single third party.

FXCM Ltd.'s deposits of cash (client and operational money) at any single third party that does not have credit ratings equivalent to the FCA's credit quality step 3 and above shall be no greater than 10% of all cash (client and operational).

FXCM Ltd. is the counterparty to each of its clients' foreign exchange and CFD contracts. In order to offset market risk on these contracts, FXCM Ltd. may hedge these trades with multiple counterparties. These parties include, for example other FXCM affiliates, including Forex Capital Markets LLC ("FXCM US") (for foreign exchange contracts) and FXCM Markets (for CFD contracts). Furthermore, FXCM Ltd. acts as trading counterparty to other FXCM affiliates (for e.g. FXCM Asia, FXCM Australia and FXCM Bullion). In summary, FXCM Ltd. faces a concentration of counterparty risk against FXCM affiliates, with credit exposures arising both on balance sheet and for OTC derivatives.

All customer funds required to be segregated are held in segregated accounts.

#### 4.3.1.2 Credit extended to clients

FXCM Ltd. extends credit to a limited number of clients that meet specified credit criteria. In relation to extension of credit to clients, FXCM Ltd.'s policy is not to extend more than \$5m to any single client and \$15m to all clients (collectively), unless an increase is approved by the Credit Committee

A credit review process is carried out for all new credit lines extended and approved by the Credit Committee and a credit review of all existing credit lines is carried out annually.

Specific margining rules and credit limits are set and regularly reviewed by the Credit Committee and reported to the Board.

#### 4.3.1.3 Off-balance sheet counterparty risk

With the majority of FXCM Ltd.'s clients, the capital requirement for exposures arising from counterparty risk on OTC derivative trading is normally eliminated by a client's equity position (cash collateral). However, under circumstances similar to those on 15 January 2015, owing to the short amount of time taken for a significant market event to change market prices, clients may fall into negative balances (deficit) which exposes FXCM Ltd. into credit risk. See Defaulted client losses below.

#### 4.3.1.4 Defaulted client losses

FXCM Ltd. also considers the possibility of risks that could arise if clients do not meet their margin requirement or go into deficit, which would potentially expose FXCM Ltd. to credit risk in respect of the margin call and/or deficit. FXCM Ltd. has a strict policy on this and clients' useable margins are not

allowed to fall below zero. If they breach their margin requirements, positions are automatically closed out with the exception of:

- A limited number of non-auto liquidated accounts where margin calls and liquidation of positions are performed manually. Removal of the auto-liquidation feature from an account has to be pre-approved by senior management. The risk department are automatically notified via email when auto-liquidation is removed from an account. The number of accounts without the auto-liquidation feature is reported to the risk department and senior management on a daily basis.

The vast majority of clients are set up with 'auto-liquidation' on their account, however the events of January 2015 showed that in the event of markets gapping (in this case by up to 30%) FXCM Ltd. can still potentially lose large amounts of money. The risk department for FXCM Ltd. runs a daily report which tracks the gross client exposures (and hence credit risk) on the major FX and CFD contracts. The report will also indicate the client losses from the biggest historical (30 year) move in that contract.

FXCM Ltd. has updated its Negative Balance Policy and clients subject to the Negative Balance Policy who incur negative balances in excess of \$50,000 will be responsible for and owe FXCM Ltd. the value of the total negative balance above \$50,000, regardless of market conditions. Subject to certain exceptions. (Specific Exceptions: Each client's master trading agreement will detail all of the specific exceptions to the Negative Balance Policy. Some of the key exceptions to this policy include the following: negative balances incurred by legal entities, omnibus relationships, white label relationships, Eligible Contract Participants, Eligible Counterparties and/or Professional Clients (as defined in the client's master trading agreement) and/or negative balances incurred on share CFD positions or products traded on an exchange), FXCM Ltd. will waive the first \$50,000 of a client's total negative balance (determined by aggregating all of the client's negative balances across all accounts held by the FXCM Group, incurred over a 24 hour period of time). This will reduce the downside potential of future single client large debit balance.

