PILLAR 3 DISCLOSURES

JUNE 2020

1. Overview

The Capital Requirements Directive (“the Directive”) of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment Firm’s must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority (‘FCA’) in its regulations through the General Prudential Sourcebook (‘GENPRU’) and the Prudential Sourcebook for Banks, Building Societies and Investment Firm’s (‘BIPRU’).

The FCA framework consists of three “Pillars”:

- Pillar 1 sets out the minimum capital amount that meets the Firm’s credit, market and operational risk;
- Pillar 2 requires the Firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This section is designed to meet our Pillar 3 obligations.

We are permitted to omit required disclosures if we believe that the information is immaterial. Information is material if its omission would be likely to change or influence the decision of a reader relying on that information.

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties. We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

2. Scope and application of the requirements

Pepperstone Limited (the “Firm”) 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 limited licence firm by the FCA for capital purposes. The disclosures are reviewed by the Board of Directors at least annually and are made available on the company’s website(www.pepperstone.com).

3. Risk management objectives and policies

The Firm is a matched principal brokerage for CFDs products with a straightforward business model and considers that its financial and operational control continue to be adequate and effective for a business of its size and complexity. The Firm does not have regulatory permission to take proprietary trading risk and has an established risk management framework that gives accountability and clarity of the risks that are consistent with the pursuit of the Firm's profitability and other strategic objectives.

The Firm hires highly talented and experienced professionals who have a good understanding of markets as well as operational and regulatory obligations. The Firm's financial management is conducted by the Head of Finance in the UK. The Firm has implemented controls over approval of expenditure, and management accounts and budgets are produced periodically and reviewed by the Board. The Head of Finance also oversees the collation of the Firm's regulatory and prudential reporting to the FCA.

The Board retains overall responsibility for the risk management processes within the Firm.

4. Material risks

The Firm's key risks have been identified as part of the Internal Capital Adequacy Assessment Process ("ICAAP") which is regularly reviewed and approved by the Board on at least an annual basis. The identified key risks are grouped as either market, credit, interest rate, business, operation or liquidity risks. These risks have assessed, and appropriate actions and capital has been set out where required.

Risk	Description
Market risk	The Firm incurs market risk on foreign currency movements on own cash assets & liabilities held in foreign currencies. The Firm monitors its exposure on a day to day basis. Market risk is calculated using the standardised approach.
Credit risk	The Firm's exposure to credit risk is that clients lose more money than they have available in their accounts hence there is a failure to collect payments when they are due. Client margins are monitored on a daily basis so that minimum risk exposure occurs. Automated margin call and stop out procedures significantly reduce credit risk. The Firm holds all cash with a top tier UK bank after undertaking an initial assessment of the credit rating of the bank. Assessments are made on an on-going basis. The Firm calculates the potential future credit exposure ("PFCE") with both its counterparty and its clients, based on their product and time to maturity. The Firm obtains the PFCE by multiplying the notional amounts by the relevant percentages as per BIPRU 13.4.5R. These figures are relatively low, as the Firm's products all

	mature within a 12-month period. Further, each trade is hedged back to back with its counterparty, which is the Firm's Parent. For its Pillar 1 regulatory calculation of credit risk, under the credit risk capital component the Firm has adopted the standardised approach of calculating credit risk.
Interest rate risk	Although at times the Firm does hold substantial cash balances, the Firm does not have material interest rate risk. This is because the Firm does not rely on interest income for revenue and does not obtain funding through interest bearing loans.
Business risk	By its nature a Firm that holds client money has a higher business risk than some other types of business. However, within this context, the Firm has a conservative business risk appetite. Currently the Firm has a simple business strategy and the main business risk is loss of client/inability to gain business. The Firm continuously monitors income and expenditure levels and adjusts its plans accordingly in line with its strategy
Operational risk	Operational risk is the risk of loss resulting from inadequate or failed procedures, systems or policies, employee errors, system failures, fraud or other criminal activity. This incorporates the monitoring of client money processes undertaken as well as the regulatory and contingency planning done at the Firm level. The Firm's operational risk appetite is conservative and, as a result, we invest to mitigate such risks. Cyber risk means any risk of financial loss, disruption or damage to the reputation of an organisation from some sort of failure of its information technology systems. The Firm takes cyber risk seriously and considers it a part of the Risk Management agenda. The Head of IT for the Group reports to the Compliance Committee and the Group Board regarding all information security matters. The Information Security Policy is reviewed at least annually. The Firm's systems run in the cloud, across various locations and with multiple backups to protect against system failures. The impact if a platform were to go down and all backups and other systems failed would be a loss of volume and revenue. This would also possibly lead to a temporary loss of trust in the business. This has been included in stress test Scenario 2. The Firm's staffing and outsourced arrangement levels also provide a level of contingency cover in all critical business areas. The Firm

	has documented contingency planning and disaster recovery procedures, and these are regularly reviewed and tested.
Liquidity risk	Liquidity risk arises from the possibility that the Firm might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Firm manages this risk through the following mechanisms: • preparing forecast cash flow analysis in relation to its operational, investing and financial activities, monitored on a quarterly basis; and • comparing the maturity profile of financial liabilities with the realisation profile of financial assets

5. Internal Capital Adequacy Assessment Process

The Firm's ICAAP, prepared under the requirements of the FCA and the Capital Requirements Directive ("CRR"), is an on-going assessment of the risks and risk mitigation strategies, to ensure that adequate capital is maintained against these identified risks that the Firm wishes to take to achieve its business objectives. Appropriateness of the risks and capital adequacy is reviewed and approved by the Board on at least an annual basis.

