

BCS Prime Brokerage Ltd ("BCS UK") Pillar 3 Disclosures

For the year ended 31 December 2017

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Contents

1.	Introduction	3
1.1	Purpose	3
1.2	Background and Regulatory Context	3
1.3	Disclosure Policy	3
1.4	Verification	3
1.5	Document Approval	3
1.6	Media and Location of Publication	4
2.	Corporate Background	5
2.1	Business Model	5
2.2	Regulated Status	5
3.	Governance	6
4.	Risk Management	7
4.1	ICAAP	7
4.2	Risk Categories and Definitions	7
4.2.1	Operational Risk	7
4.2.2	Credit Risk	7
4.2.3	Market Risk	7
4.2.4	Liquidity Risk	8
4.2.5	Business Risk	8
4.2.6	Reputational Risk	8
4.3	Risk Reporting	8
5.	Capital Resources	9
6.	Remuneration Disclosures	10
6.1	Code Staff	10

1. Introduction

1.1 Purpose

The purpose of this document is to set out the Pillar 3 Disclosures for BCS Prime Brokerage Limited.

1.2 Background and Regulatory Context

The Basel II Accord, implemented in the European Union through the European Capital Requirements Directive ('the Directive', or 'CRD') establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that must be maintained by credit institutions and investment firms. 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 Firms ('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 requirements. These comprise: base capital resources requirements; credit risk and market risk capital requirements; and the fixed overhead requirements;
- Pillar 2 requires that firms undertake an overall assessment of their capital adequacy, taking into account all risks to which the Firm is exposed and whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements;
- Pillar 3 complements Pillar 1 and 2 and requires firms to disclose information on their capital resources and requirements, risk management framework and remuneration policy.

BIPRU 11 sets out the provisions for Pillar 3 disclosure. This document is designed to meet the Pillar 3 obligations of BCS Prime Brokerage Limited (herein referred to as "BCS UK" or the "Firm" or the "Company").

1.3 Disclosure Policy

The FCA's BIPRU 11 rules and guidance set out the requirements and expectations for Pillar 3 disclosures and permit non-disclosure of information considered by BCS UK's Board of Directors ("The Board") to be immaterial, to the extent that any such non-disclosure would be unlikely to change or otherwise influence decisions made by a reader relying on such non-disclosed information. The BIPRU 11 rules additionally permit non-disclosure of information of a proprietary and/or confidential nature. Proprietary and confidential information includes non-public information that is confidential and/or proprietary to the Company and/or to parties with whom the Company transacts business with. Disclosure of information that would prove detrimental to the Company's competitiveness would also constitute confidential information.

Additional disclosures will be made should The Board deem it necessary as a result of any material change to the Firm's scale of operations or range of activities, or where The Board is otherwise of the opinion that the impact of events requires disclosure, in accordance with the provisions of BIPRU 11.

BCS UK maintains a separate Pillar 3 Disclosure Policy.

1.4 Verification

The disclosures have been put together to explain the basis of preparation and disclosure of certain capital requirements and provide information about the management of certain risks and for no other purposes. They do not constitute any form of audited financial statement and have been produced solely for the purposes of Pillar 3. They have not been subject to external verification, and as such they should not be relied upon in making judgements about the Company.

1.5 Document Approval

The disclosures are reviewed and approved annually by The BCS UK Audit Committee, as delegated by BCS UK Board.

