Pillar 3 Disclosure

GAIN Capital UK Limited

December 2017

Contents

1. Overview

1.1. Introduction

European Investment firms, such as GAIN Capital UK Limited ("the Firm"), are subject to the Basel III framework, the Basel Committee on Banking Supervision's recommended measures to regulate the Financial Services industry. These requirements are legislated under the European Union's Capital Requirements Directive ("CRD IV") and Capital Requirements Regulation ("CRR").

This framework consists of three Pillars that are used to regulate, supervise and improve the risk management of firms in the Financial Services industry. The three Pillars are:

- **Pillar 1 – Minimal Capital Requirements** – ensures that the Firm maintains a sufficient amount of capital above minimum requirement, as calculated using prescribed methods, 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)** – ensures that the Firm and its supervisor (the Financial Conduct Authority, or "FCA") actively assess, control and mitigate the various risks that the Firm faces.

- **Pillar 3 – Market Discipline –** ensures the promotion of market discipline through the disclosure of the Firm's regulatory requirements, risk management and governance policies and procedures, allowing market participants to view and compare meaningful information relating to the Firm and its peers in these areas.

The Firm's Pillar 3 disclosure has been prepared in compliance with CRD IV and the CRR as enforced per the FCA's handbook, as well as the Firm's own Pillar 3 policy.

The Firm publishes its Pillar 3 disclosure document on its website at: http://www.cityindex.co.uk/important-information.aspx and https://www.forex.com/en-uk/terms-and-policies/disclosures-and-risk-warning/ under the Pillar 3 section. The Firm's Pillar 3 disclosure document is reviewed and updated at least annually, with additional updates being made if significant changes to the Firm's business occur.

The Firm 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 ("GCHL") and its subsidiary undertakings except to the extent required by the regulatory capital or liquidity requirements. Any such intragroup transfer of capital is subject to an annual review as part of the firm's ICAAP.

1.2. Corporate Structure

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

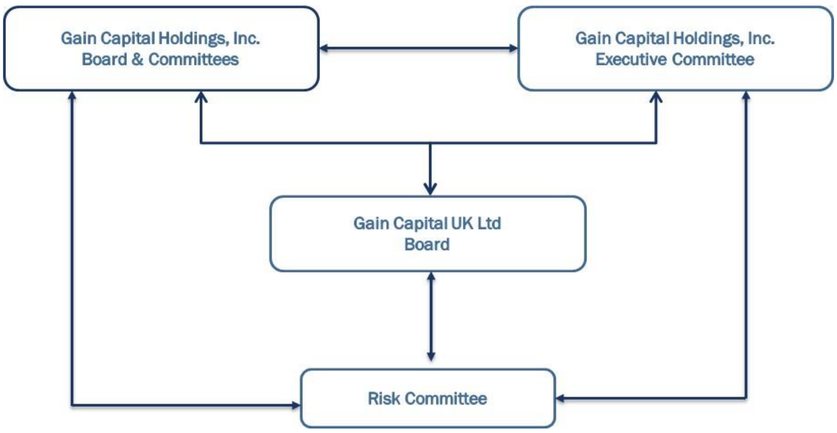
The Firm's immediate parent company is GCHL, a company incorporated in England and Wales, and its ultimate parent company and the controlling party of the Firm is GAIN Capital Holdings, Inc. ("GCHI"), which is incorporated in the U.S.

The Firm is consolidated as part of the GCHL's UK consolidation group ("the Group"). However, as the Firm is the only entity regulated by the FCA[1] within the Group, this document only discloses information concerning the Firm on a solo basis as is required under Part Eight of the CRR.

1.3. The Firm's Governance Structure

A sound corporate governance framework is essential for the long-term success of the Firm. The Financial Reporting Council states that the purpose of corporate governance is to facilitate effective, entrepreneurial and prudent management that can deliver the long-term success of the company. The Firm and its management believe the key principles of good corporate governance are transparency, accountability, integrity and focus on the long-term success of the company. As an FCA regulated firm, the Firm is committed to the implementation of good corporate governance and being accountable for and transparent in its decisions and activities. To further support a clear organisational structure with well-defined, transparent and consistent lines of responsibility, the Firm is in the process of reviewing its corporate governance structure as shown in the below figure.:

The Firm's proposed governance structure



Given the global nature of the Firm's business, a key focus of the Firm's corporate governance policy is to ensure that there is effective two-way communication and information flows between the various members of the GAIN Capital group, particularly GCHI and the Firm. This process is further facilitated by the high degree of overlap between the Board of the Firm and the Executive

[1] As a non-significant investment firm.

Committee of GCHI members ("the ExCo"). The Firm also practices the principles of the UK Corporate Governance Code, in particular, in relation to the leadership, effectiveness and accountability of the Board.