FXCM Ltd.'s risk appetite in relation to credit risk can therefore be summarised as follows:

Source of risk	Risk Appetite
Balances held at third parties	No greater than 40% of total funds (Client Money and Operational Money) held at a single third party.
Total client default (clients to whom credit is extended)	\$15m
Defaulted client losses	\$50k per client

#### 4.3.2 Market Risk

FXCM Ltd. has market risk arising from currency mismatch and from CFD positions. The risk appetite limits in respect of these types of market risks are set out below.

##### 4.3.2.1 FX and CFD Business

FXCM Ltd. adopts the straight through processing ("STP") model with its client FX trades. The STP model sends the trades directly to the counterparty banks via FXCM US (FXCM US being the last FXCM group company in the chain). FXCM Ltd. has signed a Service Provider Agreements ("SPA") with FXCM US under which client transactions in FX are automatically hedged with FXCM US, to manage market risk. FXCM US has an active risk management framework which continuously reviews its exposure to market risks and hedges where necessary. This mitigates the impact from a group risk perspective hence no additional capital is required in this regard.

---

Throughout 2015, FXCM Ltd. will launch a dealing desk execution model for small retail FX accounts with less than \$20,000 in deposits. While these accounts are large in number, they are significantly less than half of the Company's trading volume. The majority of trading volume, therefore, will remain on NDD execution model. These small-account clients value narrow spreads and higher leverage. By switching to a dealing desk execution model for small accounts, we believe we can generate higher dollar per million yields while mitigating risk. FXCM Ltd. has signed a trading agreement with FXCM Markets under which client transactions in FX executed via the dealing desk are automatically hedged with FXCM Markets, to manage market risk.

The CFD desk offers CFD products on Equity indices and Commodities to clients. Exposures are monitored and controlled and the hedging policy is based on a hierarchy of exposures and margin limits. The Board of FXCM Ltd. has set limits on the size of CFD positions that can be held and the overall risk appetite for the market risk capital requirement as £11.5m, although this number will vary, across the entire CFD portfolio. Changes to this limit are approved by the Risk Committee. The maximum daily loss limit for CFD's is \$2m, which reflects the maximum daily loss that FXCM Ltd. will tolerate before open un-hedged CFD positions have to be closed out in the market.

The market risk is monitored on a real time basis which allows the desk to identify open market risk positions for hedging the CFDs with third party counterparties or FXCM Markets. The hedging activity is overseen by the Head of the CFD desk and the FXCM Group's Head of Global Dealing and the risk function in London. FXCM Ltd. runs limited exposure positions so that portfolio hedges can be effected, rather than hedging its entire exposure on a trade-by-trade basis. Limits are therefore set for individual products and market sectors.

On 14 April 2015 FXCM Ltd. launched a new initiative whereby the majority of previously unhedged CFD positions are now hedged with FXCM Markets. As a result the market risk on open CFD positions has reduced significantly with the average for the period 14 April 2015 to 15 May 2015 being £3,087,069.

In 2015 FXCM Ltd. launched a Share CFD product aimed primarily at retail clients. The initial launch offers 260 CFDs on large-cap US, UK, German and French companies. In time FXCM Ltd. will look to expand the number of companies within these countries and to introduce Share CFDs from other regions. All trades will be hedged on a one-for-one basis, therefore accepting no market risk. The margin rate applied will be 10%, which is considerably higher than the other FXCM Group products, to take into consideration the relatively higher price volatility of shares.

#### **4.3.2.2 Currency mismatch risk**

FXCM Ltd. has exposure to currency mismatch risk through its normal course of business. This risk arises if obligations (i.e. money obligations) owed in one currency are secured by deposits in a different currency and the exchange rate between these currencies change. To reduce transaction costs, the Treasury Finance department manages all currency imbalances on a global basis for FXCM Group entities through FXCM US. However, on an individual Firm basis currency mismatch risk still exists.

The objective of the FXCM Global FX Hedging policy is to delineate a systematic approach in dealing with currency exposure thereby minimising risk to the FXCM Group. This entails a process of identifying excess and shortage, currency balances on a periodic basis and determining the best approach to reducing the currency exposure while minimising transactional cost. All FXCM Group's currency exposure must be reviewed against the Group's global needs. Being that FXCM Inc., the ultimate parent of the FXCM Group, is a US based company and collateral for clients are posted in USD, it is in the interest of the Group to favour US dollars as the primary currency.

