

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

For the year ended 31 December 2018

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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 ("EU") 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").

As of the reference date of this document, BCS UK was a BIPRU €50k Limited Licence Firm. In April 2019, the FCA approved the Firm's application for a proprietary trading licence, thus according the Firm Significant IFPRU €730k status. The implications for BCS UK of this change in status, and steps taken to ensure preparedness, are set out in Section 7 of this document.

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 Executive Committee and the BCS UK Audit Committee, as delegated by the Board.

1.6 Media and Location of Publication

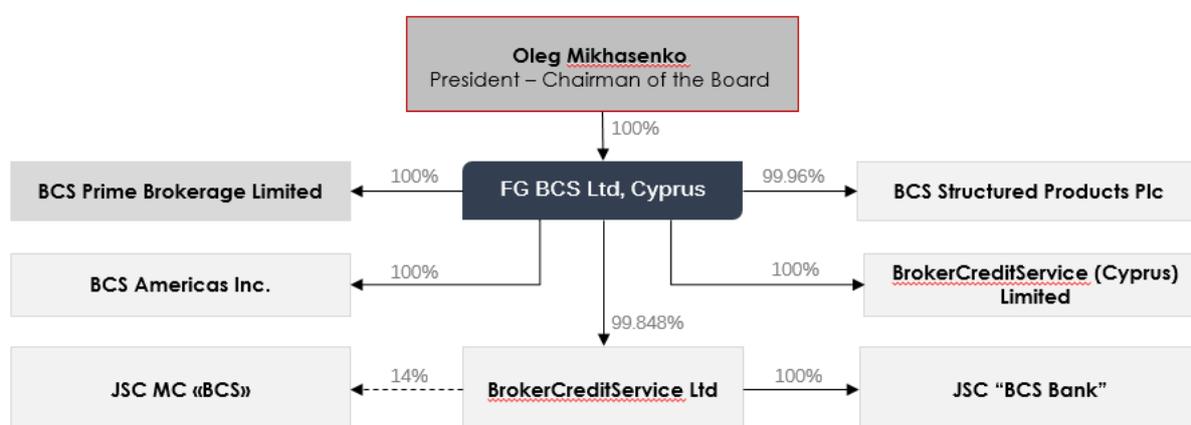
The disclosures will be published on the [BCS Prime Brokerage Limited website](#) and will also be available on request by writing to the Head of Compliance, BCS Prime Brokerage Limited, 17th Floor, 99 Bishopsgate, London EC2M 3XD, United Kingdom.

2. Corporate Background

BCS UK was established in April 2012 to build on the success of the BCS Financial Group ("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.

In 2017 the Firm for the first time received an external credit rating from Standard & Poor's. The long and short term ratings are B+ and B respectively. The outlook was upgraded to "positive" in November 2018.

The key relevant 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, trading Russian and (increasingly) other, such as US, instruments. Such clients will include banks/brokers who do not or cannot invest in their own Russian infrastructure, large proprietary trading firms looking to use BCS UK's 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 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 has historically focused on transacting in Russian securities (equities and Depository Receipts), FX and derivatives (largely futures and options), however increasingly it also provides access to non-Russian products to Russian and international institutions.

BCS UK derives its revenue from dealing commissions and financing fees. Dealing commissions are charged in basis points and applied on a transaction by transaction basis at the point of settlement. Financing fees are charged based on stock borrowing services to maintain short positions on behalf of clients, and for funding limits granted to certain specific clients.

2.2 Regulated Status

BCS UK, a BIPRU €50k Limited Licence Firm as of the reference date of this document, 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 UK 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 has 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; and
- 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.

BCS UK has adopted a three lines of defence model as an approach to seek assurance that internal controls are in place and operating correctly.

- The first line of defence is represented by the business units that take risks and are responsible for the operational control environment on an ongoing basis;
- The second line of defence is comprised the risk management and compliance functions; and
- The third line of defence is provided by internal audit. BCS UK has appointed BDO LLP, an external organisation, as its independent internal audit function.

Active and effective risk management is therefore at the core of the Firm's business and is regarded as a key competence by clients, regulators, ratings agencies and other interested parties. Risk management of the 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 its Risk Management Framework.