1.4. The Role of the Firm's Board

The Board is the governing body of the Firm and has the ultimate and overall responsibility for the Firm's affairs. In coordination with the ExCo, it sets the Firm's values and standards and ensures that its obligations to its constituencies are understood and met. To this end, the role of the Firm's Board is to:

- provide leadership and direction for senior management;
- determine the overall strategic direction of the Firm in line with the GAIN Capital group strategy taking into account relevant resource constraints;
- ensure that the Firm complies with the applicable laws and regulations;
- in consultation with the ExCo, oversee and monitor the overall risk strategy of the Firm;
- monitor the performance of the Firm and the executives, and hold them accountable for the exercise of their delegated powers and delivery against applicable goals;
- in consultation with the ExCo, select and appoint key function holders;
- promote behaviours consistent with the culture and values of the Firm;
- create a performance culture that drives value creation without exposing the Firm to excessive risk of value destruction;
- overseeing the Firm's relationships and communications with regulators; and
- promote high standards of governance that command the confidence of the Firm's employees and other constituencies.

1.5. The Board Leadership:

The Board currently four UK based directors, two US based directors and a non-executive director based in the US, for a total of seven members. The Board believes this is an appropriate size given the Firm's present circumstances, but that a smaller or larger Board may be appropriate depending on changing circumstances and developments in the Firm's business.

The members of the Firm's Board are:

Executive Members:

Nigel Rose, Chief Executive Officer & Chief Finance Officer (CEO & CFO) (UK)
Alastair Hine, Chief Operation Officer (UK)
Michael Lear, Chief Information Officer (CIO) (UK)
Timothy O'Sullivan, Chief Risk Officer (CRO) (UK)
Samantha Roady, President, Retail (US)
Diego Rotsztain, Executive Vice President, Head of Corporate Development, General Counsel and Secretary (US)

Non-Executive Members:

Chris Calhoun, Independent (US)

2. Risk Management

2.1. Risk Management and Internal Controls

The Firms' Board is responsible for ensuring that the Firm has a robust and effective internal control system to manage its principal risks. The Board sets the tone for risk management and internal controls and puts in place appropriate systems to enable the Firm to meet its responsibilities effectively. This includes consideration of whether the Firm's leadership style and management structures, human resource policies and reward systems support or undermine the risk management and internal control systems. The Board promotes a corporate culture where the identification, measurement and control of risk are embedded. This allows the Firm to determine the risks it is willing to take in achieving its strategic objectives.

In order to exercise its responsibilities effectively, the Firm's Board:

- monitors that appropriate corporate values and behaviours and appropriate risk culture have been communicated and embedded effectively throughout the Firm;
- ensures that there are clear processes for bringing significant issues to its attention promptly, when required;
- assesses the impact on the Firm's risk profile of decisions on changes in strategy, major new projects and other significant commitments undertaken by the Firm;
- determines how the principal risks should be managed or mitigated to reduce the likelihood of their incidence or their impact; and
- considers the recommendations of the Risk Committee, discussed below, in determining the Firm's appetite for particular types of risk.

2.2. The Risk Committee

The Firm's Risk Committee ("the Risk Committee") is responsible for overseeing risk management of the Firm's business and ensuring that management has in place policies, processes and procedures designed to identify and manage the significant risks to which the Firm is exposed, in each case in line with the guidance and direction provided by the Board of the Firm.

Furthermore, in light of the global nature of the Firm's business, the Risk Committee reviews and assesses material risks/exposures and controls relating to the wider GAIN Capital group in order to assess their potential impact on the Firm and to ensure that the Firm's risk management is aligned with the approach taken by the GAIN Capital group. As part of this process, the Risk Committee liaises with the Group Risk Committee on a quarterly basis to ensure that the risk management practices and policies of the Firm are aligned and consistent with those of the rest of the GAIN Capital group.

In addition, as part of the annual ICAAP review process, the Risk Committee recommends to the Board of the Firm, in respect of each principal risk category, an appetite statement setting out the range and level of losses the Firm is willing to accept in the pursuit of its business objectives.

2.3. Three Lines of Defence

To ensure appropriate responsibility is allocated for the identification, management, control and oversight of the principal risks related to the Firm' business, the Firm has adopted a 'Three Lines of Defence' model that outlines the roles, responsibilities and accountabilities for the overall risk management of the Firm.

First Line of Defence

The head of each business line has primary responsibility, accountability and decision-making authority for managing risks associated with that business line, with designated risk owners within the business line having responsibility for particular risks. A risk owner is an individual with the accountability and authority to make decisions to ensure that the balance between risk and reward is appropriate for the Firm in light of the overall risk profile established by the Board and Risk Committee.

Second Line of Defence

The Firm's regulatory, risk, compliance, treasury and business continuity teams (including a crisis management team) provide the second line of defence in the Firm's risk management framework by reviewing, monitoring and testing the effectiveness of the first line of defence and the assumptions and estimates that have been made by the risk owners in the first line of defence. Any material issues or concerns are escalated to the Firm's Risk Committee.