Currency excess is determined by subtracting the customer liability and payables from the current bank balances. Currency excess and shortage predominately occurs due to the fluctuation in customer profitability

and losses. Excess occurs when clients deposit in one currency but prefer to maintain a trading account denominated in a different currency. Excess and shortage also occur when payments are made in US dollars to our collateral banks but client accounts are held in currencies other than US dollars.

For FXCM Ltd. the exposure thresholds contained in the below table are applied.

Currencies	Global Limits (USD)	LTD Limits (USD)
AED	\$2MM	\$1MM
AUD	\$4MM	\$2MM
CAD	\$4MM	\$2MM
CHF	\$4MM	\$2MM
DDK	\$2MM	\$1MM
EUR	\$4MM	\$2MM
GBP	\$4MM	\$2MM
HKD	\$5MM	\$4MM
JPY	\$20MM	\$5MM
NOK	\$2MM	\$1MM
NZD	\$4MM	\$2MM
SEK	\$2MM	\$1MM
SGD	\$2MM	\$1.5MM
TRY	\$2MM	\$1MM
ZAR	\$2MM	\$1MM

On a daily basis the exposure is evaluated, with the objective to reduce the currency excess to a level below the thresholds (unless a valid reason is provided). If there is an excess in a particular currency the Treasury Finance Group will check to see if another FXCM Group entity has a deficit in that same currency and excess is reduced through an intercompany transfer. If no such deficit exists then the currency is sold in the interbank market for another currency for which there is a deficit or for USD. There is no threshold for USD as USD is the primary reporting currency of the Firm. These limits have been set to minimise P&L fluctuations due to this type of risk, therefore they are set conservatively based off historical experiences between risk and P&L implications. The P&L fluctuations of currency mismatches at these thresholds is very small when applied to the firm's capital requirements.

#### 4.3.2.3 Interest Rate Risk

FXCM Ltd.'s IRR arises from inter alia, exposures to interest rate futures and forwards. IRR is calculated in accordance with EU CRR Article 328 (Interest rate futures and forwards) with the population of positions within table 2 of Article 339 for the maturity based calculation of general interest rate risk. Specific risk own funds requirement for non-securitisation debt instruments is derived in accordance with EU CRR Article 336.

#### 4.3.3 Operational Risk

Operational Risk is defined as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events". This includes Legal Risk. FXCM Ltd. seeks to mitigate operational risk to acceptable residual levels.

---

Operational risk incidents, events and errors with losses, near misses or opportunity costs over £1,000 are reported to Risk management. Incidents, Events and Errors resulting in actual losses over £5,000 are immediately escalated to Senior Management. The Board is also provided with reports on these errors to enable consideration of appropriateness of controls in relation to the cause of errors.

#### **4.3.4 Business Risk**

This is defined by Performance Risk and Reputational Risk:

- Due to strategy, revenue, or decline in client numbers, customer confidence is undermined by a decline in the Group's share price.
- Decrease in the number of new and active institutional and retail customers
- FXCM Ltd. suffers a substantial loss of reputation leading to a desertion of clients and monies. This includes the potential effects of any reputational damage suffered by any other FXCM Group entities.

FXCM Ltd. places the highest importance on risk management at all levels throughout the organisation. FXCM Ltd. seeks to operate at the highest level of integrity and ethical standards in all its activities to mitigate this risk.

#### **4.3.5 Governance**

FXCM Ltd. is committed to having corporate governance, risk management and a control framework appropriate to the size of the business and level of risk within the business. The governance structure (as described in section 4.1 above) is designed to oversee all FXCM Ltd.'s operations, including its branch offices. The execution of these and other related documents promotes overall effective corporate governance

#### **4.3.6 Regulatory**

Regulatory risk is the risk that changes in regulation will materially affect the business of FXCM Ltd. or the markets in which it operates. FXCM Ltd.'s business is subject to many regulations in different jurisdictions and currently the pace of change is significant and may affect the business of FXCM Ltd. either directly or indirectly, among others, by reducing customer appetite for products or increasing capital requirements.

