Traderight Limited - Pillar 3 Disclosure and Policy as at 31 March 2017

Introduction

Regulatory Context

The Pillar 3 disclosure of Traderight Limited (“Traderight” or “the Firm”) is set out below as required by the introduction of the Capital Requirements Regulation (“CRR”) and the Capital Requirements Directive (“CRD”) which together comprise CRD IV. This came into force from 1 January 2014 with the CRR directly binding on all EU member states with the CRD incorporated into UK law. Under CRD IV, Traderight became an IFPRU €125k firm (as defined by the FCA) and will need to comply with the EU CRR and the FCA’s IFPRU handbook. CRD IV introduced a stricter definition of capital resources, increased capital requirements, increased reporting requirements (COREP), binding liquidity ratios and new requirements on remuneration.

The changes arising from the implementation of CRD IV have been considered by the Firm in its latest ICAAP assessment, which shows the Firm to have sufficient excess capital resources over its minimum capital requirements under CRD IV.

Frequency

The Firm will be making Pillar 3 disclosures annually. In the event of any changes that impact the business the Pillar 3 disclosure will be more frequently than annually if the directors deem it necessary. The disclosures will be as at the Accounting Reference Date (“ARD”).

Media and Location

The disclosure will be published on Traderight Limited’s website, www.traderightuk.com.

Verification

The information contained in this document has not been audited by the Firm’s external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD requirements have three pillars.

- Pillar 1 deals with minimum capital requirements.
- Pillar 2 deals with Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces.
- Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements. The regulatory aim of the disclosure is to improve market discipline.

The Firm is an IFPRU €125k Limited Licence Investment Firm. The Firm seeks to mitigate risk by implementing sound systems and controls and corporate governance arrangements.

The Firm has grouped the risk categories in the overall Pillar 2 rule (GENPRU 1.2.30R) into 10 groups that it believes the firm is exposed to: Market, Credit, Operational, Liquidity, Insurance, Pension Obligation, Concentration, Business, Interest rate, and ‘Other’ risk. The greatest risks in financial terms are considered to be Market Risk, Credit Risk and Operational Risk. In reputational terms Business risk is also considered a significant risk. An Assessment of all identified Risks faced by the firm has been undertaken in its Pillar 2 ICAAP assessment.

The Firm has identified several scenarios which may have a detrimental impact on the business and subjected them to analysis and a stress test. The results inform the Firm on its capital planning forecasts and proposed management actions to ensure that the Firm holds, at all times, adequate Regulatory Capital. The existing financial planning process has been integrated into the ICAAP to develop forward looking financial forecasts.

The Firm captures records and monitors its risks via a Risk Register software application that it has been developed internally. The Risk Register allows entered risks to be categorised into the appropriate Pillar 2 category and weighted accordingly depending upon the perceived likelihood of the risk occurring as well as the potential financial cost to the company which is calculated using a cost adjustment algorithm.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the Financial Conduct Authority. The Firm's activities give it the IFPRU categorisation of a €125k Limited Licence firm.

The Firm is a solo regulated entity and does not form part of a UK Consolidation Group.

Traderight is a Category Five member of the London Metal Exchange. The Firm is currently acting as an Introducing /Order Passing Broker whose principal function is to arrange execution services for its shareholders, conduct reconciliations and trading operation services.

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Board is the Governing Body of the Firm whilst the Office of the Chief Executive has the daily management and oversight responsibility. The Traderight Risk Committee has oversight of Traderight's Risk portfolio and reports its findings to the Board. Each of these bodies meet periodically during the year and are composed of:

Traderight Board

- Steven Spencer- Director
- Emran Alireza - Director
- Chen He - Director
- David Lilley - Director

Office of The Chief Executive

- Alan Spangler - CFO
- Charles Davis - Company Secretary

Risk Committee

- Jacqueline Spangler- Chair

The Board of the Firm is ultimately responsible for the total process of risk management. The Board delegates certain Risk responsibilities to the Risk Committee and others to the Office of the Chief Executive for the day-to-day operation of the business.