Third Line of Defence

To provide a third line of defence that is independent from the Firm's business operations, the Firm maintains an internal audit function that is tasked with reviewing and challenging the Firm's risk management policies and procedures, including its ICAAP and ILAAPs.

2.4. Risk Governance Framework

The GAIN Capital group has also adopted a Risk Governance Framework that sets out the principles, commitments, policies, standards, statements and guidelines that together form the overall risk management strategy for all GAIN Capital group companies, including the Firm, while taking into account the Firm's risk appetites at both the Firm level and the consolidated level for the UK prudential group.

The objective of the Risk Governance Framework is to provide management with formalised and structured means to:

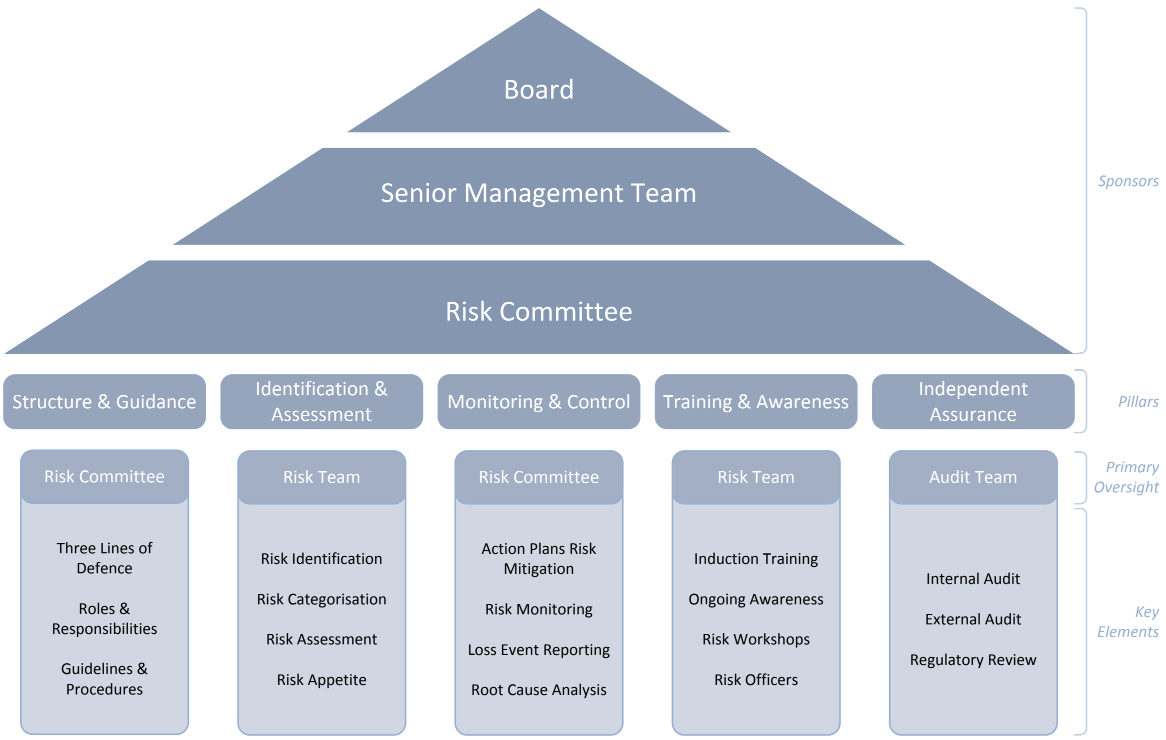
- understand all the material risks of the Firm as part of the GAIN Capital group;
- assess the potential for losses arising from these exposures;
- monitor the significant exposures on a continuous basis;
- ensure adequate controls or other mitigation is in place to reduce risks to residual levels that are within an acceptable appetite/tolerance;
- set out the respective roles and responsibilities;
- ensure that incidents are captured, and remedial action can be taken to prevent recurrence; and
- meet regulatory requirements and guidance.

The Risk Governance Framework provides the Board, senior management and Risk Committee of the Firm the tools to safeguard its assets, customers, brand, reputation and employees. The five pillars of the framework are:

i. structure and guidance;
ii. identification and assessment;
iii. monitoring and control;
iv. training and awareness; and
v. independent assurance

The figure below illustrates the Risk Governance Framework.

Risk Governance Framework[2]



2.5. Risk Monitoring and Reporting

The Firm invests significant resources in its ability to monitor, estimate and report the severity of the principal risks to which the Firm may be subject. In addition to the manual and qualitative reporting, the Firm runs daily and intraday reporting to monitor and evaluate the risks to which it is exposed.

The results of this process are actively presented to, reviewed, challenged and used by the Board and Risk Committee amongst others throughout the business. The Firm has taken further steps in the last year, including the engagement of industry consultant experts in the field of risk to further embed the ICAAP in the everyday operation of the Firm.

[2] The senior management team consists of individuals reporting directly to board members.