Regulatory developments are continuously monitored and where there is a likely impact internal groups are formed to assess, formulate and implement any required changes. The Compliance team in particular monitor on-going regulatory obligations, provides internal training and provides advice to the business. Externally, the Compliance team engages in dialogue with our main regulator and with industry bodies in order to inform the judgments and decisions that are made to ensure continued compliance with global regulations.

#### **4.3.7 Liquidity Risk**

Banks and Investment Firms are subject to the general liquidity requirement under the Capital Requirements Regulation (CRR) Article 412(1), however only banks are directly subject to the detailed Liquidity Coverage Ratio (LCR) set by the EU Commission Delegated Act.

The application of the LCR to Investment Firms is not required by Basel and still has to be assessed within the EU. Under Article 508(2) CRR, the EBA is required to prepare a report on the application of the LCR to investment firms by the end of 2015, this will be followed by EU legislative procedure.



---

The FCA stated in PS13/10 their confirmation of the approach to continue the UK's liquidity regime (including ILAS) until binding minimum standards for liquidity coverage requirements are implemented in the CRR in 2015. The FCA plan to issue a further statement on their liquidity approach in due course. Until then, BIPRU 12 requirements continue to apply to IFPRU firms unless the liquidity exemptions included in IFPRU 7.1.5R apply. IFPRU 7.1.5 is the Exemption from Part Six of EU CRR on individual basis, where for the purpose of article 6(4) of the EU CRR, a firm is exempt from compliance with the obligations in Part Six of the EU CRR (Liquidity) on an individual basis unless it meets both the following conditions:

- (1) it is an ILAS BIPRU firm; and
- (2) it is a significant IFPRU firm.

FXCM Ltd. maintains excess liquidity adequate to face imbalances of net liquidity outflows under stressed scenarios

The overall liquidity adequacy rule, is set out in BIPRU 12.2.1R and states:

A firm must at all times maintain liquidity resources which are adequate both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

At all times' refers to BAU, but more specifically, refers to periods of liquidity stress.

Adequate' liquidity refers to the amount of liquidity necessary to maintain overall liquidity within FXCM Ltd.'s liquidity risk tolerance, which is determined through the specific stress tests (as required by BIPRU 12.4.1R).

FXCM Ltd. complies with the liquidity requirements of BIPRU 12 in relation to an exempt full scope IFPRU investment firm, which at all times has total net assets which are less than or equal to £50 million. FXCM Ltd.'s balance sheet net asset position is monitored regularly against the threshold limit. Each quarter, FXCM Ltd.'s net assets are monitored against the balance sheet (FSA001) formally submitted to the FCA. (FXCM Ltd. is not an Individual Liquidity Adequacy Standards – ILAS - BIPRU firm).

At FXCM Ltd. a clear distinction is made between segregated cash management and non-segregated cash management. Segregated cash management is subject to the strict regulations of CASS (Client Assets) section of the Business Standards chapter of the FCA's Handbook.

At FXCM Ltd. liquidity risk may be defined as;

Despite being solvent, a firm is unable to meet payment obligations as they fall due, without incurring unacceptable losses.

Typically, liquidity risks can arise from:

- A mismatch between asset and liability flows;
- An inability to sell assets quickly;
- The extent to which assets have been pledged/ encumbered;
- The possible need to reduce large asset positions at different levels of market liquidity and the related potential costs and timing constraints; and
- The availability of and costs of emergency funding.



---

In FX markets, liquidity management is a critical function. FXCM Ltd.'s most significant liquidity risk can arise from a mismatch between asset and liability flows. Specifically, FXCM Ltd. may be exposed to risk in the event that FXCM Ltd. would have to meet its obligations to clients before it received settlement from its counterparties.

To manage this risk, FXCM Ltd. holds excess operating cash and no debt. As at 31 March 2015, FXCM Ltd. held excess operating cash of \$50.7m after settlement of liabilities of \$49.6m, Management believes the remaining cash is more than sufficient to effectuate an orderly wind down should the need arise.

