Pillar 3 Disclosures

GAIN Capital UK Limited

December 2015

Contents

1. Overview

1.1. Introduction

The Pillar 3 disclosure is part of the overall Basel III framework created by the Basel Committee on Banking Supervision. European Investment firms, like GAIN Capital UK Limited ("GCUK") are subject to the Basel III framework through requirements set out by the EU under its Capital Requirements Directive ("CRD IV"). This framework consists of three Pillars that are used to regulate, supervise and improve the risk management of firms in the financial industry. The three Pillars are:

- **Pillar 1 – Minimal Capital Requirements** – This ensures that GCUK maintains a sufficient amount of capital above its minimum requirement at all times. This is monitored not only on a daily basis, but also intra-day through live risk monitors.

- **Pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review Process (SREP)** – This ensures that firms and supervisors actively assess the various risks that a firm faces, and develop systems and controls to manage and reduce those risks.

- **Pillar 3 – Market Discipline –** The purpose of Pillar 3 is to promote market discipline through regulatory disclosure, allowing market participants to view and compare meaningful information relating to the firm and its peer's management of risk exposure, controls and regulatory capital.

This Pillar 3 disclosure is compiled in line with the current EU CRD IV and its accompanying Capital Requirements Regulations ("CRR") as implemented under the Financial Conduct Authority ("FCA") Handbook as well as GCUK's own internal Pillar 3 policy.

1.2. Frequency and Scope of Disclosure

GCUK is a private limited liability company incorporated in England and Wales.

GCUK's immediate parent company is GAIN Capital Holdings Limited ("GCHL"), a company incorporated in England and Wales. The ultimate parent company and controlling party is GAIN Capital Holdings Inc., which is incorporated in the US.

GCUK is consolidated into the GAIN Capital Holdings Limited group ("Group"). However, as GCUK is the only firm regulated by the FCA[1] within the Group, this document only discloses information pertaining to GCUK on a solo basis as is required under Part Eight of CRR.

GCUK publishes its Pillar 3 disclosure document annually on its website at http://www.cityindex.co.uk/important-information.aspx under the Pillar 3 section, with further additional disclosures being made if significant changes to the business require an update to the document.

GCUK is not aware of any current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities between GAIN Capital Holdings Ltd and its subsidiary undertakings except to the extent required by the regulatory capital or liquidity requirements.

Intragroup transfer of capital is subject to an annual review as part of the firm's ICAAP.

[1] As a non-significant investment firm.

2. Risk Management Objectives & Policies

2.1. Governance Framework

GCUK's Risk Management Framework is set out in Figure 1 below and provides the governance framework for the Company for managing its risks and controls.