3. Capital Resources

3.1. Total Capital Ratio

The table below, shows the capital resources for the Firm as at 31st December 2017 available to achieve its Pillar 1 capital requirements. The Firm's capital resources are based upon its audited Financial Statements for 31 December 2017 and is adjusted for regulatory adjustments required per the CRR.

Total Capital Ratio & Risk Exposure

	31 December 2017 £m	31 December 2016 £m
Common Tier 1 Capital	154.1	129.2
Total Risk Exposure Amounts *(see below for breakdown)*	645.6	727.4
Total Capital Ratio (%)	*23.9%*	*17.8%*
Breakdown of Total Risk Exposure Amounts:		
Operational Risk Requirement	243.5	232.3
Counterparty Risk Requirement	175.8	182.9
Large Exposure in the Trading Book	0.0	38.8
Market Risk Requirement	226.2	273.5
Total Risk Exposure Amounts	645.6	727.4

3.2. Tier 1 Capital

Tier 1 capital consists exclusively of ordinary share capital, share premium and audited retained earnings, with regulatory adjustments made in the form of reductions for the Firm's accounting recognition for intangible fixed assets and deferred tax asset.

3.3. Tier 2 Capital

The Firm does not hold any capital instruments that could be identified as Tier 2 capital.

3.4. Operational Risk Requirement

Operational risk is generally defined *as "the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events"*.[3]

The Firm's prescribed method for calculating its Pillar 1 capital requirement is based on the basic indicator approach as detailed in the CRR. This approach sets an operational risk capital requirement of 15% of an average of its gross income over its last three years of financial statements, unless the gross income for the firm in any of the last three years is negative or zero, in which case such years are not considered as part of the average. Please see Section 4.6 below for a discussion of the Firm's approach to managing operational risk.

3.5. Credit and Counterparty Risk Requirement

A counterparty is any party who enters into a contract or financial transaction with the Firm and can include 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) is the risk that a counterparty defaults on their obligations under a bilateral market driven contract or transaction, which results in a financial loss for the Firm. The risk is calculated by taking into consideration both the exposure to, and the credit worthiness of the counterparty. Examples of market driven transactions include swaps, futures and contracts for difference ("CFDs").

All of the Firm's credit and counterparty risk Pillar 1 capital requirements are calculated using methods prescribed under the CRR, with no internal models used in their valuation. Please see Sections 4.1 and 4.2 below for a discussion of the Firm's approach to managing counterparty credit risk.

3.6. Large Exposures in the Trading Book Requirement

The Firm's Large Exposure in the Trading Book Requirement represents the concentration risk to any groups of connected parties.

[3] Basel Committee on Banking Supervision, "Principles for the Sound Management of Operational Risks", http://www.bis.org/publ/bcbs195.pdf, June 2011, Page 3

3.7. Credit Valuation Adjustment

The Firm's credit valuation adjustment ("CVA") capital requirement calculates the risk that as the credit spread of counterparty widens (the counterparty's credit worthiness deteriorates) for a derivative instrument, that could reduce any asset values for the Firm concerning those derivative contacts, especially in times of financial stress.

3.8. Market Risk Requirement

Market risk is the risk of losses for both on- and off-balance sheet positions arising from adverse movements in market prices. All market risk calculations are calculated under standardised methodology- no internal models are used. Please see Section 4.3 below for a discussion of the Firm's approach to managing market risk.

3.9. Internal Capital Adequacy Assessment Process

The Internal Capital Adequacy Assessment Process ("ICAAP") is a key aspect of the Firm's execution and assessment of its risk controls and management. The ICAAP represents the Firm's approach to evaluating a level of capital that adequately supports all relevant current and future risks specific to the Firm's business, as required under the Pillar 2 framework as per CRD IV. The ICAAP is reviewed and updated at least annually, with additional updates being made if significant changes to the Firm's business occur.

3.10. Capital buffers

Other than for its Pillar 2 requirement, the Firm is not bound by other buffer requirements under CRD IV as it is a non-significant investment firm and therefore exempted under the power derogated to the FCA per CRD IV.

4. Principal Risks

The Board is responsible for overseeing and managing the principal risks of the Firm. In doing this, it seeks to mitigate the Firm's risks through the application of limits and controls as well as regular monitoring and the use of hedging strategies and insurance policies. The Firm's existing risk management tools continue to be enhanced by the on-going development of a real-time risk management system. The following discussion summarizes the principal risks facing the Firm, as well as the Firm's approach to managing those risks.

The below table provides a breakdown of GCUK's overall credit risk exposure (wholesale and retail) by asset class as at 31st December 2017.

