



## PILLAR 3 DISCLOSURES

For the period ended 31st December 2019



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## 1. Introduction

These Pillar 3 disclosures are made annually (or more frequently if necessary) by Swissquote Ltd ("the Company") and have been prepared in accordance with the requirements of European Union's Capital Requirements Directive ("CRD" or "the Directive") as implemented by the Financial Conduct Authority ("FCA").

The purpose of the disclosure is to encourage the stability of the financial markets by allowing market participants to assess key information on Company's capital adequacy and risk and control processes. The required disclosures are specified under Part 8, Articles 434-455 of the Capital Requirements Regulation ("CRR").

The CRR is constituted by three Pillars:

Pillar 1	Establishes the minimum capital requirements in respect of credit, market and operational risk exposures and calculations of minimum levels of Own Funds Requirement ("OFR")
Pillar 2	Requires the assessment of whether the Company's Pillar 1 capital is adequate to meet risk exposures and calculate of the amount of capital that should be held against those exposures and forms the basis of the Internal Capital Adequacy Assessment Process ("ICAAP").
Pillar 3	Requires the public disclosure of specific information about the underlying risk management controls and capital position.

Pillar 3 disclosures are made where the regulations apply to the Company. The Pillar 3 disclosures made within this document have been reviewed by the Board of Directors.

The aim of Pillar 3 is to encourage market discipline by developing a harmonized set of disclosure requirements which allow market participants to assess key pieces of information on Swissquote's capital, risk exposure and risk assessment processes.

The rules are set out within Articles 431-455 of the CRR and this document contains the disclosures required under these rules unless they have been assessed as not material or rare of a proprietary or confidential nature to the firm.

These Pillar 3 disclosures are not subject to external audit.

Quantitative disclosures are made as at 31 December 2019 and are made as soon as reasonably possible after the completion of the annual financial statements. Any disclosure described herein apply to the Company on an individual basis.

## 1.2 Frequency of disclosure

The disclosures are required to be made on an annual basis at a minimum and, if appropriate, some disclosures will be made more frequently. The quantitative disclosures are made as at 31 December 2019. They are published in conjunction with the consolidated financial statements of Swissquote Ltd for the period to 31 December 2019.

## 2 Background information

Swissquote Ltd is based in the United Kingdom and is authorised by the FCA (registration number 562170). The Company provides online foreign exchange, commodities and stock indices trading services for traders based in the European Union. The Company executes trades in an agency capacity and uses the Group to execute its clients' trades.

The Company's revenue is primarily earned from the mark-up spread applied to clients on market prices received from the Group (in its capacity of liquidity provider).

Therefore the Company is dependent upon transaction volumes, regardless whether the clients' trading is profitable or not (except that profitable clients are likely to generate sustained trading volumes).

Swissquote Ltd is part of the Swissquote Group with its ultimate shareholder of the Company being Swissquote Group Holding Ltd ("the Parent Company"), which is listed on SIX Swiss Exchange since 29 May 2000.

Swissquote Group Holding Ltd:

Ticker symbol	Reuters SQZ.S Bloomberg SQNSW Telekurs SQNt
Security number	1067586
ISIN number	CH0010675863
Investor relations	<a href="https://en.swissquote.com/company/investors">https://en.swissquote.com/company/investors</a>

The Parent Company and its subsidiaries provide online financial services that mainly consist of the services provided by Swissquote Bank Ltd ("the Bank"). The Bank was incorporated on 24 November 2000 and is a bank under the supervision of Swiss Financial Market Supervisory Authority FINMA ("FINMA").

### 3 Governance Framework

The Company is committed to having corporate governance, risk management and control framework appropriate to its size and level of risk within the business. As an FCA regulated firm, we are committed to the implementation of good corporate governance and to being accountable and transparent for our decisions and activities.