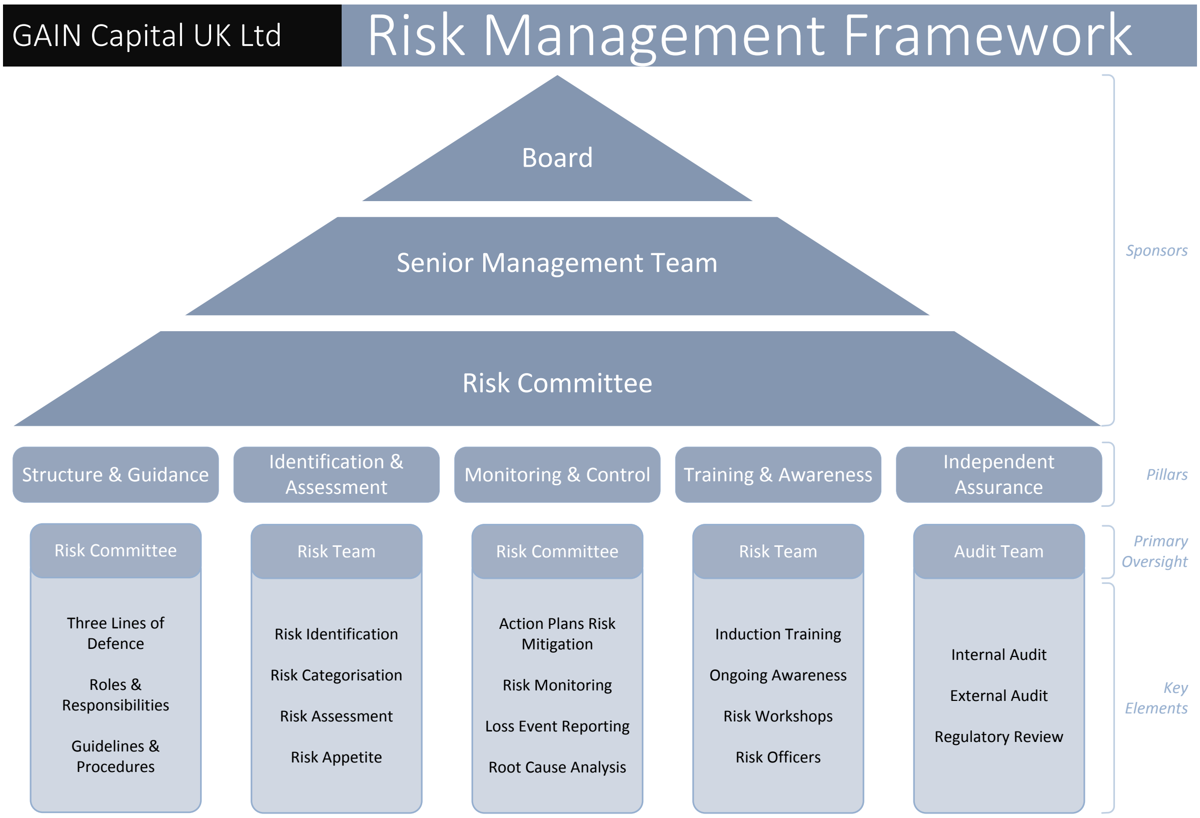

Figure 1 – Risk Management Framework

GCUK's governance structure has recently been updated to reflect the advantages of being a part of the wider GAIN Capital group. This has enabled GCUK to enhance its ability to identify, assess and manage risks by adding new innovative systems to an already robust set of internal controls.

The group wide risk management process seeks to identify, assess, control, monitor and report risks that could materially impact the Group's ability to achieve the objectives that it has set out. This serves as a key platform for a sustainable business that can survive during volatile market events.

The Group Risk Committee ("GRC") is responsible for establishing and maintaining risk policies and procedures for the Group's risk governance framework, which aims to:

- identify all material risks that the Group is exposed to;

- assess the potential for loss caused by an internal or external exposure;
- monitor exposure on a continuous basis;
- ensure adequate controls and mitigation is in place to reduce risks;
- ensure that incidents are captured; and
- ensure that we meet regulatory requirements and guidance.

Additionally, the GCUK governance framework is based upon the following five principles:

- Structure and Guidance.
- Identification and Assessment.
- Monitoring and Control.
- Training and Awareness.
- Independent Assurance.

2.2. Risk Management Framework

The GCUK Board has the oversight of risk management and is responsible for ensuring maintenance of effective systems and controls for managing internal and external risks that may materially affect the entity's operations. The Board delegates the responsibility to the GRC for the establishment and maintenance of policies and procedures related to risk management, and in particular, the maintenance of the Group Risk Policy ("GRP").

GCUK's approach to managing risk is to operate a Three Line of Defence model (as shown in figure 2 2), which clearly defines responsibilities.

