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Forte Securities Limited Pillar 3 Disclosure
27 December 2017

Introduction

Pillar 3 complements the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2). The requirements of the CRD have been outlined by the Financial Conduct Authority (FCA) rules and guidance within the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Investment Firms (IFPRU). Pillar 3 also incorporates the provisions of the Systems and Controls (SYSC 19) related to remuneration.

On 26 June 2013 the European Parliament and Council approved the Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD"), which together comprise CRD IV. This came in to force from 1 January 2014 with the CRR directly binding on all EU member states while the CRD needed to be incorporated into national law by the same date. CRD IV replaces the existing capital requirements for banks, building societies and a number of investment firms and, for firms within its scope, is applicable at a solo (entity), sub-consolidated and consolidated basis. Under CRD IV, Forte Securities Limited is deemed an IFPRU 125k firm (as defined by the FCA) and will complies with the EU CRR and the FCA's IFPRU handbook. CRD IV introduced a stricter definition of capital resources, increased capital requirements, increased reporting obligations (COREP), binding liquidity ratios and new requirements on remuneration. However, the exiting Pillar 2 ICAAP assessment, and the FCA's Individual Capital Guidance ("ICG"), is materially unchanged from the previous regime and has been effectively transcribed into the IFPRU handbook.

The changes arising from the implementation of CRD IV have been considered by the Firm in its ICAAP assessment, which shows that the Firm remains comfortably in excess of its minimum capital requirements under CRD IV.

This document has been developed and published by Forte Securities Limited ("FSL") in order to provide material information for market participants to assess key information about the Company's risk management objectives and controls, its remuneration policies and its capital position.

Overview

The Capital Requirements Directive IV ("CRD") of the European Union created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. The rules are set out in the CRD under three pillars:

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- Pillar 1 sets out the minimum capital resource requirement firms are required to maintain to meet credit, market and operational risks
- Pillar 2 requires firms to assess firm-specific risks not covered by Pillar 1 and, where necessary, maintain additional capital.
- Pillar 3 requires firms to disclose information regarding their risk assessment process and capital resources with the aim to encourage market discipline by allowing market participants to assess key information on risk exposure and the risk assessment process.

The rules in the PRA and FCA Prudential Sourcebook for Investment Firms ("IFPRU") set out the provision for Pillar 3 disclosure. This document is designed to meet our Pillar 3 disclosure obligations.

Frequency and Verification of disclosure

Future disclosures will be issued on an annual basis. The Pillar 3 disclosures have been reviewed and approved by the Company's Board. The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the financial statements.

This report will be published on FSL's website (www.fortesecurities.com)

FSL, established in 2008, is owned by its founder. FSL is authorised and regulated by the Financial Conduct Authority (FCA) and our FCA register number is 478424. The Company predominantly renders interdealer brokerage services and facilitation to wholesale institutional clients. FSL also has permission to hold client money. 95% of FSL's client base is categorised Eligible Counterparts with the balance being Professional clients. FSL does not facilitate business for 'Retail Clients' per FCA's definition.

According to IFPRU, and for capital requirements, FSL is classified as an IFPRU € 125,000 limited license firm, which holds client assets but does not trade on its own account. There are no current or foreseen material, practical or legal impediments to the prompt transfer of capital resources, or repayment of liabilities.

Risk Management and Governance

The board of FSL is the governing body ultimately responsible for the risk management regime, as well as ensuring that the governance and culture of the firm starts at the Board. The Board has a number of committees that report in to it together with monthly Management ("MI") which helps it to identify trends and issues that may require addressing. In addition to this, the Board reviews and determines the Business Model, ICAAP and other significant regulatory reports. Staff are regularly updated on major themes in the industry together with training on key risk areas as well as major initiatives within the firm. All of this is put into place to ensure the culture of good client outcomes, coupled with a strong culture of governance, are at the heart of the business.

FSL gives serious attention to risk control across the whole range of its activities with specific reference to the following functions:

- Organisational structure
- Business and Operational processes
- Compliance monitoring and reporting
- Staff development and integrity

FSL proactively manages the risks that arise from its operations and has identified Liquidity Risk, Credit Risk, Market Risk, Operational Risk, and Business Risk as the principal risks affecting the Company.