Credit Risk Exposure by Asset Class

	31 December 2017 £m
Institutional	101.0
Corporates	7.1
Retail	13.7
Collective Investment Undertakings	8.4
Other Items	25.5
Central governments or central banks	20.2
Total Counterparty Risk	175.8

The table below provides further analysis of the total credit risk exposure by geographical region as at 31st December 2017:

Counterparty Risk Exposure by Geographical Region at 31st December 2017

	United Kingdom £m	Europe £m	North America £m	APAC £m	Rest of the World £m	Total £m
Institutional	61.2	0.5	4.8	1.5	32.9	100.9
Corporates	5.8		0.1	1.0	0.2	7.1
Retail	8.8	2.1	0.1	2.0	0.7	13.7
Collective Investment Undertakings		8.4				8.4
Other Items	25.5					25.5
Central governments or central banks	20.2					20.2
Total Counterparty Risk	121.5	11.0	5.0	4.5	33.8	175.8

The Firm's credit risk exposure represents those of its own holdings and exposure to third parties consistent with CRR, it does not cover the segregated client money held under trust for its clients. In the event of losses caused to segregated client money due to third party default, these losses would be legally incurred by the client and not the Firm.

4.1. Credit Risk - Retail

Credit risk is the risk that the Firm's counterparties will default on their financial obligations to the company. Retail credit risk specifically applies this principle to the exposure the Firm has to its clients (both institutional and retail).

The Firm is primarily exposed to retail credit risk through its chief business activities. The Firm offers clients the ability to trade utilising CFD and spread bet products, allowing clients leverage upon their initial deposits. While the Firm closely monitors each customer's exposure, it does not guarantee the Firm's ability to eliminate negative customer account balances prior to an adverse currency price change or other market events.

Credit risk materialises in the form of bad debts. Bad debts occur when positive Marked to Market ("MtM") values on trading accounts, or the amount owed by the clients to the Firm, are not honoured by those clients. The Firm does not currently hold any banking book equity exposures. The Firm and the wider GAIN Capital group take retail credit risk very seriously and have invested significantly in developing methods to mitigate this risk, including:

- **Margin Requirement** – Clients can only open a trade with the Firm or the wider GAIN Capital group if they possess sufficient funds available to cover a predefined margin requirement required for the proposed positions on account.

- **Margin Closeout ("MCO")** – MCO describes the process used to liquidate client positions in the event where there is no longer sufficient margin in place for an account. If clients do not meet applicable margin requirements, then their positions are liquidated based on an automated system monitored by the Firm's risk department. Clients are automatically alerted by email once their account margin levels reach certain thresholds prior to those of close out, providing them with the opportunity to close out select positions or add to margin before they reach their margin closeout level.

- **Debt Recovery** – Debt recovery is only necessary if a client fails to honour its obligation to maintain sufficient margin. The Firm utilises both internal and external resources to pursue recovery in such instances, with all measures taken being proportionate to the size of the unpaid balances as well as the client's circumstances.

The total bad debts outstanding as at 31st December 2017, including movements for write offs, bad debts realised and provision for 2017, is shown in the table below:

Bad Debt Provision

	31 December 2017 £m
Provision as at 1st January 2017	15.9
Release of provisions	(13.4)
Increase in Bad Debt Provision	0.3
Provision as at 31st December 2017	2.2

- **Daily Monitoring** – The Risk team meet daily to review a daily risk summary report, including the appraisal of all client positions. This report includes predefined triggers across various individual risk categories of clients (such as high-risk jurisdictions) that often lead to a change in margin requirement or re-evaluation of the clients. Stress and scenario analysis is also monitored daily (see below).

- **Monthly Monitoring** – The Firm's Risk Committee monitor client credit risk on a monthly basis, including the total client credit risk exposure of the firm as well as recent performance with respect to bad debt recovery. This forum enables discussion to take place and monitoring of risk appetite and exposures together with budgeted costs as well as consider the potential for shock market event volatility and what impact this could have for the Firm's client credit risk.

- **Economic Event Preparation** – The Risk team monitor economic events, such as the UK Brexit referendum or the 2016 US Presidential Election. They will subsequently provide instructions to manage exposures, generally by changes to client account margin requirements while additionally ensuring that clients and the business are informed and prepared. Such exercises have proven extremely effective when utilised, particularly during volatile periods for the market.

- **Stress and Scenario Testing** – Daily monitoring of stress and scenario tests supported on an automated system proprietary to the GAIN Capital group is performed by the Risk team. The results allow for the Firm to focus on, for example, what may be excessive concentration in a particular product.

4.2. Banking Book Equity Exposures

The Firm does not significantly invest in non-trading book equity positions and its holdings in such assets constitutes an immaterial component of its balance sheet.

4.3. Credit Risk - Wholesale

Credit risk is the risk that the Firm's counterparties will default on their financial obligations to the company. Wholesale credit risk is the risk of default by one of the banks, brokers or similar institutions, such as clearing houses, which the Firm does business with.

The Firm is primarily exposed to wholesale credit risk through:

- **Broker Relationships** – The Firm offers clients the ability to trade CFD and spread bet products utilizing leverage, meaning the client is able to open positions with an initial deposit that is typically less than the overall exposure of the position. This exposes the Firm to risks in market volatility in the financial markets. To hedge this market risk, the Firm may open positions with brokers to offset positions booked by clients. Although this activity reduces the Firm's market risk, it does potentially expose the Firm to the risk that these brokers will not honour their obligations or otherwise default on the Firm.