The Board sets the Firm's appetite or tolerance for risk – those risks it will accept and those it will not take in the pursuit of its goals and objectives. In addition, the Board ensures that the Firm has implemented an ongoing process to identify risk and to measure its potential impact against a broad set of assumptions. The Office of the CEO is accountable to the Board for designing, implementing and monitoring the process of risk management and incorporating it into the day-to-day business activities of the Firm.

Risk Framework

Risk within the Firm is managed by use of the following:

- The Board of the Firm is responsible for the total process of risk management and the Board, sets the risk strategy policies through the Risk Committee;
- The Firm has a conservative approach to risk;
- The Firm identifies it risks and records them in the Risk Register;
- The Risk Register is updated by risk owners on at least a weekly basis and all risks are managed and reviewed by the Head of Operations;
- The Firm undertakes stress tests on the most significant risks identified on a periodic basis. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be to its Balance Sheet;
- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate any risks;
- The Office of the CEO is accountable for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm. The Office of the CEO, through the Risk Committee, is also responsible for communicating the Firm's approach and commitment to establishing and maintaining an effective risk management framework and approach;
- The Office of the CEO is responsible for ensuring that employees are adequately equipped with appropriate tools, support and knowledge. They have made a considerable investment in software to enable those employees involved in Risk Management functions, at all levels, to fulfil their obligations with regards to the risks faced by the company.

Principal Risks

Credit Risk

The Credit Risk faced by the Firm consists of counterparty credit risk (as opposed to issuer risk) arising from cash deposits held at banks and other institutions. All cash deposits are held with highly rated clearing banks and counterparty exposures are monitored and kept under review with steps in place to reduce counterparty risk where market conditions require.

The possibility of concentration risk exists in the level of exposure to an individual counterparty. Credit policy is to monitor concentration risk across group companies, country exposure, credit rating and types of counterparty.

Credit Risk calculation

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component, the Firm has adopted the Standardised approach under Chapter 2 of the CRD and the Simplified method of calculating risk weights.

Credit Risk Capital Requirement	**Capital Component (000's)**
Credit risk capital component	$40
Counterparty risk capital component	$ -
Concentration risk capital component	$ -
Total	**$40**

Exposure classes (Article 112)	Exposure (000's)	Risk Weight	Risk Weighted exposure amount (000's)
Exposures to central governments and central banks	$13	0%	$0
(f) Exposures to institutions	$1,413	20%	$283
(g) Exposures to Corporates	$180	100%	$180
(q) Other Exposures	$36	100%	$36
Total	**$1,642**		**$499**

Credit Risk Capital Component: 8% of risk weighted exposure - **$40k**.

Additional quantitative capital requirements for Credit Risk have been considered by the Firm as part of the Pillar 2 calculation. The Firm has in place a robust Corporate Credit Policy. All customers are on boarded, and risks limits set up in line with the Credit Policy. The Credit Committee meets to assess each new customer which includes KYC checks. Customer assessments, with a full review and re-assessment of the customer's financial position are undertaken each year. Ad hoc reviews of individual customers can take place at any time. Any payment requests sent to a customer for payment are notified to the Head of Risk and any payment requests for the return of funds must be approved by the signatures of the Head of Risk and Chief Financial Officer.

Market Risk

Market Risk is the vulnerability of the Firm to an adverse movement in its assets or an increase in its liabilities based on changes in market prices. Traderight does not take any trading risk and does not hold any proprietary trading positions so does not have Trading Book potential exposure. Traderight's trading team act as an Order Passing Broker and Traderight does not execute any orders it receives in the course of business day.

Traderight does however have market risk as it is a USD denominated company and faces risk over its non-USD currency exposures. Although the base currency of LME traded contracts is in USD, one revenue stream is received in GBP and the principal liabilities of Traderight need to be met in GBP (personnel costs, rent and IT development).