6. Capital Adequacy

The Firm's objectives for managing capital are as follows:

- To comply with the capital requirements set by the FCA;
- To ensure that the Firm is able to operate as a going concern and satisfy any minimum externally imposed capital requirements; and
- To ensure that the Firm maintains a strong capital base to support the development of its business.

7. Capital resources

As at the year ended 30 June 2020, and throughout the year, the Firm has complied with the capital requirements set out by the FCA. In assessing the capital requirements, the Firm has considered the requirements prescribed in Pillar 1 and Pillar 2A.

As discussed above, the Firm is a limited licence firm and as such its Pillar 1 capital requirements are the greater of:

- the base capital requirement of €125,000;
- the sum of its market and credit risk requirements; or
- the Fixed Overhead Requirement.

The Firm's Pillar 1 capital requirement for the year ended 30 June 2020 is £760,000, representing the Fixed Overhead Requirement as this was deemed the greater amount.

Additionally, as part of its annual ICAAP review, the Firm carries out an assessment of the specific risks of the Firm (as identified above) and the controls in place to mitigate those risks. This assessment is used to calculate any additional capital required in excess of the Firm's Pillar I requirements (i.e. Pillar 2 requirements). The Firm has assessed that an additional £260,000 of capital is required to cover these risks.

	30-Jun-20 (£)
Shareholders Equity as per audited financial statements	4,922,368
Common equity tier 1 capital	**4,922,368**
Less intangible assets	(71,791)
Less deferred tax assets	-
Total common equity tier 1 capital after deductions	**4,850,577**
Tier 2 capital	-
Total regulatory capital/own funds	**4,850,577**
Pillar 1 capital resource requirement	
Licence requirement	113,616
Fixed overhead requirement	730,000
Credit & Market risk	455,399
Pillar 2 capital resource requirement	
Credit risk	80,000
Market risk	30,000
Liquidity risk	60,000
Operation risk	90,000
Concentration risk	-
Business risk	-
Total Pillar 1 and Pillar 2 capital requirement	**990,000**
Surplus capital resource over capital requirement	**3,860,577**
Total risk exposure amount	**9,125,000**
Total capital ratio (%)	**53.16%**

7.1. Tier 1 capital

Tier 1 capital consists exclusively of common equity tier 1 capital which is comprised of ordinary share capital, share premium, other reserves and audited retained earnings.

7.2. Tier 2 capital

The Firm does not hold any capital instruments that could be identified as Tier 2 capital.

7.3. Credit risk

Credit risk is the risk of loss that the Firm may incur if its counterparty in a transaction fails to perform its contractual obligations, therefore defaults. The Firm follows the Standardised Approach for the calculation of the Credit Risk capital requirement.

The table below provides a breakdown of the Firm's overall credit and counterparty credit risk exposures by asset class as at 30 June 2020.

Exposure asset class	Risk-weighted exposure (£)
Institutions	1,063,298
Corporates	787,619
Retail	172,117
Other items	545,300
Total	**2,568,334**

7.4. Use of External Credit Assessment Institutions (ECAIs) and Expert Credit Agencies (ECAs)

For the purposes of applying the Standardised Approach, the Company uses Standard & Poor's external credit ratings. Exposures which do not have an available Standard & Poor's credit rating are considered to be unrated.

Credit Quality Step	S&P Rating	Exposure	Risk-weight percentage	Risk-weighted exposure
1	AAA – AA-	514,000	20%	102,800
2	A+ – A-	3,683,141	20%	736,628
3	BBB+ - BBB-	-	50%	
4	BB+ - BB-	-	100%	
5	B+ - B-	-	100%	
6	CCC+ or lower	-	150%	
Unrated – retail exposures	-	229,489	75%	172,117
Unrated - Intercompany	-	1,119,351	20%	223,870
Unrated - other	-	1,332,919	100%	1,332,919
Total		**6,878,900**		**2,568,334**

8. Remuneration policy

The Firm's Board adopts and periodically reviews the general principles of the remunerations policy and is responsible for overseeing its implementation. Decisions with regards to remuneration levels and salary increases of employees are discussed and approved by the Board. In addition to examining these factors, Senior Management hold performance reviews for each staff at the end of each year to assess the employee's performance during the preceding year.

Aside from the monthly fixed salaries, the Firm operates a discretionary annual bonus scheme to recognize an employee's contribution to the success of the Firm. The bonus year runs from 1 July to 30 June.

The FCA defines Remuneration Code Staff ("Code Staff") in SYSC 19A.3.4 as senior management, risk takers, staff engaged in controlled functions and any employee receiving total remuneration that takes them into the same remuneration bracket as those detailed above, who's professional activities have a material impact on the Firm's risk profile.

During the year ended 30 June 2020, the aggregate remuneration from the Firm of staff identified as Code Staff, split by fixed and variable, was as follows:

Category	No. of staff	Fixed	Variable
Senior management	3	485,000	284,875

70 Gracechurch Street
London, EC3V 0HR 5JL,
United Kingdom

Phone: +44 800 0465473