Offering OTC trading in the CFD and FX markets is a cash intensive business owing to:

1. Regulatory capital requirements
  2. As segregated client collateral cannot be re-hypothecated, firms are required to post operational funds to satisfy margin requirements for offsetting positions.
- The level of capital to meet margin requirements is higher for a firm that applies a 'No Dealing Desk' execution model. A risk exists of one or both of these requirements being dramatically increased. In this scenario revenue and expenses are unaffected, but the amount of cash necessary to continue operating as normal would increase. FXCM Ltd. mitigates the risk of these increases in a number of ways.
  - FXCM Ltd. maintains excess cash on its balance sheet to buffer against increases in these requirements.
  - FXCM Ltd. may, if necessary turn away business that would require too much cash to support and could threaten FXCM Ltd.'s liquidity position.
  - FXCM Ltd. mitigates the risk of increases cash requirements as it has multiple liquidity and brokerage relationships that provide execution and clearing services for CFD trading. No singular bank increasing margin requirements would necessarily affect FXCM Ltd.'s capital or liquidity position, as the business would simply be redirected to a more competitive institutional relationship. For FX trading, FXCM Ltd. has signed a SPA with FXCM US under which client transactions in FX are automatically hedged with FXCM US.

If there is a systematic increase across all of the Group's relationships, FXCM Ltd. maintains excess capital and liquidity on its balance sheet to support such an increase.

At FXCM Group each business entity must be self-sufficient from a funding and liquidity standpoint so that there is no reliance on intergroup lines either from, or to other group entities.

#### 4.3.8 Country Risk

Country risk is defined as the risk of investing or operating in a country, dependent on changes in the business environment that may adversely affect operating profits or the value of assets in a specific country.

Country Risk also relates to the risk of concentration of exposure arising from geographical distribution of revenues, product type, counterparty or event.

FXCM Ltd.'s clients are both individuals and institutions from over 170 countries.

FXCM Ltd.'s Group Compliance Anti Money Laundering process categorise countries which pose the greatest risk to FXCM Ltd. Countries have been designated as either Prohibited, High or Medium risk.

---

Under the circumstances where a country's credit rating has been downgraded or is under threat of being downgraded, FXCM Ltd. Senior Management consider the implications of continuing business in the jurisdiction.

---

#### 4.3.9 Conduct Risk Management:

Conduct Risk is recognised by the board as constituting one of the firm's principle risks. Each employee is responsible for his or her own conduct in carrying out his or her role and to ensure that such conduct is consistent with the ethical value of respect, honesty and integrity. Such conduct includes acting in Compliance with all the relevant laws, rules and regulations that impact on the employee's role. The board has mandated various policies and procedures to enable FXCM Ltd. and its employee's to understand and fully comply with the regulatory and ethical standards expected from them.

#### 4.3.10 Summary

A key on-going process of identifying, evaluating and managing significant risks using the Risk Register is co-ordinated by the FXCM Ltd.'s Risk Department. The Risk Department is responsible for maintaining the Risk Register to ensure that it is updated regularly and includes appropriate action plans for improving controls to mitigate risks.

Risks on the Risk Register are also standardised using a set of impact and likelihood criteria which result in the calculation of an inherent risk rating for each identified risk. Key Risk Indicators are used to measure against the Firms' risk appetite (for each risk category) to ensure risks are managed within the firm's risk appetite.

The Risk Management function, as approved by the Board, ensures that FXCM Ltd. maintains an adequate risk appetite, risk management policies and procedures, including effective procedures for risk identification, assessment, measurement, control, mitigation, reporting and monitoring. This includes assessing the probability and magnitude of impact of each risk.

The Risk Management function ensures that Governance, Oversight, adequate and effectiveness Controls are in the business; that all employees are aware of how to identify and assess risks and that risk management is embedded in the culture of FXCM Ltd.