Foreign Exchange risk is monitored by the daily reconciliation of the Cash Sheets which detail Traderight's balances across all currencies. All the balances have been stress tested to consider the effect that a large currency movement on a given day would have on Traderight's currency positions. Traderight can manage an unhedged adverse currency move of 20% on its foreign currency positions on any 1 day and continue to meet its funding obligations and has sufficient capital to meet the additional PRR requirement.

Position Risk calculation

Standardised approach for foreign exchange risk.

Exposure classes	Capital Component (000's)
Own funds requirement for foreign exchange risk (Article 351)	$80
Own funds requirement for commodities risk (Article 355)	$ -
Total	$80

Own funds requirement for foreign exchange risk (Article 151)	All Exposures		Net Exposures subject to capital charge
	Long (000's)	Short (000's)	(000's)
Total positions in non-reporting currencies	$1,058	$57	$1,001
Total			**$1,001**

Market Risk Capital Component: 8% of risk weighted exposure - **$80k**.

Operational Risk

The Firm, being a Limited Licence Firm is not subject to the Pillar 1 Operational Risk Requirement under Title III of Part Three of the CRR and therefore it is not required to calculate its operational exposure amounts.

However, the Firm does take into account as part of the Pillar 2 calculations the Operational Risk of a loss resulting from inadequate or failed internal processes, people activities, systems or external events. The Operational Risks are tracked and monitored by a risk owner who reports on the status and effectiveness of each risk on the Risk Register. The risk register is updated on a weekly basis. The Company Secretary is in charge of Operational Risk with other risk owners taking responsibility for their own business segment and reporting to him.

Operational Risks identified within the Firm, documented and managed by the respective risk owners as at 31 March 2017 include;

- Human Resources - Operational dependency on key individuals.
- IT and Technology - Systems failures, breakdown in security or loss of data integrity and business continuation.
- External providers - Insurance cover risk, pension obligation and access to premises.
- Regulatory and Compliance - Breach of regulatory requirements, leading to fines and reputational damage.
- Finance – Outsourcing of the Finance reports to external accountants. Risks of lost data, misreporting and returns not filed or incorrect.

Fixed Overhead Requirement

Given the classification of the Firm as a Limited Licence Firm, it is exempted from the condition to calculate an Operational Risk requirement. It is, however, required to calculate a Fixed Overhead Requirement ("FOR") in accordance with Article 97 of the CRR.

The Firm is required to hold eligible capital of at least one quarter of the budgeted 2016/17 fixed overheads.

The Fixed Overhead Requirement as at 31 March 2017 was $190k.

In accordance with Article 95(2) of the CRR, the combined risk exposure of Credit Risk and Market Risk ($120k) is less than the FOR ($190k) therefore the FOR forms the Firm's Pillar 1 capital requirement.

Other Risks

The nature and scope of the Firm's operations mean that it is exposed to a number of other financial risks that have a quantitative impact on its Pillar 2 calculation.

Interest Rate Risk

A rise in UK interest rates would lead to an expected increase in the value of GBP against USD by way of the interest rate parity theory. Revenues of Traderight are earned in USD and consequently make non-trading costs more expensive.

Liquidity Risk

Traderight is not a BIPRU ILAS firm or a significant IFPRU firm so exempt with the obligations in Part 6 of the EU CRR, namely COREP templates Category 4 Liquidity ratio. However, Traderight aims to ensure that it has constant access to an appropriate level of cash to enable it to finance its ongoing operations and reasonable unexpected events. The day to day liquidity management is performed by the Finance Department who calculate each day's opening multicurrency cash balances and the management of its liquid assets is designed to ensure liquidity even in highly stressed scenarios

Concentration Risk

Traderight has one route for the execution of trading and a new relationship with a market Clearing member is under discussion and is anticipated to give the Company further access to the market and the opportunity to expand on the range of products available..

Non-applicable Risks

Other than mentioned above, Traderight does not have any exposure to the following risks so these have not been considered:

- Non-trading book exposures in equities,
- Securitisation Risk,
- Residual Risk

Cyclical and Systemic Capital Buffers

Traderight, as an IFPRU Limited Licence firm, is not required to hold any Capital Buffers in addition to its Pillar 1 and Pillar 2 Capital requirements.

