PILLAR 3 RISK DISCLOSURE STATEMENTS

Atom8 Financial Services LLP

1. Introduction

The European Union's Capital Requirements Directive ("CRD") which came into effect on 1 January 2007 introduced a revised regulatory capital framework governing the amount and type of capital that must be maintained by financial institutions. In the UK the directive has been implemented by the Financial Conduct Authority through the BIPRU sourcebook.

Atom8 Financial Services LLP ("Atom8") is required by the FCA to disclose information relating to the capital it holds and each material category of risk it faces in order to assist users of its accounts and to encourage market discipline.

These disclosures aim to provide information on the risk exposures faced by Atom8 and the risk assessment process it has put in place to monitor such risks. Known as "Pillar 3" disclosures, they are required to be made under Chapter 11 of the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") and are seen as complimentary to Atom8's minimum capital requirement calculation ("Pillar 1") and an internal review of its capital adequacy ("Pillar 2").

Atom8 does not have any subsidiary investments and so this Pillar 3 Risk Disclosure Statement is in respect of Atom8 only.

2. Exemptions

Atom8 is permitted to omit required disclosures, if Atom8 believes that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information.

In addition, Atom8 may omit required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine Atom8's competitive position. Information is considered to be confidential where there are obligations binding Atom8 to confidentiality with its customers, suppliers and counterparties.

Atom8 made no omissions on the grounds that it is immaterial, proprietary or confidential.

3. Scope and Application of the Requirements

Atom8 is authorised and regulated by the Financial Conduct Authority and, as such, is subject to minimum regulatory capital requirements. The Firm is categorised as a BIPRU 125k and Limited Licence firm by the Financial Conduct Authority.

Atom8 provides execution-only services for a range of investment types to retail and professional clients. The trades are entered by the clients online on the platform and matched entirely on an STP basis directly with liquidity providers, consistent with Atom8's obligations as a Matched Principal broker. All completed transactions are systematically matched to the order entering client's client account. No orders are executed if the client does not have sufficient collateral within his/her client account. Atom8 will never enter into transactions which will not be netted- off contemporaneously to the client.

4. Risk Management

Atom8 is governed by its designated members and key senior personnel ("Management Team") who, in turn, will determine its business strategy and risk appetite. The Management Team is responsible for Atom8's overall governance arrangements along with designing a risk management framework that encompasses the risks that the business faces. Risk management framework implemented by the management recognises all key risk factors faces by Atom8 which is reviewed by the Management Team. The Management Team ascertains how the risks Atom8 faces may be mitigated and assessed on an on-going basis and the arrangements required to be implemented to manage and mitigate those risks.

On a daily basis, the risk management process is overseen by the Compliance Officer whose role is to oversee compliance arrangements, to advise and assist personnel as required, and to ensure, by a process of formal and informal monitoring, adherence to the FCA Rules and internal procedures. The Compliance Officer coordinates with the Management Team which takes overall responsibility for this process.

The Management Team also carries out annual review of risk management process covering controls and risk mitigation arrangements and assess their effectiveness. The Management Team also considers the financial impact of these risks as part of the business planning and capital management process and concludes whether the amount of regulatory capital is adequate. This assessment process is documented in the Firm's Internal Capital Adequacy Assessment Process ("ICAAP") and the conclusion of the ICAAP is that the Firm's Pillar 1 capital as at 31 December 2015 of £135,000 was in excess of the capital resource requirement.

Specific risks applicable to the Firm come under the headings of credit, market and other risks which the Firm faces.

4.1 Market Risk

Atom8's business arrangements have been made to ensure that no market risk is taken. All trades are fully matched, failing which orders are rejected. Atom8 has an exclusion clause in client-facing documentation stating that if a systemic/platform problem occurs, Atom8 retains the ability to cancel trades.

4.2 Credit Risk

Credit risk is the risk of loss caused by the failure of a counterparty to perform its contractual obligations.