Our Risk Governance is based on a "Three lines of defence" model:-

- First Line of Defence – Is the primary responsibility and accountability of Senior Management, Departmental and Country Heads for the day to day management, control and reporting of risk exposures in accordance with agreed Risk Appetite and compliance with Risk Policies at the operational level.
- Second Line of Defence – Is the primary responsibility and accountability of the Risk Management function to assist the Board in formulating the firms Risk Appetite. Primary responsibility and accountability of the Risk Management function for Risk Oversight, Risk Guidance, Risk Policies, Risk Processes, Risk Controls, Reporting and Monitoring.
- Third Line of Defence – Primary responsibility and accountability of Internal and External Audit to provide independent assurance to the Board and Senior Management of the adequacy and effectiveness of the overall system of internal controls, including Risk Management and Compliance.

In addition, the Risk Management function is responsible for the operation of the Risk Management Committee (in accordance with FXCM Ltd.'s Governance structure).

## 5. Internal Capital Adequacy Assessment Process (ICAAP)

Each year, or more frequently if required, the FXCM Ltd. undertakes an Internal Capital Adequacy Assessment Process (ICAAP), which is an internal assessment of capital requirements.

The outcome of the ICAAP is the Internal Capital Assessment (ICA), which is approved by the Board and determines the amount of any risk-based capital resources requirement (Pillar 2) that the FXCM Ltd. identifies over a three to five year planning horizon, in addition to the Pillar 1 requirements.

The ICA is reviewed on an on-going basis by the FXCM Ltd.'s ICAAP Committee to ensure all changes to the risk profile are assessed and reported to the Board.

The ICA is subject to FCA review and the FCA has set Individual Capital Guidance (ICG) as part of its Supervisory Review and Evaluation Process.

The ICG is guidance given to a firm about the amount and quality of capital resources that the FCA believes the firm should hold under the overall financial adequacy rule. The FCA has made it clear that each ICG remains a confidential matter between the Firms and the FCA.

## 6. Capital Resources

FXCM Ltd. regulatory capital resources and capital resource requirements (under the standardised approach) as at 31 December 2014 are summarised as follows:

FXCM Ltd. Capital Resources Summary	\$000s 31-Dec-2014
Equity share capital (Ordinary Shares)	64,891
Profit and loss account and other reserves	42,738
<b>Core Tier 1 Capital</b>	<b>107,629</b>
Deductions from Tier 1 Capital	0
<b>Total Capital Resources (CR)</b>	<b>107,629</b>
Credit risk capital requirement	5,646
Counterparty risk capital requirement	4,796
Operational risk capital requirement	10,556
Market risk capital requirement	8,239
<b>Total Pillar 1 Capital Resources Requirement (CRR)</b>	<b>29,237</b>
Surplus CR over CRR	<b>78,392</b>
<b>% CR to CRR</b>	<b>368%</b>

FXCM Ltd. is an IFPRU Investment firm and as such its Pillar 1 capital requirements are the greater of its base capital requirement of €730,000; or the sum of its credit, operational and market risk requirements.

The following tables analyse credit, counterparty and market risks by exposure classes, risk weightings and geography. These values do not take into account the effects of credit risk mitigation as at 31-Dec-2014.

For the purposes of the Pillar 3 disclosures, we do not treat client money accounts held under trust for our clients in client money bank accounts as credit exposures of FXCM Ltd. as defined under FCA rules.

<b>Table 1.</b>	<b>Exposure</b>	<b>8% Capital</b>
<b>Analysis of Credit Exposures by Regulatory Exposure Class</b>	<b>31-Dec-2014</b>	<b>31-Dec-2014</b>
Corporates	536	43
Institutions	283,717	5,140
Other Items	2,544	204
Equity exposures	1,297	259
<b>USD'000's</b>	<b>288,094</b>	<b>5,646</b>

<b>Table 2.</b>	<b>Exposure</b>	<b>8% Capital</b>
<b>Analysis of Counterparty Risk by Regulatory Exposure Class</b>	<b>31-Dec-2014</b>	<b>31-Dec-2014</b>
Corporates	90,794	1,719
Institutions	229,913	2,388
Retail	153,166	689
<b>USD'000's</b>	<b>473,874</b>	<b>4,796</b>