Because of the nature of its operations and business scope, FSL does not routinely expect to be materially exposed to Insurance Risk, Concentration Risk, Securitisation Risk, and Pensions obligation Risk. Although interest is not a material direct risk, variations in rates may have an impact on the Company's profitability from interest earned on cash balances.

FSL's directors and managers are fully involved in risk management and hold both regular and ad hoc meetings, and also weekly Risk and Compliance meetings where risk controls and risk events are discussed and, where necessary, action taken.

In addition to the above meetings, the Operations Department also regularly liaises with management regarding key operational issues, around on-boarding new clients and on-going KYC procedures.

FSL aims to maintain enough capital to exceed minimum capital adequacy requirements; the business is managed with an approach that seeks to minimise or mitigate identified risks that FSL is exposed to. The business aims to utilise working capital to its maximum potential to grow the Company and meets its business targets always recognising the importance of the balance between regulatory capital and making sound business judgements.

Capital Adequacy and ICAAP

FSL's overall approach to assessing the adequacy of its internal capital is documented in the Internal Capital Adequacy Assessment Process ("ICAAP").

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The ICAAP process includes an assessment of all material risks faced by FSL and the controls in place to identify manage and mitigate these risks. The risks identified are stress-tested against various scenarios to determine the level of capital that needs to be held.

Where risks can be mitigated by capital, the Company has adopted the new CRD IV reporting requirements for Pillar 1. Where the Board considers that the Pillar 1 calculations do not adequately reflect the risk, additional capital is added on in Pillar 2.

Whilst the ICAAP is formally reviewed by the Board once a year, Senior Management review risks and the required capital more frequently and will particularly do so when there is a planned change impacting risks and capital or when changes are expected in the business environment potentially impacting the ability to generate income.

Own Funds

The Company is an IFPRU 125k Limited License Firm because it does not deal for its own account or underwrite issues on a firm commitment basis. It holds Client Money. An IFPRU firm must maintain at all times capital resources equal to or in excess of the base requirement (€125,000). The Pillar 1 capital requirement for an IFPRU 125k Limited License Firm is set out in Article 95(2) of the CRR and 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 multiplied by 12.5). The “Total Risk Exposure Amount” (TREA), which is defined as 12.5 times the FOR is the amount used for Pillar 1 capital adequacy purposes.

The Company must maintain at all times capital resources equal to or in excess of the Pillar 1 requirement.

During the 12 month accounting period to 30th June 2017, the Company complied fully with all capital requirements and operated well within regulatory requirements. At the quarter end to 30 September 2017, the Company held the following capital position:

	£
ordinary share capital	250,097.00
share premium	0
other reserves	3
retained earnings	1,400,966.77
regulatory adjustments	0
Core Tier 1 Capital	1,382,183.54

Tier 2 Capital	874,270.00
Own Funds	2,256,453.54
Total Risk exposure amount	7,974,476.94
CET1 Ratio	17.33%
Tier 1 Capital Ratio	17.33%
Total Capital Ratio	28.30%

There are three tests of capital adequacy, which relate to the TREA figure.

Firms are required to have:

- Common Equity Tier 1 capital of 4.5% of TREA. Our minimum requirement based on the above TREA is £358,851.46 and we currently have a Common Equity Tier 1 Capital amount of £1,382,183.54 (17.33% of TREA);
- Tier 1 capital of 6% of TREA. Our minimum requirement based on the above TREA is £478,468.62 and we currently hold a Tier 1 capital amount of £1,382,183.54 (17.33% of TREA);
- Total capital (Own Funds) of 8% of TREA. Our minimum requirement based on the above TREA is £637,958.16 and we currently hold Own Funds of £2,256.453.54 (28.30% of TREA).

The Board are therefore comfortable that the Company is, and has been throughout the financial year adequately capitalised for Pillar 1 purposes. The Company holds approximately £2.599m in net funds as at year end. The Board is comfortable that this will ensure prudent capitalisation and cover for market downturns and other risks that may materialise in the short to medium term.