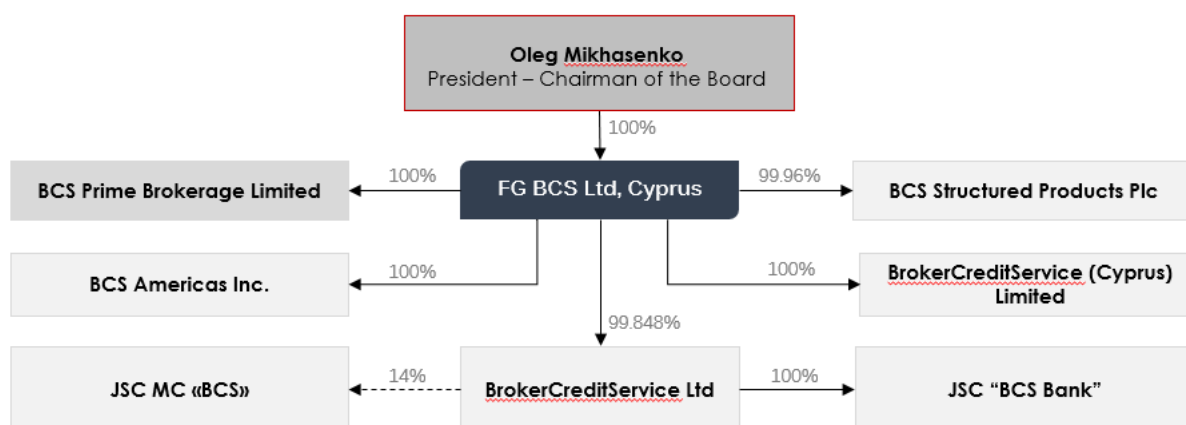
1.6 Media and Location of Publication

The disclosures will be published on the [BCS Prime Brokerage Limited website](#) and will also be available on request by writing to the Head of Compliance, 99 Bishopsgate, London EC2M 3XD.

2. Corporate Background

BCS UK was established in April 2012 to build on the success of the BCS Financial Group. From inception in 1995 until 2011, the Group had predominantly focused on offering financial services to retail clients in Russia. In 2011, the Group took the decision to expand its retail platform and create a global markets investment banking model whose ultimate aim is to provide global investment products and services to international institutional clients. The Firm focuses on providing innovative and customisable high and low touch trading solutions for Russia and core global and emerging markets.

The key companies within the Group's ownership structure are shown below. BCS UK is a wholly owned subsidiary of FG BCS Ltd, a company incorporated in Cyprus. The sole beneficiary and ultimate controlling party of the Group is Mr Oleg Mikhasenko.



2.1 Business Model

BCS UK's approach is based on a hybrid model of capital markets and technology specialists supported by strong financing capabilities.

BCS UK's target client base is professional investors and regulated global institutional clients. Such clients will include banks/brokers who do not or cannot invest in their own Russian infrastructure, large proprietary trading firms looking to use its services and technical solutions to access Russian markets and products, hedge funds looking for financing, asset-keeping and execution services in Russian markets and products, and traditional asset/investment managers. BCS UK may also offer execution services to institutional clients of its affiliate, BrokerCreditService (Cyprus) Limited ("BCS Cyprus") who are looking to access markets outside of Russia, however, in such instances, BCS UK would face BCS Cyprus directly. All clients will be classified as Eligible Counterparties or Professional Clients. BCS UK does not carry out business with retail clients.

In terms of instruments, BCS UK focuses on selling Russian securities (equities and fixed income) and derivatives (largely futures and options). BCS UK also provides advisory and execution services in international instruments.

2.2 Regulated Status

BCS UK, a BIPRU €50k Limited Licence Firm, acts as an adviser and broker. It does not hold or control client money. The Firm only deals in an agency or riskless principal basis with clients and affiliated Group entities. Accordingly, BCS does not deal for its own account or underwrite issues on a firm commitment basis. The Firm is not subject to consolidated reporting within the EU with other entities.

A BIPRU firm must at all times maintain capital resources equal to or in excess of the base requirement (€50,000). The variable requirement for a BIPRU Limited Licence Firm is the higher of the credit risk capital requirement and the market risk capital requirement, or the Fixed Overheads Requirement (FOR) (i.e. one quarter of the Firm's relevant fixed expenditure). A BIPRU firm must maintain at all times capital resources equal to or in excess of the variable requirement.

3. Governance

BCS Prime Brokerage Limited's Board of Directors is the governing body that sets the strategic direction of the Firm. The Board also sets the risk appetite and is ultimately responsible for the risk management of the Firm. The Board defines its risk appetite as representing the amount and types of risk it is prepared to accept in the course of achieving the Firm's business objectives.

The Board have delegated oversight of day to day risk management to the BCS UK Risk Committee. The BCS UK Risk Committee meets on a monthly basis and focuses on all risks faced by the Firm. Its primary function is to assist The Board in fulfilling its risk management responsibilities.

The Head of Risk Management, London, is responsible for implementing a risk management framework which identifies the risks faced by the business and assesses these on the basis of impact and probability, and aims to manage risks within the Firm's risk appetite.