As of 31 December 2019, the Board of Directors comprises of:

Markus Bürki	Chairman of the Board Non-Executive Director
Gilles Chantrier	Non-Executive Director
Federico Cirulli	Executive Director CEO of the Company
Jude Bahnan	Non-Executive Director

The Board of Directors has overall responsibility in relation to the risk management of the Company.

- ▶ The Directors of the Company determine its business strategy and the risk appetite. The Company's mission is to become a leading provider of foreign exchange trading and other complementary leveraged financial derivative products to retail clients primarily in the European Union.
- ▶ The risk appetite is defined by the Directors as the level of risk that the Company is prepared to sustain whilst pursuing its business strategy.
- ▶ The Directors have designed and implemented a risk management framework that recognizes the risks that the Company's business faces. The Directors have also determined how those risks may be mitigated and the Directors assess on an ongoing basis, the controls and procedures necessary to manage those risks. The Board has put in place a set of high-level principles and key risk indicators, which are a balance of quantitative and qualitative measures that provide an indication of increasing or reducing risk levels over an appropriate time horizon

The Company review at least annually its Internal Capital Adequacy Assessment Process ("ICAAP") which includes an assessment and quantification of the risks that the Company is exposed to.

The nature, scale and complexity of the business requires the Company should have separate committees below the Board level. Therefore, the Company formed the Audit, Risk and Compliance Committee. The members of this committee are; executive and non-executive directors of the company as well as the compliance officer and vice director. This committee meets at least every quarter.

The Audit, Risk and Compliance Committee is responsible for establishing and maintaining risk policies and procedures underpinning the firm's risk governance framework, which aims to:

- Identify material risks and exposures
- Ensure adequate mitigation and controls are in place to reduce risks
- Conduct periodic 'deep dives' into key risk areas
- Ensure that we meet regulatory requirements and guidance

Also, The Board meets regularly to discuss all aspects of the business including adherence to client money regulations, controls and procedures. Additional levels of assurance are provided by senior managers namely SMF1, SMF16, and SMF17. These control functions provide reporting to the Board of Directors as appropriate.

## 4 Risk Appetite

### 4.1 Credit risk

Credit risk is the potential for financial losses to the firm due to the default or deterioration in credit quality of a client or counterparty. Credit risk arises from deposits with banks and financial institutions, as well as from the credit exposure to customers.

We mitigate the probability of client default by limiting client activity to those clients of good standing with fully funded accounts. Clients may only trade with the availability of credited, free funds sitting on their Swissquote accounts. It is feasible that clients may go into deficit in a fast-moving market or for various other reasons. In order to further mitigate this risk, we have systems in place to electronically monitor exposure and staff to further protect both the client and us from an account going overdrawn.

All financial institutions are evaluated for credit worthiness and exposures are monitored on a regular basis. Customer cash is managed in accordance with FCA Client Money rules and is held in bank accounts with authorized institutions. Under these rules and to safeguard its security, customer cash is segregated from the Company's cash.

The credit risk in respect of customers arises from a customer's trading position going into deficit through incurring a loss in excess of the required margin deposit. The trading platform provided to customers compares in real time client margin deposits with potential losses, and where margin deposits are insufficient, will close out immediately all open positions to avoid a debtor position occurring (in normal market conditions).

From time to time, the Company is exposed to its affiliate companies with respect to intercompany balances that are not cleared. The Company monitors this exposure as well in accordance with the limits defined by the Board of Directors. For the purposes of risk management, the Company does not consider Group risk as a standalone risk category. Instead the consequences of Group risk are considered as part of the other risk categories.

The firm has elected to adopt the standardised approach in order to calculate the minimum credit risk capital requirement. Under the standardised approach, firms must calculate the capital requirement as 8% of the exposure value, risk-weighted according to the CRR by exposure class and contractual maturity.

### 4.2 Liquidity risk

The risk arises primarily from funding client open positions. All trades are on a matched-principal basis with the Group, which provides funding to the Company.