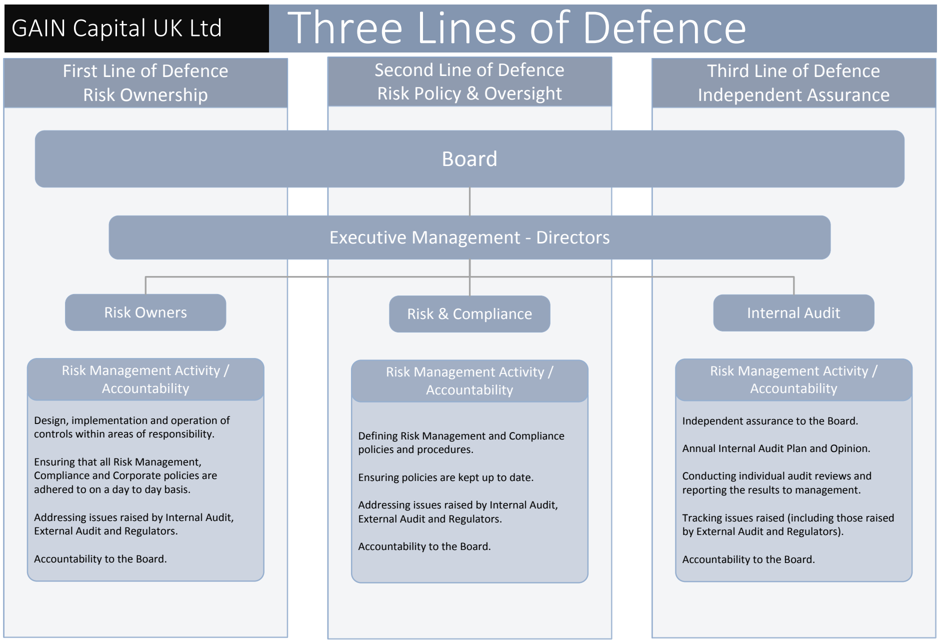

Figure 2 – Three Lines of Defence Model

As illustrated in Figure 2, the first line of defence is the Risk Owners. They are the individuals who are accountable for risks identified in their area of the business, and who have the authority to make decisions to ensure that the balance between risk and reward is appropriate.

The second line of defence relates to the oversight by Risk and Compliance as they review and challenge the risk related decisions made by the risk owners.

The third line of defence is an independent review of the risks that are identified, assessed and approved by the first two lines of defence. It seeks to add assurance to the stakeholders that GCUK has adequate internal controls and processes in managing risks.

3. Capital Resources

3.1. Total Capital Ratio

Table 3 shows the capital resources for GCUK as at 31st December 2015 as part of the Pillar 1 calculation and is derived from the audited Financial Statements

Table 3 – Total Capital Ratio & Risk Exposure

	31 December 2015[2] £m	31 March 2015 £m
Common Tier 1 Capital	86.8	65.8
Total Risk Exposure Amounts *(see below for breakdown)*	462.7	375.7
Total Capital Ratio (%)	*18.8%*	*17.5%*
Breakdown of Total Risk Exposure Amount:		
Operational Risk Requirement	100.0	97.5
Counterparty Risk Requirement	89.4	57.1
Credit Valuation Adjustment	7.0	7.9
Market Risk Requirement	266.3	213.2
Total Risk Exposure Amounts	462.7	375.7

3.2. Tier 1 Capital

Tier 1 capital consists of ordinary share capital, share premium and audited retained earnings.

Deductions are made in respect of intangible fixed assets and deferred tax asset.

3.3. Tier 2 Capital

GCUK does not hold any Tier 2 capital.

[2] GCUKs previous year-end was 31st March 2015, December 2015 accounts were produced for a 9 month period only.

3.4. Operational Risk Requirement

Operational risks are inherent in any business's activities. The operational risk exposure for GCUK is no different and covers a broad range of risks, reflecting the potential economic losses that might be sustained due to failure of controls or processes. However, operational risks need not be restricted to those due to failures of the firm. Industry wide events may create loss for the firm, through no fault of its own. For example, reputational damage may cause a loss of revenue due to the behaviour of peers rather than GCUK.

GCUK's method for calculating the Pillar 1 capital requirement is based on the basic indicator approach. This approach sets the capital requirement as 15% of the gross income, averaged over the last three years. If the income in any year is negative or zero, that year is not considered in the average. See Section 4.6 for further details on how we as a firm manage Operational Risk.

3.5. Credit and Counterparty Risk

A counterparty is any party who enters into a contract or financial transaction with GCUK and can include contracts with clients, credit institutions (banks), prime brokerages, central counterparties as well as any other financial and non-financial institutions.