The Firm also operates a number of other management committees that cover areas of risk. These Committees include the following;

- Executive Committee;
- Audit Committee;
- Controls and Oversight Committee;
- Remuneration Committee;
- Client Committee;
- New Product Committee.

4. Risk Management

It is the Firm's objective to structure an operating environment in which threats to the Company's ability to maximise shareholder value and achieve strategic objectives are identified, measured, controlled to an acceptable level and reported.

Active and effective risk management is therefore at the core of BCS's business and is regarded as a key competence by clients, consultants, regulators and other interested parties. Risk management of the BCS Group, and BCS UK in particular, is a continuous, active and systematic process to understand, manage and communicate risk. The Company's risk function works closely with all areas of the business to ensure adherence to the Risk Management Framework.

All risk types identified as part of the Individual Capital Adequacy Assessment Process (ICAAP) and articulated in the Firm's risk appetite statement are closely managed by sound risk management practices.

4.1 ICAAP

BCS UK's ICAAP methodology is designed to capture the key risks faced by the business under Pillar 2. BCS UK reviews its ICAAP methodology at least annually. A combination of senior management workshops, historical analysis of internal and external data and events, and statistical measures are used in deriving the Firm's final ICAAP number.

When considering adverse ICAAP scenarios, the Firm incorporates downside testing of the impact of reputational damage or a reduction in future revenue. The Firm considers a wind-down analysis which looks at whether it would be required to hold additional capital over the period it would take to conduct an orderly wind-down of the business.

4.2 Risk Categories and Definitions

As part of its ICAAP process, BCS UK identified the key categories of risk that it faces. The principal risk categories, and their mitigation, are outlined below.

4.2.1 Operational Risk

BCS UK defines operational risk as the risk of a change in value caused by the fact that actual losses (or profits), incurred from inadequate or failed internal processes, people and systems, or from external events (including legal risk), differ from the expected losses (or profits).

Operational risk is monitored and measured using a variety of techniques. These include an annual operational risk and control self-assessment, new product reviews, a monthly key risk indicator (KRI) report, and operational risk issue and incident reporting and resolution.

The Firm also has insurance arrangements in place to mitigate operational risk.

4.2.2 Credit Risk

Credit risk is the risk of suffering financial loss should the Company's clients or counterparties fail to fulfil their contractual obligations to the Company. Specifically BCS UK incurs credit risk when placing cash or securities with custodians or brokers, conducting trades on an execution-only basis with other market participants and providing margin leverage services to clients.

BCS UK performs credit assessments of its counterparties when approving limits. Exposures are monitored and reported daily.

4.2.3 Market Risk

BCS UK defines market risk as the risk of financial loss as a result of adverse movements of market factors such as foreign exchange rates and equity prices.

As a BIPRU €50k limited licence firm, BCS UK does not deal for its own account. Market risk is therefore limited to movements in foreign exchange rates, and movements in interest rates (applicable to the firm's repo book). The majority of BCS UK's own assets are denominated in USD, its functional currency.

4.2.4 Liquidity Risk

BCS UK defines liquidity risk as the risk arising from cash flow mismatches between assets and liabilities.

The Firm manages liquidity by maintaining sufficient cash with banks and matching maturities of its receivables and payables to meet its ongoing commitments. BCS UK undertook a comprehensive liquidity adequacy assessment in 2017 and has ring-fenced a prudent cash buffer to mitigate against a worst case scenario, which it estimates would allow the business to be wound down with minimal disruption.

4.2.5 Business Risk

Business risk is defined as the uncertainty in revenues in the short-run (less than one year) due to unforeseen changes in the competitive environment, generally arising as volatility in revenue.

BCS UK operates a comprehensive new business approval process in order for new business lines or products to be launched. BCS UK also incorporates forecast downturns in revenue predictions into its ICAAP scenarios.

4.2.6 Reputational Risk

Reputational risk is defined as the potential for damage to the Company's franchise, resulting in a loss of earnings or adverse impact on the value of the Company as a result of a negative view of the Company or its actions being taken by third parties. Reputational risk could arise from the failure of the Company to effectively mitigate the risks in its business including one or more of credit, liquidity, market, regulatory, legal or any other operational risk.