<b>Table 3.</b>	<b>Exposure</b>	<b>8% Capital</b>
<b>Analysis of Credit Exposures by Regulatory Risk Weightings</b>	<b>31-Dec-2014</b>	<b>31-Dec-2014</b>
20%	232,480	4,010
100%	54,316	1,376
250% [Equity related exposures]	1,297	259
<b>USD'000's</b>	<b>288,094</b>	<b>5,646</b>

<b>Table 4.</b>	<b>Exposure</b>	<b>8% Capital</b>
<b>Analysis of Counterparty Risk by Regulatory Risk Weightings</b>	<b>31-Dec-2014</b>	<b>31-Dec-2014</b>
20%	229,913	2,388
75%	153,166	689
100%	90,794	1,719
<b>USD'000's</b>	<b>473,874</b>	<b>4,796</b>

Tables 5 and 6 analyse credit and counterparty exposures by geography.

<b>Table 5.</b>	<b>UK</b>	<b>Europe</b>	<b>USA</b>	<b>Australia</b>	<b>ROW</b>	<b>USD'm</b>
<b>Geographic Analysis of Credit Risk</b>	<b>Exposure</b>	<b>Exposure</b>	<b>Exposure</b>	<b>Exposure</b>	<b>Exposure</b>	<b>TOTAL</b>
Corporates	0.0	0.0	0.0	0.0	0.5	0.5
Institutions	64.7	3.2	136.0	42.1	37.7	283.7
Other Items	2.5	0.0	0.0	0.0	0.0	2.5
Equity exposures	0.0	1.3	0.0	0.0	0.0	1.3
<b>31-Dec-2014</b>	<b>USD'm</b>	<b>67.3</b>	<b>4.5</b>	<b>136.0</b>	<b>0.0</b>	<b>288.1</b>

<b>Table 6.</b>	<b>UK</b>	<b>Europe</b>	<b>USA</b>	<b>Australia</b>	<b>ROW</b>	<b>USD'm</b>
<b>Geographic Analysis of Counterparty Risk</b>	<b>Exposure</b>	<b>Exposure</b>	<b>Exposure</b>	<b>Exposure</b>	<b>Exposure</b>	<b>TOTAL</b>
Corporates	5.6	50.0	0.0	0.1	35.2	90.8
Institutions	10.2	23.8	64.6	21.6	109.8	229.9
Retail	12.5	34.9	0.0	0.2	105.6	153.2
<b>31-Dec-2014</b>	<b>USD'm</b>	<b>28.3</b>	<b>108.6</b>	<b>64.6</b>	<b>21.9</b>	<b>473.9</b>

The following table illustrates the firm's minimum (Pillar 1) market risk capital requirements.

<b>Table 7.</b>	<b>8% Capital</b>	
<b>Position Risk Requirement (PRR)</b>	<b>Calculation Method</b>	<b>31-Dec-2014</b>
Interest Rate	Maturity Method	469
Equity	Standard Equity Method	1,434
Foreign Exchange	Standard Method	1,209
Commodities	Simplified Approach	5,127
<b>Total Market Risk PRR</b>	<b>USD'000's</b>	<b>8,239</b>

## 7. Remuneration Disclosure

FXCM Ltd. is required to comply with the Remuneration Code (SYSC 19A) ("the Code") requirements within the FCA's handbook of rules and guidance as well as article 450 of the CRR. These rules recognise that not all the Code's principles apply to firms equally and introduce a concept of proportionality, which applies the Code to the extent that it is appropriate to a firm's size, internal organisation (including legal structure) and the nature, scope and complexity of its activities.

The FCA has defined a high level three tier proportionality framework which sets out their expectations on the level of application of the Code requirements to different types of firm. Within these tiers, FXCM Ltd. meets the definition of the proportionality tier 3, and these disclosures reflect the requirements for such tier 3 firms.

At FXCM Ltd. responsibility for the Remuneration Policy rests with the Remuneration Committee. Views on this policy are shared between the risk and compliance functions thereby ensuring adherence to the most up to date regulatory practices as well as ongoing alignment to FXCM Ltd.'s risk appetite.