- **Funding Relationships** – As part of its business operations, the Firm maintains a significant cash balance. It is the Firm's Treasury strategy to remain a highly liquid business and, as such, cash is either deposited with credit institutions or invested in highly liquid Money Market Funds ("MMFs"), in each case in accordance with the investment guidelines discussed in more detail below. While the Firm strives to select stable and reliable counterparties, it is nonetheless exposed to the risk that such counterparties may potentially default on their obligations to the Firm.

- **Clearing Relationships** – As part of its business operations, the Firm offers cleared equity CFD and spread bet products to its clients. In doing so, the Firm is effectively hedging the relevant client positions with the clearing house: the LCH Clearnet Group Ltd ("LCH"), where LCH is effectively acting in much the same manner as a normal broker relationship, managing the hedging of equity products for the Firm. Such hedges and any margin required by LCH from the Firm, expose it to counterparty credit risk with LCH.

The Firm's key controls in the mitigation of wholesale credit risk losses centre on the selection and assessment of counterparties, the diversification of exposures across multiple counterparties and continuous monitoring by the Risk and Treasury teams.

- **Counterparty Selection & Assessment** – Each counterparty with whom the Firm deposits or invests assets is subject to the approval of the Firm's Risk Committee. Potential counterparties are reviewed by the Risk team using quantitative and qualitative criteria established by the Risk team based on guidelines provided by the Risk Committee.

- **Diversification** – The Firms ensures that its broker relationships and funds are well diversified amongst numerous counterparties in accordance with GAIN Capital group policies that generally require that no more than 25% of either client or own funds can be deposited with a single institution.

- **Daily Monitoring** – The Firm's counterparty limits are monitored on a daily basis by the Firm's Risk and Treasury teams to allow for the active management of exposures and necessary transfers of funds in a timely manner to avoid breaches of internal limits.

- **Monthly and Annual Monitoring** – The Firm's Risk Committee meets on a monthly basis to review prospective counterparties as well as existing counterparty limits. The Risk Committee also assesses all of the Firm's wholesale credit risk exposures on an annual basis and reviews existing counterparty limits.

4.4. Market Risk

Market risk is the risk of losses for both on- and off-balance sheet positions arising from adverse movements in market prices.

The Firm is primarily exposed to market risk via its main business activities of providing retail and institutional traders' access to global markets through spread bet and CFD products. These positions can expose the Firm to volatility in those market positions in which its clients have traded. The Firm does not hold any proprietary positions; all positions held are in a market making capacity for its clients.

When a customer executes a trade with the Firm, the trade may be naturally hedged against an offsetting trade from another customer, hedged through an offsetting trade with one of the Firm's liquidity providers or may become part of the Firm's net exposure portfolio.

The following table provides a breakdown of The Firm's trading book market risk exposure as at 31st December 2017:

Market Risk Exposure by Instrument Type

	31 December 2017 £m
Traded debt instruments	3.7
Equity	169.1
Foreign Exchange	3.8
Commodities	36.0
Credit Valuation Adjustment	13.6
Total Market Risk	226.2

The primary controls the Firm uses to manage market risk are:

- **P&L Trading Mandates –** Trading mandates are the notional position limits set by product and asset class by the Firm. The Firm has also reduced such trading mandates during the weekends or other periods when markets are closed or when liquidity is lower than during peak trading periods.

- **P&L Loss Limits** – P&L loss limits are set to reduce net market positions if the daily trading loss equals or exceeds certain thresholds.

- **Solvency Limits** – The Firm's Pillar 1 capital requirement is monitored by the Risk team and Trading desk on an intra-day basis. A limit in excess of this requirement is set for the entire market risk portfolio allowing for an appropriate buffer so that pre-emptive action can be taken before any applicable thresholds are breached.

- **Intraday Monitoring** – Trading mandates, P&L loss limits and solvency limits are monitored on a real-time basis using proprietary applications and web-based risk monitors. The Firm's team of senior traders monitor market risk exposure on a continuous basis and take action to hedge positions in response to any limit alerts.

- **Daily Monitoring** – Daily meetings including all members of the Risk team and led by the CRO are held to review that day's risk summary report which incorporates a review of the following:
    - Market events – scenario and stress testing.
    - Client concentration – individual markets.
    - Anomalous single stock positions – liquidity comparison.
    - Capital solvency ratios – capital available versus market exposure.

  The daily risk report includes triggers defined for individual risk categories with predefined action to be taken in the case of any breaches.

- **Stress & Scenario Testing** – Daily stress and scenario tests are performed using proprietary systems. These are applied to all current positions held by the firm to simulate the consequences of various types of market crisis, both hypothetical in their nature and also based on historical experience. Stress tests can result in actions including the review of the current portfolio and in certain cases, increased hedging of the Firm's current exposure.