Counterparty risk (also known as counterparty credit risk or default risk) is the risk that a counterparty fails to fulfil their obligations under a contract or financial transaction, which results in a financial loss to GCUK. The risk is calculated by taking into consideration both the exposure to, and the credit worthiness of the counterparty.

All credit and counterparty risk calculations are calculated under standardised methodology- no internal models are used. Further details can be found in Section 4.1 under credit risk along with a breakdown of the counterparty risk exposure in Tables 5 and 6.

3.6. Credit Valuation Adjustment

The credit valuation adjustment is the risk that a counterparty to a derivative instrument becomes less credit worthy during times of market stress, which could lead to financial loss. This is in effect an add-on to the counterparty risk exposure. An adjustment amount is applied to take into account of any possible adverse impacts that GCUK may have against counterparties when financial markets are stressed.

3.7. Market Risk

Market risk is the risk of financial loss to GCUK caused by adverse movements in the price of the positions that GCUK holds. All market risk calculations are calculated under standardised methodology- no internal models are used. Further information on market risk can be seen in Section 4.2.

3.8. Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process ("ICAAP") is a key aspect of GCUK's assessment of the effectiveness of its risk controls and management. The ICAAP allows the firm to assess the level of capital that adequately supports all relevant current and future risks to the business. It is through the ICAAP that GCUK assesses the additional capital that is required under Pillar 2 of the Basel framework

The ICAAP is periodically updated, which has aided in reflecting and managing this risk arising from recent changes to the Company's structure and the business environment.

3.9. Capital buffers

GCUK, other than for its Pillar 2 requirement, is not bound by other buffer requirements under the CRR. The firm is not a systemically important firm and it does not require a countercyclical buffer ("CCyB") as it is a non-significant investment firm[3]

[3] Article130 of CRD IV derogates the power to supervisors to not apply the CCyB to 'medium sized investment firms'. The FCA has exorcised this power under IFPRU 1.2.1, while GCUK fulfil the non-significant firm definition as per IFPRU 1.2.3.

4. Principle Risks

The Board is responsible for overseeing and managing the principal risks of the business. GCUK seeks to mitigate its risks through the application of limits and controls and regular monitoring operational level, and the use of hedging instruments and insurance policies. GCUK's existing risk management tools continue to be enhanced by the on-going development of a real-time risk management system across all products.

The principal risks and uncertainties faced by the Company are primarily financial risks. The principal non-financial risk faced by the Company is operational risk. All of these risks are summarised further below.

4.1. Credit Risk

GCUK's trading operations require commitment of capital and involve risk of loss because of the potential that a customer's losses may exceed the amount of cash in their account. While the firm is able to closely monitor each customer's exposure, it does not guarantee its ability to eliminate negative customer account balances prior to an adverse currency price change or other market events. Changes in market conditions or unforeseen extreme market events could result in GCUK's customers experiencing losses in excess of the funds they have deposited with it. In such an event, the firm may not be able to recover the negative client equity from its customers, which could materially adversely affect our results of operations. In addition, if GCUK cannot recover funds from customers, it may nonetheless be required to fund positions that it holds with liquidity providers or other third parties. In such an event, the firm's available funds may not be sufficient to meet such obligations, resulting in a materially adversely affect for GCUK's business, financial condition, results of operations and cash flows.

4.1.1. Banking book equity exposures

GCUK does not currently possesses any banking book equity exposures.

4.1.2. Margin agreements

In order to help mitigate credit risk, each trade must be collateralised in accordance with GCUK's margin policies described below. Each customer is required to have minimum funds in their account for opening positions, referred to as the initial margin, and for maintaining positions, referred to as variation margin, depending on the product being traded. Margin requirements are expressed as a percentage of the customer's total position in that product, and the customer's total margin requirement is based on the aggregate margin requirement across all of the positions that a customer holds at any one moment in time. Each net position in a particular product is margined separately. Accordingly, the firm does not net across different positions, thereby following a more conservative margin policy.