Liquidity risk also arises from the risk of not being able to liquidate investments in a timely manner. To mitigate this risk, the Company maintains sufficient liquid cash resources. Anyway, given the short-term nature of the Company's financial assets and liabilities and the support of the Group, the Company has sufficient liquid assets available to meet its liabilities. Liquidity is of critical importance to us and the liquidity position is monitored daily to ensure we hold sufficient resources to cover our obligations under both normal and stressed operating conditions. Whole of client money is held by the firm in trust for its clients and is therefore excluded from available resources.

#### 4.3 Market risk

Market risk is the risk of loss in the value of inventory, as well as certain other financial assets and liabilities, due to changes in market conditions. The Company trades on a matched-principal basis with the Group and takes no proprietary positions and hence is not exposed to direct market risk.

Foreign exchange risk	The functional currency is GBP but the Company operates on a cross-border basis, hence has assets and liabilities denominated in other currencies and is exposed to movements in foreign exchange rates. The Company seeks to mitigate its exposure by minimizing the exposure in other currencies.
Market liquidity risk	It represents the risk that the level of expected market activity changes dramatically and, in certain cases, may even cease to exist. This situation resulting in the inability for a market participant to liquidate a position in a timely manner at a reasonable price. The effects of the market liquidity risk can result into a price impact of trading activity and/or a postponed trading execution. This exposes the Company to the risk that it will not be able to transact business and execute trading in an orderly manner which may affect the results and/or client account balances. The Company mitigates the risk through real-time monitoring of client positions and stress testing scenarios.
Interest rate risk	Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. As the Company does not hold any material assets or liabilities subject to interest rates, this risk is considered as Insignificant.

#### 4.4 Operational risk

The operational risk is defined as the risk of direct or indirect losses resulting from inadequacy or failure attributable to procedures resulting from human, systems or external factors. The following list presents some event types of operational risk:

- Fraud (internal or external),
- Litigation,
- Business disruption,
- Information security,
- Breakdown in processes.

This risk is mitigated by the Company's systems of internal controls, policies and procedures. The Company is highly dependent on outsourced services to its affiliate companies. The affiliate companies are backed by the systems and controls in place to supervise the outsourced units.

#### 4.5 Unforeseen Risk (COVID-19)

Since December 2019, the whole World have got to know the new virus called COVID-19 which spread so fast and proof itself to be very deadly. Millions of people expected to catch the virus and hundreds of thousands are expected to die because of this invisible enemy. Economies have been shut down all around the World, billions of people have been lockdown and as result, 2020 will create the worst crisis ever recorded in modern life.

It is needless to say, this will have unprecedented impact on financial markets. Swissquote Group has prepared itself since the beginning the pandemic and Swissquote Ltd, as an affiliate, acted accordingly to make sure it maintains its strong financial position and serve its clients business as usual. Therefore, all necessary measures have been taken to provide our services to clients uninterrupted.

## 6. Capital resources

Swissquote's capital resources consist entirely of Common Equity Tier 1 capital (CET1), which is calculated as common shareholders' equity, adjusted for specific deductions for disallowed items. We do not currently have any Tier 2 or Tier 3 capital instruments. As of 31 December 2019, The Company maintains sufficient capital to meet its regulatory requirements and takes a prudent approach to the management of its capital base.

The amount and type of own funds (also referred as "Capital resources") of the Company is set out in the table below:

Own funds/Capital resources	31 December 2019 (amounts in GBP)	31 December 2018 (amounts in GBP)
Equity share capital	4,260,100	4,260,100
Other reserves	2,000,000	2,000,000
Retained earnings, including profit for the year (if audited)	(296,092)	(314,978)
<b>Total Tier 1 capital</b>	<b>5,964,008</b>	<b>5,945,122</b>
Less: deductions from Tier 1 capital	-	-
Total Tier 2 capital	-	-
<b>Total Capital resources</b>	<b>5,964,008</b>	<b>5,945,122</b>

As the Company is a Limited Licensed firm, the Company's Pillar 1 capital requirement is calculated as the higher of (1) the sum of its market and credit risk capital requirements and 2) the Fixed Overhead Requirement, which is based on one quarter of the Company's relevant fixed expenditure as per the Company's most recent audited annual accounts.



