



**FIXI Plc**

**PILLAR 3 DISCLOSURES**

**31 March 2018**



## **INDEX**

1. Overview
2. Risk Management framework
3. Capital Resources
4. Business Risks
5. Capital Adequacy
6. Capital Management
7. Remuneration



## **1. Overview**

### **1.1 Introduction**

The disclosures produced in this document are made in order to comply with Financial Conduct Authority (“FCA”) rules implementing the Basel III regulations which were written into EU Law in the form of regulations commonly known as CRD IV, which came into force on 1 January 2014. These rules make changes to the definition of capital resources and include additional capital requirements. These regulations have no material impact on FIXI PLC’s (‘FIXI’) capital position.

The directive consists of 3 distinct “Pillars”:

Pillar 1: Minimum capital requirements

Pillar 2: Supervisory review

Pillar 3: Market discipline.

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. The relevant rules for implementation of Pillar 3 are contained in the FCA’s sourcebook BIPRU 11, and this document contains the disclosures required under these rules unless it is not applicable to FIXI or it is considered as being proprietary or confidential information.

### **1.2 Frequency of disclosure**

The disclosures are required to be made on an annual basis at a minimum and, if appropriate, some disclosures will be made more frequently. FIXI has an Accounting Reference Date of 31 March. These disclosures are made as at 31 March 2018.

### **1.3 Location and verification of disclosure**

The disclosures made here have been reviewed by the Board and will be available for review at our registered office. The disclosures will also be available for review on the Fixi website ([www.fixi.com](http://www.fixi.com)). The disclosures are not subject to external audit and have been compiled to explain the basis of preparation and provide disclosure of certain capital requirements and information about the management of certain risks and for no other purposes.

### **1.4 Scope of Application**

The firm is an execution only broker dealer for certain financial products, specifically commodities and foreign exchange. The firm does not provide research nor dispense advice nor does it engage in investment banking or underwriting. The firm uses outsourced trading platforms to execute the business. It has established procedures for measuring funding requirements and monitoring its capital. The disclosures made here relate to the business and activities of FIXI only.



## 2. Risk Management framework

### 2.1 Corporate governance framework

The Board of Directors are ultimately responsible for the monitoring of financial risk management. The Board incorporates risk discussions which forms part of the regular agenda on the firm's board meeting and focuses on current market conditions, client acquisition and transaction activity, current risk management and limits (i.e. those fixed into the trading platform) as part on FIXI's ongoing risk review.

The main objective of FIXI's risk management framework is to monitor and control the various risk scenarios described under section 4 of this document.

### 3. Capital Resources

FIXI's Capital Resources consist of Tier 1 and Tier 2 Capital. Tier 1 capital comprises of Equity Share Capital and audited reserves, whilst Tier 2 Capital consists of Subordinated Loans.

FIXI's Capital resources at 31 March 2018 reflect the audited accounts as at 31 March 2018 and comprise the following:

	<b>£'000</b>
<b>Tier 1 Capital resources</b>	
Permanent Share Capital	13,456
Retained Earnings	(11,861)
<b>Total Tier 1 Capital before deductions</b>	<b>1,595</b>
Deductions from Total Capital	(330)
<b>Total Tier 1 Capital after deduction</b>	<b>1,265</b>
<b>Tier 2 Capital Resources</b>	<b>459</b>
<b>Total Capital Resources (CR)</b>	<b>1,724</b>
<b>Total Pillar 1 Capital Resources Requirement (CRR)*</b>	<b>641</b>
<b>Surplus CR of CRR</b>	<b>1,083</b>
<b>% CR to CRR</b>	<b>269%</b>

\* Minimum Capital Requirement



As the company is a €730K firm its Pillar 1 capital requirement is the greater of:

- a) Its minimum capital requirement (€730,000)
- b) Sum of Credit Risk, Market Risk & Operational Risk Capital requirements

The Operational Risk capital requirement is calculated using the Basic Indicator approach as set out in EU CRR Chapter 2 Article 315 and 316 and is based on 15% of the relevant indicator, which is defined as the three year average of the sum of net interest income and net non-interest income.

	<b>£'000</b>
<b>Minimum Capital Requirement (A)</b>	<b>641</b>
Credit Risk Requirement	238
Market Risk Requirement	72
Operational Risk Requirement	237
<b>Total Capital Risk Requirement (B)</b>	<b>547</b>
<b>CRR = greater of A and B</b>	<b>641</b>

#### **4. Business Risks**

As with all of our competitors, FIXI needs to take risks in order to earn revenues, particularly in the markets in which it operates. FIXI has those controls relevant to the management of risk embedded in its processes.