All risk types identified as part of the Internal 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 requirements.

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 as a result of its business activities and the macro-economic and regulatory environment. The principal risk categories, the circumstances under which they could arise, 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).

Whilst the circumstances in which operational risk may arise are very varied, BCS UK broadly considers its major sources of operational risk to be the following;

- Robustness of systems; fully functioning front to back (including risk management) systems that can process large client volumes are fundamental to the Firm's success.
- Cyber crime; given the emergence of this threat in recent years, BCS UK has adopted a Cyber Crime Prevention Policy in line with the UK National Cyber Security Centre's 10 steps to cyber security.
- People risk; BCS UK has a suite of documented procedures in order to ensure core processes can be undertaken systematically and in the absence of particular staff members. Online, external and internal face to face training is provided in order that staff are proficient in performing their roles and are aware of their responsibilities as employees of an FCA regulated firm.

Operational risk is monitored and measured using a variety of techniques. These include annual operational risk and control self-assessments, new product reviews, a monthly key risk indicator (KRI) report, and operational risk issue and incident reporting and resolution. The Firm operates, maintains and tests a Business Continuity Plan. Results of tests, along with any recommended remedial actions, are presented to the UK Control and Oversight Committee.

BCS UK also has insurance policies in place, primarily to mitigate against fraudulent behaviour.

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, borrowing and lending cash or securities as part of repo transactions, providing margin leverage services to clients and lending money to clients.

BCS UK performs credit assessments of its counterparties in order to assign limits and approve credit ratings. Exposures are monitored and reported to Management daily. For margin and repo activities, daily margin call processes are in place.

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 as at the reference date of this document, 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.

Liquidity risk may arise due to a number of reasons within BCS UK, including fluctuations in exchange or clearers' margin requirements, withdrawal of client collateral or failed trade settlements. BCS UK monitors all of these factors and conducts daily stress testing to ensure it is within its liquidity risk appetite.

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 undertakes a comprehensive liquidity adequacy assessment every year 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.

Business risk may arise for a variety of reasons within BCS UK, including failure to launch new products, or macro-economic or firm-specific drivers which curtail revenue-generating opportunities.

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. Revenue diversification metrics are reviewed by the UK Risk Committee. In addition, the actual or potential impact of macro-economic events (for instance Brexit) is analysed and modelled.

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.

4.2.7 Group Risk

Group risk is defined as the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risks which may affect the financial position of the whole group (e.g. reputational contagion).

As part of a Group company, BCS UK is exposed to Group risk in terms of the financial exposures it has to other Group entities, as well as adverse reputational events occurring elsewhere in the Group.

Although BCS UK does not require funding from the Group, it is exposed to the Group financially where it places cash and securities with Russian affiliates to facilitate trading on the Moscow Exchange, and as a result of inter-entity trades conducted in order to facilitate client activity.

BCS UK monitors and reports its Group exposure continuously, performing an annual credit assessment to establish exposure limits.

4.2.8 Legal and Compliance Risk

This risk is defined as the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards.

Legal and compliance risk is material to BCS UK, especially given its FCA-regulated status. Furthermore, the launch of MiFID II in January 2018 has had far reaching implications across the financial services industry, and as such BCS UK undertook a comprehensive project to ensure that the firm is compliant with all aspects of the new regime.

The management of legal and compliance risk includes but is not limited to:

- Defining the risks and associated responsibilities, compliance culture, corporate governance;
- Standardised client and employee contracts;
- Embedded staff exit procedures;
- Regular internal and external all staff training;
- Compliance monitoring;
- Evaluation of compliance performance.

4.3 Risk Appetite

The Board sets its risk appetite, which it defines as the amount and types of risk it is prepared to accept in the course of achieving its business objectives, given the risk types identified during the ICAAP. The Board reviews its risk appetite as part of the ICAAP review, but may make adjustments on an intra-year basis where required.

In general, BCS UK takes a considered approach to risk-taking activities, whilst recognising that it must have appetite for certain risks in order to achieve its business aims, subject to appropriate monitoring and controls.

The Board sets its risk appetite for each of the risk types identified during the ICAAP. Measurement is undertaken using a combination of quantitative and qualitative metrics, with "red", "amber" and "green" thresholds. The Firm's policies, procedures and reports are designed to be aligned with its risk appetite.