Overall Pillar 2 Rule

The Firm has adopted the Pillar 1 + approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

Overall the Pillar 1 requirement represents the Fixed Overhead Requirement of $190k which is greater than the combined Credit Risk and Market Risk of $120k.

The ICAAP assessment is presented to the Board on an annual basis. The ICAAP report is amended by the Firm when a material change to the business occurs and the Board is notified accordingly. The Office of the CEO reviews and endorses the ICAAP document. The Firm is subject to the disclosures under the Banking Consolidation Directive however, it is not a member of a UK Consolidation Group and consequently, does not report on a consolidated basis for accounting and prudential purposes.

Remuneration

The Firm is a Remuneration Code Proportionality Tier 3 Firm and has applied the rules appropriate to its Proportionality Tier.

In relation to the remuneration policy, the Company's underlying objective is to ensure that individuals are appropriately rewarded relative to their responsibility, experience and value to the Company. This objective is to be applied as consistently and fairly as possible to all Company personnel over a prolonged period of time.

The Firm has chosen to make a copy of its Remuneration Policy available in the legal section of its website: www.traderightuk.com.

FCA Remuneration Code

FCA Handbook SYSC19 sets out the application and purpose of the FCA Remuneration Code. The purpose of the Remuneration Code is to ensure that firms have risk-focused remuneration policies that do not expose them to excessive risk.

Remuneration Code Staff

FCA define Remuneration Code Staff as the following: Senior Manager; Risk Taker; Control Function. The remuneration of material risk takers and employees in control functions is subject to specific conditions laid down in FCA rule SYSC 19A.3.6.

In accordance with applicable guidelines once a year, subject to an annual assessment process the Board of Directors identifies employees in control functions and employees who are material risk takers.

Remuneration levels are also set by the board of directors on an annual basis. The link between pay and performance for Remuneration is Code Staff made up of fixed pay (i.e. salary and ancillary benefits) and discretionary performance-related pay. Performance-related pay is designed to reflect success or failure against a range of objectives.

The Firm provides incentives which are designed to link reward with the long-term success of the Firm and recognise the responsibility participants have in driving its future success and delivering value for stakeholders.

The structure of the remuneration package is such that the fixed element is sufficiently large to enable the Firm to operate a fully flexible variable remuneration policy.

Aggregate and fixed/variable remuneration cost for Code Staff

During the year ended 31st March 2017 there were 3 Code Staff. Aggregate fixed/variable remuneration expenditure in respect to Code Staff was £274K, of which £267K was fixed, comprising base compensation plus benefits.

Capital Resources

The table below sets out the Capital Resources of Traderight as at 31 March 2017, reflecting the regulatory capital return submitted at this date.

Capital Resources	**(000's)**
Common Tier One Capital (CRR Article 28)	
Ordinary Share Capital	$4,809
Non-cumulative Preference Share Capital	$ -
Share Premium Account	$6,398
Reserves excluding Revaluation Reserve	$ -
Audited Retained Earnings	$(9,120)
Externally verified interim net profits or current account	$ -
Total Tier One Capital	**$2,087**
Deductions (CRR Article 36)	
Investments in own shares	$ -
Intangible assets	$ -
Material interim net losses	$(503)
Total Tier One Capital after Deductions	**$1,584**
Upper Tier Two Capital	$ -
Lower Tier Two Capital	
Long-Term subordinated debt (> 5 years)	$ -
Amortisation as subordinated debt < 5 years	$ -
Total Lower Tier Two Capital after deductions	$ -
Total Capital Resources after deductions	**$1,584**

Pillar 1 Capital Requirement	**(000’s)**
Credit Risk	$40
Market Risk	$80
Fixed Overhead requirement	$190
Total Pillar 1 Capital Requirement	**$190**
Surplus Total Capital over minimum requirement	$1,394
Total Risk Exposure Amount	$2,380
Total Capital Ratio	66.56%