4.5. Currency Risk

The principal currencies in which the Firm 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 Firm hedges both its trading and non-trading book FX risk on a daily basis.

4.6. Liquidity Risk

Liquidity risk is the risk that the Firm will not be able to honour its payment obligations at any given time with the use of cash freely available to the Firm. Events that may give rise to liquidity risk include abnormally large margin calls from brokers in the event of macroeconomic volatility, as well as more esoteric events such as the immediate cessation of the Firm's membership with the clearing house, LCH, for equity trades. The latter arrangement allows more efficient use of cash as margin as clients of the Firm would have to meet the daily margin calls as and when the clearing house makes the call. This frees up the Firm's liquid resources as they are no longer needed to cover the open client positions at LCH. In such circumstances, the Firm could incur losses during a "fire sale" of assets to meet these obligations.

In order to ensure that the Firm maintains sufficient liquidity that unexpected obligations could be met, the Firm's Treasury department carries out a weekly scenario analysis to test the worst-case stress on the Firm's liquidity position.

4.7. Regulatory Risk

The financial industry is highly regulated and, with regulations continuing to be developed, there is a risk that the Firm may have to operate and adapt in a regulatory environment significantly different from today. To mitigate this, the Firm ensures that it employs the relevant subject matter experts to ensure both compliance with current regulations, but also to evaluate future regulatory developments, and the impact that they may pose.

Amongst the Firm's subject matter experts, are those in the Compliance, Legal, and Regulatory Reporting teams who are all responsible for ensuring that the Firm meets its regulatory obligations in all of the jurisdictions in which it operates. In doing this the Firm communicates with and assists its regulators and industry bodies.

4.8. Operational Risk

The Firm's exposure to operational risk falls into two main categories:

- **Technology Risk** – the Firm provides access to its products via industry leading technology and so includes technological interruptions, failures or constraints as part of its operational risk assessment. This assessment includes the failure of systems within our IT infrastructure, its applications, technology issues during integration of systems, third-party service provider failures (including concentration risk to a single service provider), platform outages, data security, cyber security, business continuity and damage to physical assets.

- **Non-Technology Risk** – the Firm defines all other operational risks as non-technology operational risks. This includes conduct risk and events such as the failure of people or processes, human error or misconduct, compliance breaches, money-laundering and financial crime, client money issues and fraud, issues experienced during integration and business change as well as process failures or inefficiencies. The Firm also considers the impact of any reputational risk of client loss as a consequence of events occurring, rather than a separate risk in its own right.

To manage technology risk, the Firm has adopted the following key controls:

- **Network Security:** The Firm's system architecture has been designed to segregate any externally facing infrastructure and applications from internal repositories of personally identifiable information ("PII") and other confidential and proprietary information. Through a combination of firewalls, intrusion protection defences and access management controls, the Firm has sought to ensure that it is virtually impossible for an external attacker to penetrate its systems and amend or extract PII or any other confidential data.

  In addition to anti-cyber intrusion measures, the business invests in hardware and software protection against dedicated denial of service ("DDoS") and other cyber-attacks and provides training to its employees designed to empower them to recognize and avoid phishing and other social-engineering attacks. The Firm has also adopted access controls for its offices consistent with the Sarbanes-Oxley Act and is subject to an annual review against ISO27001 standards.

- **Multiple Data Centres:** To help ensure continuity of operations in case of a failure of key systems, the Firm operates with two parallel running data centres, ensuring that if one fails, the other can be called upon, with each data centre providing full and instantaneous functionality.

- **Incident Management and Monitoring:** If incidents involving technology risks or failures do occur, the Firm's IT team uses a four-point priority scale to categorise and prioritise such incidents. All such incidents are tracked through to effective resolution, with remedial measures being recorded and monitored on an ongoing basis between the business and Risk.

- **Alternative Trading Methods:** In the event of a trading platform failure that prevents clients from accessing their accounts online, the Firm provides alternative methods to allow clients to trade, including via the Firm's website, Livechat, email or telephone. These alternatives allow the Firm's clients to continue to access trading markets until platform service is restored. This helps to minimize the direct financial impact on the Firm due to a platform outage.

- **Technology Change Management Processes:** The Firm uses Agile Development methodology to manage updates and development to its software and systems. The change management process is comprehensively controlled, with IT developments tracked via proprietary software at all stages from business conceptualisation, prioritisation, execution and back testing. The business is widely engaged in this process which includes a thorough testing of new software and system releases, including a quantitative regression testing phase, and a user acceptance takes place. Once changes have been thoroughly tested and approved they are reviewed by a Change Acceptance Board before release to the live environment.

To manage non-technology risks, the Firm has adopted the following key controls:

- **Policies and Procedures:** The Firm's global policy framework provides a document template with standardised format and set of requirements, ensuring that all policy raised within the business is produced in line with the Firm's governance structure. Using this template, each of the business' departments have set the appropriate policies and procedures, subject to proper review and challenge as part of the Firm's governance framework.