The Board constantly monitors the performance of the Company and capital adequacy is assessed at the monthly Board meetings and future liquidity aspects biannually. The Risk Committee and the Board will constantly monitor risks throughout the year and decide if additional capital should be held against them. Additional risks that supplement Pillar 1 requirements are detailed below and, where necessary, additional capital is provided.

MARKET RISKS

FSL is exposed to the following primary risk factors:

- Liquidity Risk

- Credit Risk
- Market Risk
- Operational Risk
- Business Risk

Other risks are reviewed on an on-going basis by the directors but are either not applicable to the Company or the risks involved are not material.

FSL uses a number of approaches to managing its exposure to the financial risks arising from its operations. The Company's financial assets consist of bank deposits, margins posted at various clearing providers and short term receivables.

FSL does not use derivative based instruments to effect risk management of its balance sheet and liquidity.

Liquidity risk
Liquidity risk is the risk that FSL will not have adequate cash flow to meet its operating expenses and other liabilities when they fall due.

FSL's policy is to ensure that it holds surplus cash resources in excess of regulatory capital adequacy in order to meet both current and foreseeable liquidity requirements.

Credit risk
Credit risk arises when FSL's clients are unable to meet their financial obligations. FSL maintains a close assessment of its counterparts and their respective credit ratings to mitigate this risk.

Most business is conducted on a DVP or current settlement basis. FSL does not therefore have any long term exposures. FSL has used the standardised method of calculating Credit risk under the new COREP reporting. The output of this plus any market risk is lower than the FOR which has been used for the purposes of Pillar 1.

Market risk

Market risk can be broadly defined as the risk of losses in the balance sheet positions arising from downward movements in market prices. FSL's commission income is affected directly by the value of the assets arranged. Market price risks arise from fluctuations in the value of financial instruments due to changes in market values other than those arising from interest rate or currency risk. FSL does not hold equity instruments on its balance sheet and is therefore not directly exposed to such risks. However, the assets held for clients, on which custodial fees are levied, are exposed to such risks. FSL can, from time to time hold fixed income instruments on its balance sheet to complement the return on its cash resources. Whilst this does represent a risk, it is not a material risk given the amount held in these securities is never more than 25% of the available cash/liquid resource of the firm.

Other Related Market Risks

Interest Rate Risk

FSL is not a bank or financial institution. Therefore it is not directly dependent on interest income. However, FSL does earn interest from the investment of surplus corporate funds and it also derives interest income on certain client balances. Therefore, any rise or fall in interest rates will affect profit margins but this is not considered to be critical to the overall profitability of the Company.

Foreign exchange risk

FSL does actively transact in foreign exchange instruments. As a majority of revenues are earned in non-base currency, there is a requirement to forward and spot hedge the foreign exchange exposures that FSL has.

Operational Risk

Operational risk is defined as the loss resulting from inadequate or failed internal processes, people and systems or from external events. These risks arise from failures or weaknesses in the internal systems and controls operated by FSL, including those which rely upon computer systems. FSL maintains a series of procedures and policies to mitigate operational risk and monitors these systems both through its management control and reporting processes and through its independent audit function.

Operationally, FSL is also exposed to the following risks:

- People
- Regulatory
- Technology

People

The business is heavily dependent on people. FSL ensures it employs people with the necessary skill sets appropriate for the business needs which require recruitment and development. To mitigate this risk there are competitive remuneration plans and deferred benefits targeted at these key employees. At all times, such arrangements are implemented in accordance with SYCS 19.

Plans also include retaining key employees while planning the loss of staff through leaving or redundancy. While neither is an ideal option, training and procedures ensure that such loss can be met and managed by departments without disruption to the business.