<b>Pillar 1 Capital requirements</b>	<b>31 December 2019 (amounts in GBP)</b>	<b>31 December 2018 (amounts in GBP)</b>
Credit risk	346,227	464,284
Counterparty risk	501,870	498,017
Market risk	300,788	998,686
<b>Total sum of market risk and credit risk capital requirements</b>	<b>1,148,885</b>	<b>1,960,987</b>
<b>Fixed Overhead Requirements</b>	<b>673,713</b>	<b>673,713</b>
<b>Total Pillar 1 Capital requirement</b>	<b>1,148,885</b>	<b>1,960,987</b>
Total risk weighted exposure	14,361,063	24,512,337

  

Excess of capital resources over capital requirements	4,815,123	3,984,225
<b>Total capital ratio (%)</b>	<b>41.53%</b>	<b>24.2%</b>

The Company monitors its capital ratio on a monthly basis and reports the results to the Senior Management. This includes actual business performance to date, budget analysis and any known changes in regulatory requirements.

The Company also carries out an Internal Capital Adequacy Assessment Process ("ICAAP") to determine if any additional Pillar 2 capital is required. The outcome of the ICAAP is formally approved by the Board of Directors at least annually. We perform a formal internal assessment of capital adequacy annually or more frequently if required by the Board or ARCC to inform strategic planning. The objective of the ICAAP is to be a comprehensive assessment of the risks to which the firm is exposed and covers risks against which capital is a mitigant, in addition to those risks for which mitigants other than capital are considered to be appropriate.

The ICAAP is the mechanism that the FCA requires a regulated firm to use to assess the level of internal capital that it considers adequate to cover the nature and level of risk to which it is or might be exposed. The ICAAP process includes an assessment of specific risks to the Company's business, the likelihood of these risks occurring and controls implemented to mitigate these risk. Pillar 2 covers any risk not fully addressed in Pillar 1.

Capital adequacy is also evaluated from a range of different perspectives to ensure continuity of our operating model, including under various stressed market conditions and plausible idiosyncratic events severely impacting profitability. The results of stress testing are reviewed in the context of the overall risk framework, in particular liquidity adequacy, and used to supplement our overall evaluation of capital adequacy.

The ICAAP is an integral part of the firm's overall governance framework and is formally overseen and approved by the Board. The internal document and underlying risk processes are reviewed and challenged by ARCC.

## 6. Remuneration

This note has been prepared in accordance with the criteria set out in CRR Article 450, where aggregate remuneration comprises base salaries, bonuses, pension contributions and benefits in kind.

The Company seeks to attract and retain employees, who are motivated by its culture, highly ethical business standards and reputation. The Company's remuneration policy promotes staff retention and loyalty.

Given the size and the nature of the Company, the Directors considers that it does not need to maintain a separate remuneration committee. This decision will be reviewed by in the event of any material changes in the business.

In accordance with FCA's code of practice, the Company is required to implement and maintain a remuneration policy, procedures and practices for all Directors and employees that are consistent and promote sound effective risk management.

Details of the remuneration paid to the Company's staff and directors in 2019 is as follows (amounts in GBP):

	Fixed	Variable	Total
Board of Directors and Senior Management	287,000	102,578	389,578
Staff	816,736	396,280	1,213,016
<b>Total</b>	<b>1,103,736</b>	<b>498,858</b>	<b>1,602,594</b>

As part of the Swissquote Group, the Company is subject to the Group's remuneration policy, which is seen as an important component of the Group's corporate framework. Since 2001, it has been the Group's policy to issue annually a Remuneration Report. The Group Remuneration Report provides information on the remuneration policy and the components of the remuneration, and reports on the type and size of payments made during the period under review. The Group Remuneration report is available on the Group website(<https://en.swissquote.com/company/governance>).