- **Operational Risk Assessments ("ORA"):** The ORA process provides a bottom up assessment of all risks to the business, incorporating a self-assessment by each of its risk owners within a firm wide risk register, designed to reflect their relevant business processes. This allows for the identification of risk exposures specific to the Firm's business and the development of further controls and mitigation to tackle these.

- **Incident Monitoring:** As part of its daily duties, the Operational Risk team will assess and maintain an events log. The events log provides the central location where all incidents or events which may affect the operations of the firm or any service to its clients are captured. Items included in the events log are investigated by the relevant departments, with oversight provided by the Operational Risk team. Incidents are further reviewed during a weekly meeting including relevant business departments to review incidents, their cause analysis, their impact to the business, the clients' responses to these incidents, and the impact and experience for clients as result of them. The Firm's Chief Risk Officer ("CRO") attends these weekly meetings.

- **Change Management Processes:** The Firm's change management control process utilises a comprehensive approval structure supported by robust automated and non-automated controls. The approval structure provides clear direction and responsibilities for business users to raise changes via an online portal, identifying the possible risks which may occur from the change. This online portal will notify other areas of the business through automated emails. The appropriate business owners are then responsible to review, challenge and identify any appropriate mitigating actions given the risks that a proposed change may raise.

- **Incident Response Process:** The Firm's Incident Response Process is available to all employees, providing a 24-hour response procedure if an issue of sufficient severity should occur. The incident plan provides procedures which may involve one or more teams reacting in a co-ordinated planned response to ensure that all departments are aware of their responsibilities so that they can subsequently act using appropriate speed and resources.

- **Complaints Procedure:** The Firm has a Client Management team that services the needs of all customers, providing assistance and guidance where needed. If customers are dissatisfied, the Firm has set procedures to ensure that they are able to raise the issue without difficulty and that it is appropriately investigated. If a matter is escalated to a formal complaint, the Firm's Compliance team takes all necessary steps with respect to the appropriate handling, management and reporting of such cases.

- **Training & Awareness:** All the Firm staff are required to complete a core training programme including Anti Money Laundering, Treating Customers Fairly and Data Protection. This programme is managed using external software providers such as Reuters and is designed to ensure that staff are aware of their responsibilities, ensuring that all staff behave in a professional and responsible manner, upholding the values of the Firm.

- **Business Continuity, Disaster and Recovery Planning:** The Firm has developed and tested business continuity and disaster recovery plans that focus on maintaining the operations of its business and supporting systems in a variety of circumstances. For example, one such adopted measure is for the maintenance of a secure data recovery site in a safe location. In addition, software and infrastructure changes are fully-tested in pre-production environments before release to the Firm's clients, thus minimizing the possibility of a systems interruption while simultaneously providing a fully functional back up in case of a catastrophic incident or disruptive cyber-attack.

- **Monthly monitoring:** The Firm's Operational Risk exposures are presented, reviewed and challenged at the Risk Committee's monthly meetings.

- **Internal Audit:** The Internal audit team provide an independent third line of defence for the Firm, including review, challenge and oversight of the processes, policies and procedures of the business through independent assurance.

4.9. Interest Rate Risk in the Banking Book

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

5. 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 Firm's ability to manage risk. The Firm, in line with the CRR, has met these necessary disclosure requirements while publishing the right level of clear and concise information necessary to allow a third party to make an informed assessment of the risks that the firm faces.

Information on External Credit Assessment Institutions ("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 the Firm's 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 has been confirmed by the FCA as relevant for only what it defines as significant. A list of requirements on determining a firm as significant can be found under the Prudential Sourcebook for Investment Firms ("IFPRU") section 1.2.3R.

The Firm does not meet any of these requirements for being a significant firm, and therefore 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.

6. 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)	£86,670,549.96
9	Nominal amount of instrument	8,667,054,996
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

7. 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	20.3		20.3
Intangible assets	0.0		0.0
Investments in associates	0.0		0.0
	20.3		20.3
Current Assets:			
Deferred tax assets	8.0	0.1	8.1
Trade debtors	22.7		22.7
Prepayments and other debtors	48.9		48.9
Investments	0.0		0.0
Cash and cash equivalents	104.7		104.7
	184.1		184.2
Current Liabilities:			
Trade creditors	33.5		33.5
Other creditors	9.6		9.6
Provision for liabilities and charges	7.0		7.0
	50.1		50.1
Net Current Assets	134.1		134.2
Long Term Liability:			
Provision for other liabilities	0.5		0.5
Total Assets Less Current Liabilities	153.8		153.9
Net Assets	153.8	0.1	153.9
Capital & Reserve	86.7		86.7
Share Premium	44.4		44.4
Retained Earnings	19.4	0.3	19.7
Special Reserve	3.4		3.4
Net Assets	153.8	0.3	154.1