Primary credit risk on posted cash collaterals and trade exposures remains with the liquidity providers and any third-party service provider/securities custodian or account bank, holding Atom8 assets as a result of the trade execution process with the liquidity provider, where applicable. All account banks are or will be international banking groups with London branches. Capital is allocated for Credit and Counterparty risk on a prudent basis.

Atom8's end client credit risk is mitigated by the use of: (i) conservative triggers for the sending of client margin call requests; and (ii) the client contract which permit positions to be closed out if a Margin Call is not honoured, or earlier, if the client position continues to deteriorate reaching pre-set levels prior to receipt of requested additional funds from the client.

4.2.1 Exposure to liquidity provider default

Net cash owed to Atom8 will, in case of a liquidity provider default, be taken up with the relevant liquidator. Where possible, (Client) securities are held in segregated accounts (not co-mingled with liquidity counterparty's own assets). Atom8 has in place appropriate client money trust letters from applicable account bank(s).

4.2.2 Counterparty Risk

The Management Team of the Firm monitors counterparty risk, including any intermediate broker on an on-going basis. The firm has the ability to reduce leverage and have returned any initial and/or variation margin posted to such counterparties at any time. The Firm selects counterparties on the basis of their business model and perceived level of risk they pose and their regulatory status.

The Management Team of the Firm considers the credit risk to be low.

4.3 Reputational Risk

The biggest threat to reputation is seen to be a failure to comply with regulatory or legal obligations. Failure to deliver minimum standards of service and product quality to customers follows closely behind. Reputation is ultimately about how the business is perceived by stakeholders including customers, investors, regulators, the media and the wider public at large.

When assessing reputational risk, an execution-only broker should consider issues such as how poor performance can affect its ability to generate profits or exposure of unethical practices. The effect on its financial position should one or more of its key members of staff leave the Firm or the effect on its financial position should it lose some of its largest customers. Firms are exposed due to failure to deliver minimum standards of service and product quality to customers.

Reputational risk is address by ensuring the clients understand the methodology of our process and having a clear long-term plan. External perception of the Firm is regularly measured (among customers, media, pressure groups, etc.) and management is trained to identify and manage those potential reputational risks.

Reputational risk can also be affected by Business Risk which is the exposure of the Firm's business caused by uncertainty in the macroeconomic environment, with specific consideration of earnings volatility and cost overruns in severely adverse conditions.

4.4 Liquidity Risk

Liquidity risk is the risk of not being able to meet financial obligations as they fall due. Atom8 believes this is highly unlikely as funds are held in cash and use of established and regulated liquidity providers and account banks alike. Cash positions are monitored by the Management Team on a regular basis.

As a result of the simple business model, the Firm takes very little risk from a capital adequacy perspective, and does not hold any exposure to the underlying market in any way. Before placing any order as Principal, Atom8 ensures that it is matched by a similar client order and clients are required to have money on account, meaning that the Firm holds no risk of non-payment (other than where a client's positions move the client into a negative position). Margin calls are made as and when required and there is a defined policy as to closing out trades when margin requirements are not met by the client, applicable limits are reached.

Liquidity Risk could however arise where the income and revenue streams are either lost completely or are severely reduced. Revenue could be reduced or stopped for a number of reasons. These include, but are not limited to, a marked turndown in market volumes for a prolonged period or a continued period of recession. Atom8 has mitigated this risk by investing in excess of capital requirement and running the Firm with a low expense base.

4.5 Interest Rate Risk

Interest rate risks may arise from a number of sources including risk related to the mismatch of re-pricing of assets and liabilities and long term positions. Risks may also arise from hedging exposure to one interest rate with exposure to a rate which is re-priced under slightly different conditions. Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair value of financial instruments. As a matched principal broker, Atom8 is not exposed to interest rate risk in real terms as it is not carrying open position in its trading book.

4.6 Operational Risk

Operational Risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people and systems, or from external parties. Specifically, this includes: employees (e.g. fraud or key man dependencies), third party intermediaries, information technology (systems), and processes including failure to meet regulatory/legislative requirements or internal procedures.