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Regulatory

Regulatory risk involves the loss arising from the failure to meet regulatory requirements in those jurisdictions in which FSL operates. The financial services sector is heavily regulated and breaches lead to fines or disciplinary action both for the Company and for individual staff. The Risk and Compliance function supports the business to meet such obligations. They closely monitor actual and planned changes in regulation to ensure ongoing compliance with regulatory standards and to this end the Company is assisted by professional consultants. The Company carries professional indemnity cover in excess of the minimum FCA requirement. Amongst day to day oversight of regulatory impacting matters, the Risk and compliance Committee meets regularly to assess the risks and compliance related topics that the Company and industry faces. Some of the major strategic areas such as Conduct, Governance, Financial Crime, Systems and Controls are also key areas that are overseen by the Board and the Risk and Compliance team. Staff receive training to address the key areas in the regulatory field.

Technology

FSL is reliant on technology to maintain is infrastructure. The technology is partly outsourced and party build in-house.

Significant investment has been made in core IT systems over the last few years as part of the strategy of upgrading and strengthening procedures and management information. This was also enhanced by the engagement of 3rd parties as IT consultants and advisers.

Business Risks

The FCA define business risk as those risks that arise from the fluctuations in the business cycle and economic conditions. Any deterioration in business or economic conditions could require a firm to increase capital or alternatively to contract its business at a time when market conditions are most unfavourable to raising capital.

Additional business risks which have been considered by the Directors are:

- Bank counterparty risk
- Trading counterparty risk
- Physical disaster risk

Non-financial risks

Non-financial risks are the risk that pose a threat to the successful functioning of the business. However, with careful monitoring and planning the impact does not suggest immediate financial exposure. The material non-financial risks faced by FSL are a follows:

Technical

Technical risk is described as an external advance rendering the IT system inoperable. This includes global virus and hackers. The IT team constantly monitor the security system to ensure threats are identified and deal with issues that compromise our ability to operate. More specific technical risks are mitigated through technology/operational risk management.

Political
A change in regime and political party can result in changes to local tax rates, investment attractiveness and other challenges. FSL's staff stay abreast of current tax guidance and political commentary to ensure that the Company is able to anticipate and plan for changes in the background.

Legal risk
This risk is failure to comply with laws, regulations, rules and standard codes of conduct. FSL relies on its employees to carefully consider the obligations it assumes and to comply with them and any relevant policies. The Company has retained legal counsel and external compliance consultants to provide advice where appropriate.

Distribution
Distribution risks arise from relationship management and concentration across different distribution channels and products. A broad range of distribution changes mitigate against a key dependency on any sales channel.

Competition risk
There is a risk of losing clients due to poor performance and poor communication. These events can be triggered by a failure to change along with market, the loss of key professionals, and poor training.
FSL has a policy of recruiting high quality staff and regularly reviews remuneration practices to ensure continuing competitiveness in order to maintain and motivate individuals.

Reputational risk
In managing a business which relies upon the continuing full trust of its clients, risk to the reputation of FSL is seen as fundamentally important. Such risk can arise from poor performance or communication or from external public criticism or regulatory censure. The impact of such factors can be material in that a loss of lcients will affect profitability as well as make it more difficult to attract new clients. In order to mitigate such risks the management maintains a high degree of oversight over FSL's activities and is backed up in its efforts by a Risk and Compliance function which reports directly to the CEO.

Risks which do not apply to FSL
The following risks do not affect FSL and are not reported upon:

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- Insurance Risk
- Securitisation risk
- Pension obligation risk

Remuneration Policy

FSL follows prescribed FCA guidelines within SYSC 19 Remuneration Code with regard to remuneration policies relative to the size of the Company. Remuneration is designed to ensure that the firm does not encourage excessive risk taking and staff interests are aligned with those of the clients.

The Board, as the Remuneration Committee, is directly responsible for the overall remuneration policy which is reviewed annually. The Company does not employ external remuneration advisers. Variable remuneration is adjusted in line with capital and liquidity requirements as well as the firm's performance. The Board will review the remuneration strategy on an annual basis together with the Code Staff.

FSL ensures that its remuneration structure promotes effective risk management and balances the fixed and variable remuneration components for all Code and Non-code staff. Total Remuneration is based on balancing both financial and non-financial indicators together with the performance of the firm and the staff member's business unit. The firm will monitor the fixed to variable compensation to ensure SYSC 19 is adhered to with respect to Total Compensation where applicable.