All employees are responsible for the day-to-day identification and management of reputational risk. The Company actively manages its reputational risk exposures, and discusses reputational risk as a standing agenda item at its Risk Committee meetings.

4.3 Risk Reporting

BCS UK maintains a risk reporting policy which stipulates the minimum criteria and frequency of risk reporting. The Senior Management Team and the Risk Committee actively monitor and manage the risks of the Firm using daily and monthly metrics provided by the Risk Department on credit, market, liquidity and operational risk.

5. Capital Resources

BCS UK calculates and reports its capital resources and capital requirements in accordance with current FCA regulations. The following table presents a summary of both capital resources and the capital requirements for the Firm as at 31/12/17 and is based on the audited financials of the Firm as well as its ICAAP Manual.

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), the Firm's Pillar 1 capital requirement is determined as the higher of the Fixed Overhead Requirement or the sum of credit risk and market risk capital requirements.

The Firm's capital position and regulatory capital requirements are set out below:

CAPITAL RESOURCES	31/12/2016 (\$000s)	31/12/2017 (\$000s)
Fully paid-up share capital	23,696	60,696
Retained Earnings	296	782
Subordinated Loan	17,000	0
Deductions	(63)	(20)
Total capital resources	40,929	61,458
Credit risk	29,863	23,578
Market risk	38	138
Operational risk (Fixed Overhead Requirement)	9,105	21,004
Total Pillar 1 Capital Requirement, higher of; i) Credit risk + market risk; ii) Operational risk	29,900	23,716
Solvency ratio (%)	137%	259%
Surplus capital over Pillar 1 Requirement	11,029	37,742
Total Pillar 2 Requirement	51,084	54,221
Surplus capital over Pillar 2 Requirement	(10,155)	7,237

1. Share capital is the permanent, allotted, called up and fully paid ordinary share capital of BCS UK. This is comprised entirely of Tier 1 capital.
2. In March 2017 the perpetual sub-ordinated loan of \$17,000,000 was converted into share capital.
3. Retained earnings are the audited profit and loss reserves retained by the business.
4. Risk amounts and the total Pillar 1 Capital Requirement are 8% of overall exposures, in line with CRR requirements.

BCS UK considers that it has sufficient capital to cover all relevant risks.

6. Remuneration Disclosures

Under the FCA's remuneration code, BCS UK is classified as a Tier 3 firm, which allows it to proportionately apply the Code's rules and principles.

The Board has delegated the implementation of core aspects of the Firm's remuneration framework to a Remuneration Committee. This Committee formulates the remuneration policy of the Firm, ensuring that variable remuneration takes into account the profitability, risk and compliance metrics of the Firm.

It is acknowledged that the reputation and success of the Company is due to the service provided to clients by highly qualified and committed staff. Staff are therefore one of the key assets of the organisation and it is its policy to attract and retain the best people. In general terms, when determining total remuneration, assessments are made of whether staff performance has contributed to revenues, effective risk management, operational efficiency and appropriate management of costs.

In setting its remuneration policy, the Firm aims to;

- attract, motivate and retain high calibre Directors and employees;
- offer a policy that is aligned with the risk management practices of the Firm and avoids conflicts of interest;
- avoid any remuneration structure that encourages inappropriate risk taking, and ensuring that an appropriate balance exists between fixed and performance-based components;
- operate a fair and consistent policy that rewards individual contributions to BCS UK's overall performance; and
- be competitive with industry standards.

6.1 Code Staff

The Remuneration Code requires the Firm to consider its processes and procedures for senior staff whose activities have a material impact on the Company's risk profile (Code Staff). The Firm recognises the responsibility Code Staff have in driving its future success and delivering value for its shareholder and that remuneration is a key component in motivating and rewarding these staff. Code Staff remuneration is based on competitive market-based wages that fairly compensate employees in view of skills provided, work performed and responsibility undertaken.

Staff captured by the criteria include the following;

- Board members;
- Heads of significant business lines;
- The Head of Risk;
- The Finance Director;
- The Head of Compliance.

Aggregate quantitative information on remuneration for Code Staff

	2017
Total number of code staff during the year	13
Number of new sign-on payments	0
Total fixed remuneration	\$2,367,639
Total new sign-on remuneration	0
Total variable remuneration	<u>\$1,926,986</u>
Total Remuneration	<u>\$4,294,625</u>