The Management Team of Atom8 will continuously monitor this risk and are of the view that by placing adequate systems and controls and continuous monitoring adequate covers operational risk.

4.7 Business Continuity Risk

The Firm has a business continuity plan that will be tested annually. The Board is satisfied that the plan will allow the Firm to continue to function under a wide range of disaster scenarios. The business model can continue to operate from any location provided that there is secure internet access. The firm has also invested in additional fall-over servers as built-in redundancies to address any infrastructure failures.

4.8 Legal, Compliance and AML Risk

As a regulated investment Firm, Atom8 is required to comply with different legislation, non-compliance of which may expose the Firm to fines, penalties or litigation. Management is fully aware of such risks and have set out documented controls and procedures in the form Compliance Monitoring Programme, AML training and appointment of external compliance consultants to perform compliance reviews. It is the view of management that such procedures are adequate and accordingly, no capital has been set aside for this specific risk. However as the business grows, management will continuously review this risk to assess if there is any need of additional capital.

5. Capital Adequacy

As An IFPU Firm, Atom8 has calculated its capital resources in accordance with FCA's General Prudential Sourcebook ('GENPRU') GENPRU 2.2. The Firm's Pillar 1 capital resource requirements are the higher of the base capital requirements and the variable capital resource requirements.

5.1 Pillar 1 - Capital Requirement

As of 31 December 2015, the Firm's Pillar 1 capital requirement was £0.92m. This has been determined by reference to the Firm's Base Capital Requirement ("BCR") and calculated in accordance with the FCA's GENPRU 2.1.48. The requirement is based on the Base Capital since at all times this exceeds the total of the credit and market risk capital requirements it faces and also exceeds its fixed overhead requirement.

Solvency Ratio	Total Amount £000s
Members' Capital (incl Regulatoy Capital)	326
Profit and Loss	277
Regulatory Capital Position	135
Regulatory Capital Requirement	92
Regulatory Capital Surplus	43
Solvency Ratio	1.4673

5.2 Pillar 2 - Capital Requirement

Pillar 2 requires each firm and supervisors to review whether additional capital should be held against risks not covered in Pillar 1 which the firm will face or likely to face and to instigate additional controls to mitigate such risks or a combination of these two approaches. Pillar 2 requires a firm to assess its exposure to risks and the processes it uses for identifying, measuring and controlling risks to ensure on-going compliance with standards laid down in the CRD.

Where risks could be considered material, this may not result in Atom8 holding additional capital as mitigation to each risk may be appropriate to mitigate each risk using another mechanism, such as a control or management action. It is acknowledged that some risks cannot be mitigated by merely holding additional capital and management is constantly implementing new approaches to mitigating those risks.

The Management Team has assessed each risk as mentioned in section 4 above and concluded that the main driver of Pillar II capital is wind up costs. The wind up cost figure has been estimated from both internal and external loss events. As the Management Team which is comprised of the partners who are all experienced and have taken a conservative approach towards overheads during its initial years of operations, the overall fixed overhead requirement is assessed as low. Partners will not make any drawing or taking any dividends unless the Firm meets its financial goals. In extreme scenario where the Firm is unable to achieve its financial targets and the partners decided to wind up the business, it is estimated that a period of three months would be required. Accordingly, the Firm is required to keep financial resources to meet the wind up expenses. As the cost to wind up the Firm is less than the base capital requirement, the partners are comfortable that, were that to happen, the Firm would be able to wind up the operations without causing any detriment to the clients or other stakeholders.

6. Publication

The Pillar 3 disclosure is published on the Firm's website.

7. Frequency of Disclosure

The Firm will report their Pillar 3 disclosure annually or upon material change. These disclosures are based on the Firm's position as at the 31st December 2015. The Pillar 2 (ICAAP) capital requirements are excluded from this summary but are reviewed annually or upon material change.

8. Location and Verification

These disclosures have been validated by the Management Team. These disclosures are not subject to an audit except to the extent where they are equivalent to disclosures made under accounting requirements.