Monitoring adherence to risk appetite is a continuous process, however a formal report demonstrating the Firm's exposures versus its stated risk appetite is reviewed by the Board at its bi-monthly meetings. Any breaches of "red" thresholds are escalated to the Board as and when they arise.

New business lines undergo a comprehensive new business approval process, including confirmation that the activities are within the risk appetite of the Firm.

4.4 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, operational and business 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 31/12/18 and is based on the audited financials of the Firm as well as its ICAAP Manual.

The Firm's capital resources comprise only Tier 1 Capital (Common Equity Tier 1 Capital). At the end of 2018 the Firm's capital base was \$63.8m. Net income in 2018 was \$2.4m, before adjusting for the Expected Credit Loss provision under IFRS 9. The results are in line with the Board's expectations given the continued challenging market conditions in Russia and the overall investment programme. The Firm did not deviate from its stated risk appetite in achieving these results.

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	31/12/2017 (\$000s)	31/12/2018 (\$000)s
Fully paid-up share capital	60,696	60,696
Retained Earnings	1,433	3,144
Deductions	(20)	-
Total capital resources	62,109	63,840
Credit risk requirement (Pillar 1)	23,463	21,515
Market risk requirement (Pillar 1)	118	330
Operational risk requirement (Fixed Overhead Requirement)	21,004	13,276
Total Pillar 1 Capital Requirement, higher of; i) Credit risk + market risk; ii) Operational risk	23,582	21,845
Solvency ratio (%)	263%	292%
Surplus capital over Pillar 1 Requirement	38,527	42,325
Credit risk requirement (Pillar 2)	20,467	22,447
Market risk requirement (Pillar 2)	465	473
Operational risk requirement (Pillar 2)	7,573	8,166
Additional Pillar 2 requirements	25,715	18,753
Total Pillar 2 Requirement	54,221	49,840
Surplus capital over Pillar 2 Requirement	7,888	14,000

- Share capital is the permanent, allotted, called up and fully paid ordinary share capital of BCS UK. This is comprised entirely Tier 1 capital.
- Retained earnings are the audited profit and loss reserves retained by the business.
- The amounts within 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 Chief Regulatory Officer;
- The Head of Risk;
- The CFO;
- The Head of Branch;
- Other employees with remuneration in the same bracket as senior management.

Aggregate quantitative information on remuneration for Code Staff

	2018
Total number of code staff during the year	23
Number of new sign-on payments	0
Total fixed remuneration	\$4,529,541
Total new sign-on remuneration	0
Total variable remuneration	<u>\$3,714,654</u>
Total Remuneration	<u>\$8,244,195</u>

7. Significant IFPRU €730k Status

In October 2018, the Firm applied to the FCA for a variation of permission to deal as principal without limitation. The variation of permission ("Prop VoP") was sought to enhance BCS UK's existing service offering through the expansion of its in-house execution capabilities for equities and fixed income.

The FCA granted the variation of permission in April 2019. This has moved BCS UK from being a BIPRU €50k limited licence firm to becoming a Significant IFPRU €730k full scope firm. Whilst this occurred after the 2018 year end and is therefore technically out of scope of this document, such is the impact of the new status that it is considered prudent and relevant to set out the main implications below.

7.1 Activities

By obtaining permission to deal as principal without limitation, BCS UK will also be able to execute client orders in equity instruments where liquidity is limited as such trades can require the executing broker to trade on risk.

Similarly, as part of its fixed income offering BCS UK will be able to provide better coverage when responding to requests for quotes. The ability to take positions onto BCS UK's trading book where there is no market counterparty available to match client requests for quotes is expected to increase the number of trades that the desk can undertake.