---

## 7.1 Decision Making Process for Determining Remuneration Policy

The Remuneration Committee (RC) is made up of the Group's Non- executive directors and the Head of Human Resources. Attendance may be invited from senior executive management and regular attendees include the CEO and the Head of HR and the Global Director of Compliance. Meetings are held at least twice a year and written terms of reference as approved by the Board include:

- To monitor the level and structure of remuneration for senior and executive management on the basis of adequate information provided to them;
- To determine and agree with the Board the framework of remuneration for all staff and executives within its remit;
- To determine the remuneration policy for executives within its remit, presenting the remuneration framework, policy and overall cost to the Board and to update the board regularly about remuneration committee activities and make appropriate recommendations;
- To review the design of any long term incentive schemes, and defining policy on retirement schemes;
- To review any compensation payment for loss of office for those within its remit to ensure the terms are fair to the individual and the company and that failure is not rewarded;
- Seeking Board approval on remuneration packages for newly appointed Directors and Executives;
- To agree and oversee the operation of the directors expenses policy;
- To ensure that all provisions regarding disclosure of remuneration as set out in the UK Corporate Governance Code are fulfilled;
- To review remuneration outcomes against policy and previous determinations;
- To seek appropriate advice both from internal functions and remuneration consultants or other advice on which it requires advice to fulfil responsibilities; and
- To ensure that the Remuneration Committee has access to resources and information necessary to fulfil its duties. These include continuing administrative and secretarial support, and also on occasion, specialist legal, financial tax or accounting advice.

## 7.2 Code Staff Criteria

The FCA Remuneration Code requires FXCM Ltd. to identify individuals whose professional activities have a material impact on its risk profile (known as "Code Staff") and the Code requirements and disclosures (applicable to tier 3 firms) apply to those individuals.

The following groups of employees have been identified as meeting in the FCA's criteria for Code Staff:

- The Directors of Forex Capital Markets Limited
- Staff performing Significant Influence Functions
- Some employees in any other Controlled Function
- Employees receiving total remuneration that takes them into the same remuneration bracket as senior management and risk takers whose professional activities have a material impact on the risk profile of

---

FXCM Ltd. During the financial year code staff have been identified, made aware of the implications of their status and had their remuneration reviewed by the remuneration committee. The committee has ensured that remuneration arrangements are in accordance with the FCA code as varied were applicable by the FCA's guidance on proportionality.

### 7.3 Link between Pay and Performance

The FXCM Ltd.'s remuneration policy support its business strategy, which is based on building long term relationships with customers and employees and managing the financial consequences of business decisions across the entire economic cycle.

All Code Staff receive a salary (executives) or fees (non-executives) that reflect their market value, responsibility, and contribution to the firm. FXCM Ltd. pays market competitive salaries with variable pay awards based on performance.

Pay increase are based on merit. The level of the pay increase is influenced by affordability and market influences. Salary increases outside the annual pay review cycle are subject to a strict process of justification, control and approval.

The variable pay element is differentiated by performance. Taking into account the expected value of awards, the performance related elements of pay make up a relatively small proportion of the total remuneration package for most Code Staff, whilst maintaining an appropriate balance between fixed and variable elements.

The policy is to position base salaries to reflect the relevant market median and the total package is designed to enable upper quartile remuneration levels. Overall the policy is designed to ensure that cost effective packages are provided which attract and retain directors and senior management and employees of the highest calibre and motivate them to perform to the highest standards. At the same time, the objective is to align individual rewards with performance, the interest of its stakeholders, and a prudent approach to risk management. In this way the Company balances the requirements of its various stakeholders: customers, stakeholders, employees and regulators.

Some employees may also receive options pursuant to the parent companies share option scheme.

Code Staff aggregate remuneration for the year to 31-December-2014

USD	Code Staff Aggregate Remuneration
Fixed Remuneration	0.9m
Variable Remuneration	0.6m

## 8. Frequency, location and verification of disclosure

The Board of Directors does not consider that the Pillar 3 disclosures should be made any more frequently than annually unless there has been a material change in either the approaches or permissions used to calculate regulatory capital or in the nature and characteristics of the business.

Pillar 3 disclosures may be found on FXCM Ltd.'s web site at the following address;

<http://www.fxcm.com/uk/legal/general-business-terms/>