GCUK's systems automatically monitor each customer's margin requirements in real time, and the firm confirms that all customers have sufficient cash collateral in his or her account before trades are executed. GCUK may also adjust required customer margins (both initial and variation) from time to time based on monitors for various factors, including volatility and liquidity. If at any point in time a customer's trading position does not comply with the applicable margin requirement, the position may be automatically liquidated, partially or entirely, in accordance with GCUK's margin policies and procedures. This policy protects both the firm and the customer. GCUK's margin and liquidation policies are set forth in our customer agreements.

4.1.3. Bad debt provisions

The majority of the provision as at 31st December 2015 is made up of balances brought forward, which relates to legacy aged debtor balances that had been outstanding from prior periods.

The Company policy is for a bad debt provision to be made against any client debt which falls due and remains outstanding after 30 days. The total bad debt provision for 2015 is shown in Table 4 below:

Table 4 – Bad Debt Provision

	31 December 2015 £m
Provision as at 1st April 2015	16.4
Release of provisions	(0.3)
Increase in Bad Debt Provision	1.3
Provision as at 31st December 2015	17.4

4.1.4. Counterparty credit risk

GCUK is also exposed to potential credit risk relating to the counterparties with which it hedges its trades and the financial institutions with which it deposits cash. The firm mitigates these risks by transacting with several of the largest financial institutions in the world. In the event that GCUK's access to one or more financial institutions becomes limited, its ability to hedge may be impaired.

Due to the nature of the business, GCUK's counterparty credit risk exposure maturity profile is typically short term (less than 3 months) with any exposures of greater maturity being of an immaterial nature and size.

Table 5 provides a breakdown of GCUK's overall counterparty credit risk exposure by asset class as at 31st December 2015

Table 5 – Counterparty Credit Risk Exposure by Asset Class

	31 December 2015 £m
Institutional	41.1
Corporates	0.6
Retail	5.3
Other Items	42.3
Total Counterparty Risk Exposure	89.4

Table 6 provides further analysis of the total counterparty risk exposure by geographical region as at 31st December 2015:

Table 6 – Counterparty Risk Exposure by Geographical Region at 31st December 2015

	UK £m	Europe £m	North America £m	APAC £m	Rest of the World £m	Total £m
Institutional	28.7	0.0	7.5	4.9		41.1
Corporates	0.5	0.1				0.6
Retail	4.3	0.5		0.2	0.3	5.3
Other Items	42.3					42.3
Total Counterparty Risk Exposure	75.8	0.7	7.5	5.1	0.3	89.4

Note that segregated client money held under trust does not form any part of the above credit exposure in line with CRD IV requirements.

GCUK's institutional counterparties are assessed for their credit worthiness. The firm uses External Credit Assessment Institutions ("ECAI") to validate the credit ratings of all institutional counterparties, and ensure that it does not trade with entities rated below "BBB-". Any unrated firms on GCUK's books relates only to internal group entities[4].

[4] Note that the firm has chosen not to disclose the names of the ECAI's used as the firm judges that this information is immaterial given the small size of our non-customer credit risk book

4.2. Market Risk

GCUK and its wider group of entities is able to materially diversify its market risk through either:

Natural hedging: whereby hedging is achieved by offsetting opposing long and short positions taken by a portfolio of clients with differentiated trading strategies.

Hedged by the firm: whereby GCUK enters into a hedge position with its wholesale liquidity providers, offsetting any significant residual market risk exposure.

Although GCUK aims to hedge its material market risk exposure, it is exposed to the basis risk, or the risk that there is a variation between the pricing of a position and its hedge driven by, for example, the difference in time of trade execution of both legs. .. Other hedging strategies include those through offsetting trades with one of GCUK's liquidity providers.

Table 7 provides a breakdown of GCUK's trading book market risk exposure as at 31st December 2015:

Table 7 – Market Risk Exposure by Instrument Type

	31 December 2015 £m
Traded debt instruments	7.3
Equity	99.6
Foreign Exchange	131.5
Commodities	27.9
Total Market Risk Exposure	266.3

GCUK's market risk is managed both at a group-wide and an entity-level basis and the firm's overall appetite for market risk is established by the Group Risk Committee. Periodic changes in the allocation of risk appetite between market risk types and between legal entities are managed by the Chief Risk Officer and Global Head of Trading, with material re-allocations being discussed with and approved by the Risk Committee during its monthly meetings.