For the purposes of its risk management FIXI believes however, that the correct approach to follow is that the only risks to which FIXI are exposed, are ones that are fully understood and which are carefully monitored to ensure over exposure does not take place.

FIXI's principal business activities result in exposure to various risks as described below, the major risks being Credit Risk and Operational Risk.

Within FIXI, the most significant risk in terms of potential impact on a day to day basis is Credit Risk. This is the risk that:

- a bank will be unable to repay the monies deposited with it;
- a market counterparty through which the company hedges its exposures, will be unable to settle the deals made through it or to repay the monies that it is holding on the company's account;



- a customer is unable to make good a deficit on his account

It is the risk of a major credit failure which is considered by the Board to be the largest threat to the short-term future of the business, due to the potential size of a loss. The management of Credit Risk is therefore core to the firm's ongoing management of its exposures.

Whilst FIXI is exposed to external factors which create Credit and Market Risk, the way in which the business is run, both manually and systematically creates Operational Risks for the company.

The principal operational risks that FIXI is exposed to, can be summarised as follows:

- Strategic Risk
- People Risk
- IT Risk
- Legal and Compliance Risk

Whilst there is little that can be done to minimise the external factors that create market and credit risk there are significant opportunities to minimise the internal exposures created by the operation of the business internally.

Market Risk within FIXI has to be tightly managed as the firm does not take proprietary positions, generated by the activity of its clients. It is imperative that the systems used by the company ensure that the exposures generated by its clients' trading positions are hedged immediately with market counterparties to eliminate its exposure to fluctuations in market prices of those positions.

Risk management is an integral part of our business. Risk measurement and risk control tools are intrinsic to the processes and software that are used to run the business. Risk management functions are centralized for FIXI.

We manage risk in the following ways:

- Preventative screening of customer orders to make sure the customer has sufficient equity to support their position prior to sending these orders to market
- Real-time monitoring of customer and market making positions and immediate and automated actions, to curtail risks that fall outside specified parameters



- Real-time enforcement of risk controls for customer margin requirements and market-making portfolio hedging, fully described below. Calls for additional margin to our customers are due immediately and are enforced through automated liquidations that bring customers' portfolios into compliance
- Ongoing monitoring of the business utilising intra-day, daily, weekly and monthly reports.
- Daily reconciliations of internal positions and settlement amounts with external counterparties performed by financial control, clearing and accounting functions
- Controls over financial records and reporting to assure that we have robust regulatory reporting, based on complete and correct data
- External auditor and regulatory reviews to periodically test all of the above

## **5. Capital Adequacy**

The Company's capital management objectives are to meet regulatory capital requirements at all times and to ensure the Company's ability to continue as a going concern.

These objectives are primarily met by managing the numerous risks that the Company faces on a regular basis. The Company is regulated by the FCA and is required to adhere to a minimum capital requirement. Capital is represented by issued share capital, audited reserves and subordinated loans. The capital requirements are derived from market risk, credit and counterparty risk and operational risk.

### **5.1 Internal Capital Adequacy Assessment Process ("ICAAP")**

FIXI performs an internal capital adequacy assessment annually or more often if required. The internal document covers all of the risks summarised above to which the Company is exposed and is approved by the Board.

## **6. Capital Management**

The Company believes its capital to be represented by issued share capital and reserves as reflected in the financial statements. The Directors monitor financial resources on a regular basis.



## 7. Remuneration

FIXI's remuneration governance is operated through meetings of the Directors and senior management. It's policy on remuneration is to promote staff retention and loyalty and all variable remuneration paid rewards excellence based upon individual and team success with long term company profitability underpinning all variable remuneration schemes in operation.

Performance-based components of remuneration are set to:

- manage conflicts of interest
- encourage behaviour that supports the long-term financial strength of the business and the risk management framework
- reduces to an acceptable level incentives for excessive risk taking
- assess performance over the longer term rather than the short term

The FCA Remuneration Code requires FIXI to identify individuals whose professional activities have a material impact on its risk profile. These individuals are known as "Code Staff". The requirements of the Remuneration Code apply to those staff. At FIXI Code Staff are identified as:

- all Executive Directors
- senior managers in any Controlled Function

The number of identified code staff as at 31<sup>st</sup> March 2018 was 5.