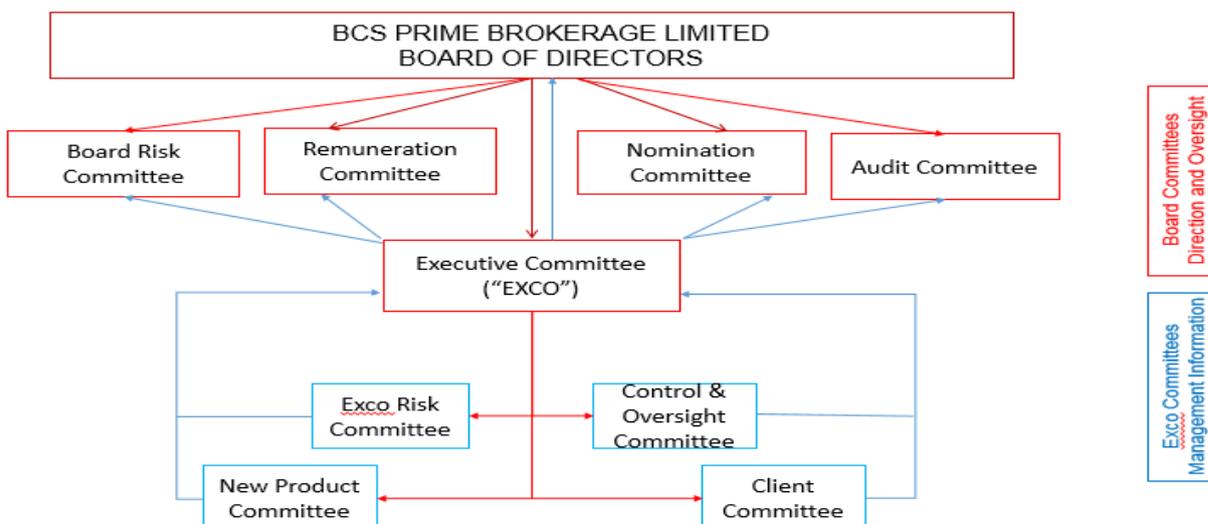
The Prop VoP also gives BCS UK the ability to offer trading services in other markets which are currently outside the core trading competence available within the Group.

As a result of the change in scope of the Firm's activities, steps have been taken to enhance the control environment – particularly in relationship to proprietary trading risk.

Any risk positions will be booked onto a trading book and be identified in the trading book statement.

7.2 Governance

The committee structure in place within BCS UK has been restructured to provide more effective oversight and meet the requirements of being a Significant IFPRU firm. The revised Board Committee structure is shown below;



A bi-monthly Board Risk Committee exists to which the Board delegates oversight responsibility for matters relating to the Firm's overall risk framework, risk appetite, ICAAP and Internal Liquidity Adequacy Assessment ("ILAA"). The Firm also retains its existing Exco Risk Committee as a sub-committee reporting into the Executive Committee ("Exco"), however, matters arising from this forum including (but not limited to) material limit breaches (whether they be credit, market, operational or liquidity related), stress events and any unresolved issues within the Exco Risk Committee's purview may also be escalated to the Board Risk Committee.

A new Independent Non-Executive Director was appointed in 2019 who chairs the Board Risk Committee.

7.3 Capital and Liquidity

7.3.1 Capital

As part of the variation of permission application process, BCS UK reviewed its ICAAP to model the capital required to support proprietary trading activities. This resulted in a recommended minimum Pillar 2 capital of \$68.1m, versus existing capital resources of \$63.8m.

As a result of this analysis, a further \$30m was injected into BCS UK in February 2019 in the form of equity shareholding from the parent company.

7.3.2 Liquidity

BCS UK is now an ILAS BIPRU Firm and is required to conduct an ILAA. The ILAA was completed in February 2019 and approved by the Board. As a result, the minimum recommended liquidity buffer of \$5.9m is being held in US Treasury instruments in a ring-fenced account.

BCS UK's liquidity position is monitored via a daily liquidity report.

7.4 Large Exposures

As a Significant IFPRU €730k firm, BCS UK becomes subject to the EU's Large Exposure Regime. BCS UK forecasts, monitors and reports its large exposures daily, and notifies the FCA of any excesses whilst ensuring it has sufficient capital to meet short term excesses.

7.5 Remuneration

The Firm's Remuneration Policy has been revised to ensure compliance with SYSC 19A and approved by the Remuneration Committee and the Board.

The Firm's remuneration methodology has been updated to promote sound and effective risk management and ensure that additional measures are in place to monitor compliance with the remuneration principles as they relate to proprietary trading.