Market risk is the most volatile risk to which GCUK is exposed, especially during market conditions in which there is high degree of uncertainty. As a result, the firm has taken several steps to ensure that it uses robust controls, the main ones of which are identified below. This allows for the management of market risk within GCUK's risk appetite.

4.2.1. Trading Mandates

Trading limits are set based on the instrument class and specific instruments. These trading limits are monitored and amended on a regular basis, including different limits based on when markets are open or closed as this can affect the spread and therefore the price volatility of an instrument.

4.2.2. P&L Loss Limits

GCUK has measures in place that limit the amount of losses that the firm would be exposed to across its entire portfolio. This prevents the firm from running any unnecessary risk longer than it needs to by increasing the amount hedged Ensuring that it can continue to operate even in stressed market conditions without breaching capital requirements.

4.2.3. Capital Risk Monitors

GCUK has developed proprietary applications that ensure that the firm manages exposures in real time, thus reducing its margin period of risk. This information is available to the trading and risk teams as well as senior management, and is supplemented by automated alerts when internal limits are reached.

4.3. Currency Risk

The principal currencies in which the Company trades are British Pounds ("GBP"), Euros ("EUR") and United States Dollars ("USD"). This gives rise to currency risk on the translation of its net current assets (mainly net funds held on behalf of clients) together with a currency risk on the conversion of its non-GBP income into GBP. The Company hedges both its trading and non-trading book FX risk on a daily basis.

4.4. Liquidity Risk

Liquidity risk is the risk that GCUK fails to meet its obligations to settle liabilities that are due because of insufficient cash or liquid assets to meet that liability.

Under normal conditions, providing online trading and related services is self-financing as GCUK generates sufficient cash flows to pay its expenses as they fall due. As a result, the firm does not encounter difficulty in raising the cash in time to meet its payment obligations as they arise. However, GCUK's cash flows are influenced by customer trading volume. Thus the firm recognises its exposure to market volatility affecting liquidity in those markets in which customers decide to trade. In order to manage this risk, GCUK possesses sufficient liquidity in the event of significant market volatility by establishing trading relationships with several financial institutions offering prime brokerage services across a variety of products. The firm believes that these relationships provide us with sufficient access to liquidity to allow us to consistently execute significant trade volumes when needed in varying market conditions.

Additionally, GCUK's trading operations involve the risk of losses due to the potential failure of customers to fulfil their obligations enter into with the firm. GCUK has recognised that this credit risk also increases its exposure to cash liquidity risk. To reduce this risk, the firm's margin policy requires that customer accounts are marked to market each time the market price of a position in their portfolio changes while providing for the automatic liquidation of positions.

GCUK's policy is to hold both its own and client money using a diversified range of counterparties, each of which is a major clearing bank or financial institution. Client money is held by GCUK in trust for its clients and is not used in the company's business. Therefore, it does not form part of the firm's liquidity resources.

GCUK currently holds financial assets only in the form of cash or cash equivalent which is readily available to meet GCUK's funding needs.

4.5. Regulatory Risk

The financial industry is highly regulated and, with an ever set of evolving regulations, there is a risk that GCUK could face regulatory sanctions or legal proceedings if it fails to comply with its regulatory or statutory obligations, ranging from fines and censure to imposing partial or complete restrictions on its ability to conduct business. To mitigate this risk, GCUK ensures that it stays up to date with current regulations, and evaluates future regulatory developments, and the impact that they may pose.

GCUK has Compliance, Legal, and Regulatory Reporting teams which are responsible for ensuring that it meets its regulatory obligations in each jurisdiction, and the firm maintains open and transparent working relationships with its regulators. While the constantly evolving regulatory environment provides significant challenges for GCUK, it continues to provide considerable resources to meet those challenges.

GCUK is subject to the capital adequacy supervision requirements of the FCA and has maintained adequate levels of capital during the year. The regulatory capital position of the Company is extremely strong and consists exclusively of Tier 1 ordinary share capital.

4.6. Operational Risk

GCUK's operations are subject to broad and various risks resulting from technological interruptions, failures or capacity constraints in addition to risks involving human error or misconduct. Regarding technological risks, GCUK is dependent upon the capacity and reliability of the computer and communications systems supporting the firm's operations. GCUK has established a program to monitor its computer systems, platforms and related technologies and to promptly address issues that arise. The firm has also established disaster recovery facilities in strategic locations to ensure the continuance of operations with only limited interruptions in the event that primary systems are damaged. Additionally, GCUK has established policies and procedures designed to monitor and prevent both human errors, such as clerical mistakes or incorrectly placed trades, as well as human misconduct, such as unauthorised trading, fraud or negligence. The firm also mitigates the impact of any operational issues by maintaining insurance coverage for various contingencies.

4.7. Interest Rate Risk in the Banking Book

GCUK does not manage banking book assets verses liabilities, where both would be subject to interest rate changes, thus the firm is not exposed in any significant manner to interest rate risk in the banking book.

Appendix 1: Disclosure Waivers

The disclosure requirements can cover a range of information that can be useful for the user to make an informed assessment of the company's ability to manage risk. GAIN is cognisant of meeting its necessary disclosure requirements while publishing the right level of information necessary to allow a third party to make an unfettered, informed assessment of the risks that the firm faces.

Information on ECAI's

The firm has not included disclosure items referring to the use of ECAI's given that doing so will not add or take away any additional information that could change or influence a user's assessment of GCUK or its counterparties and so have deemed it to be immaterial.

Information on Remuneration Policy

The disclosure requirements set out in Article 450 of CRR is related to firms that are deemed to be significant by the FCA. A defined list of requirements on determining a firm as significant can be found under the Prudential Sourcebook for Investment Firms ("IFPRU") section 1.2.3R.

As GCUK does not meet the above requirements for being a significant firm, it is not required to disclose details relating to its remuneration policy.

Transitional provisions

The disclosure requirements set out in Article 492 of CRR are for the firm's transitional provisions for its own funds. Given the simplicity of the firm's capital arrangements, such disclosure has been judged by the firm to be unnecessary, immaterial and would only serve to confuse the disclosure of own funds.

Appendix 2 – Capital Instruments

Capital Instruments Main Features Template

Common Equity Shares

1	Issuer	GAIN Capital UK Limited
2	Unique identifier (Legal Entity Identifier)	549300NKG8WR6UWSZS80
3	Governing law(s) of the instrument	United Kingdom

Regulatory Treatment

4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/ (sub-)consolidated/ solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified by each jurisdiction)	Ordinary Shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	£86,522,182.80
9	Nominal amount of instrument	8,652,218,280
9a	Issue price	£0.01
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	17 October 1983
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates, and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A

Coupons / Dividends

17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger (s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger (s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Subordinated unsecured debt
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A

Appendix 3 – Financial to Regulatory Balance Sheet Reconciliation

	Balance Sheet per Financial Accounts £m	Regulatory Adjustments £m	Balance Sheet per Regulatory Scope £m
Fixed Assets:			
Tangible fixed assets	19.7		19.7
Intangible assets	2.6	(2.6)	0.0
Investments in associates	0.6		0.6
	22.9		20.3
Current Assets:			
Deferred tax assets	8.5	(8.5)	0.0
Trade debtors	38.2		38.2
Prepayments and other debtors	23.6		23.6
Investments	0.1		0.1
Cash and cash equivalents	51.6		51.6
	122.0		113.5
Current Liabilities:			
Trade creditors	26.4		26.4
Other creditors	11.8		11.8
Provision for liabilities and charges	5.0		5.0
	43.2		43.2
Net Current Assets	78.8		70.3
Total Assets Less Current Liabilities	101.6		90.5
Net Assets	101.6	(11.1)	90.5
Capital & Reserve	122.3		122.3
Share Premium	55.9		55.9
Retained Earnings	(80.0)	(14.8)	(94.8)
Special Reserve	3.4		3.4
Net Assets	101.6	(14.8)	86.8