Pillar 3 Disclosure

GAIN Capital UK Limited

December 2018

Contents

1. Overview 3
2. Risk Management 7
3. Capital Resources 11
4. Principal Risks 14
5. Appendix 1: Disclosure Waivers 24
6. Appendix 2 – Capital Instruments 25
7. Appendix 3 – Financial to Regulatory Balance Sheet Reconciliation 26
8. Appendix 4 – Countercyclical Buffer 27

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, and their applicability to the Firm, are summarised below:

- **Pillar 1 – Minimum Capital Requirements** – ensures that the Firm maintains a sufficient amount of capital above the 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 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"), a company incorporated in the U.S.

The Firm is consolidated as part of GCHL's UK prudential consolidation group ("the Group"). However, as the Firm is the only active 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.

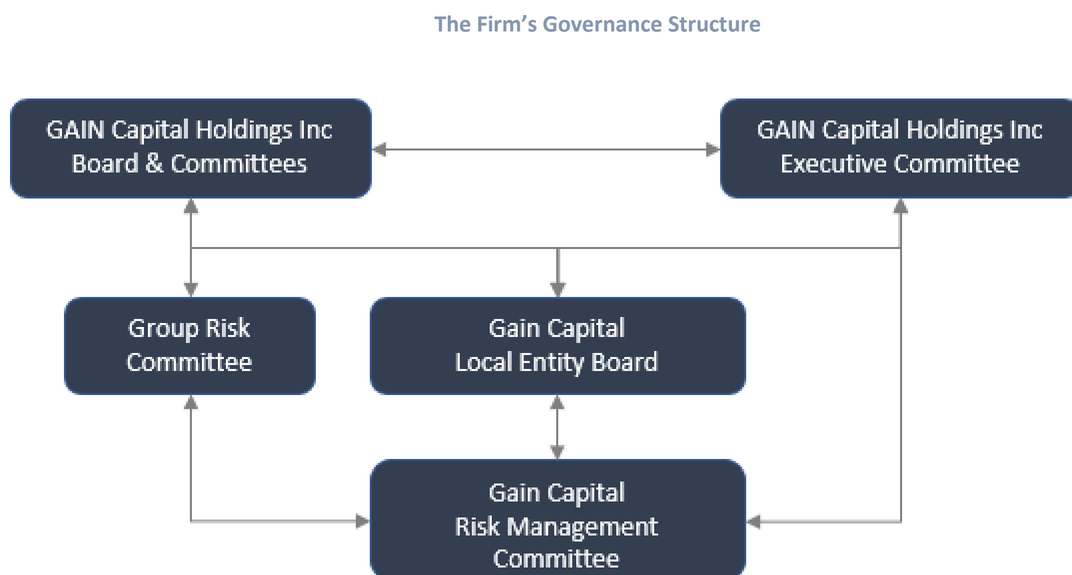
1.3. The Firm's Governance Structure

The Firm considers that a sound corporate governance framework is essential to facilitate effective, entrepreneurial and prudent management that can deliver long-term success for the Firm.

As an FCA regulated firm, the Firm is committed to the implementation of good corporate governance and to being accountable for and transparent in its decisions and activities.

To support a clear organisational structure with well-defined, transparent and consistent lines of responsibility, the Firm has established the following governance structure in respect of risk-related matters:

The Firm's Governance Structure



Given the global nature of the Firm's business, the aim of the above governance structure is to ensure there is effective communication and unhindered information flows between the Firm and its ultimate

[1] As a non-significant IFPRU firm.

parent company, GCHI. This is facilitated by the number of shared members of the Firm's Board and the main Board and Committee of GCHI.

The Firm is cognisant of the introduction of the Senior Managers and Certification Regime to the Firm's industry in late 2019. It is planning accordingly and will implement any necessary changes to its governance structure in good time to ensure the Firm's compliance with the revised regulatory landscape.

1.4. The Role of the Firm's Board

The Firm's Board is the governing body of the Firm and has the ultimate and overall responsibility for the Firm's affairs. In coordination with the Board and Executive Committee of GCHI, the Board sets the Firm's values and standards and ensures that its obligations 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 GAIN Capital group strategy taking into account relevant resource constraints;
- ensure the Firm complies with applicable laws and regulations;
- oversee, challenge and ultimately approve and promote the Firm's ICAAP and Internal Liquidity Adequacy Assessment Process ("ILAAP");
- oversee and monitor the overall risk strategy of the Firm in consultation with the executive committee of GCHI and the Risk Management Committee;
- 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;
- select and appoint key function holders in consultation with the executive committee of GCHI;
- 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;
- oversee 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 stakeholders.

1.5. The Board Leadership:

As at 31 December 2018 the Firm's Board consisted of four UK based directors, two US based directors and a non-executive director based in the US (a total of seven members). The Board believes this is an appropriate size given the Firm's 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 as at 31 December 2018 were:

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 Firm's 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;
- ensures that there is adequate discussion at the Board on business strategy and risk and assessment of the impact on the Firm's risk profile of decisions on changes in strategy, major new projects and other significant commitments; and
- determines how principal risks should be managed or mitigated to reduce the likelihood of their occurrence or their impact.

2.2. The Risk Management Committee

The Firm's Risk Management 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. Furthermore, in light of the global nature of the Firm's business, the Risk Management Committee reviews and assesses material risks 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 Management 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 Management 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 and support function has primary responsibility, accountability and decision-making authority for managing risks, with designated risk owners having responsibility for risks. A risk owner is an individual with the accountability and authority to make decisions that ensure the balance between risk and reward is appropriate for the Firm.

The responsibility of each business line and support function is to identify all relevant risks affecting that line and to put in place processes for monitoring and mitigating any such perceived risks.

Where risks materialise in the form of business incidents, they are reported in accordance with the Business Incident Management Reporting Policy and reviewed in a weekly Operational Risk Incident review forum. In addition, significant incidents are reported to the Executive Committee on weekly basis by the CRO.

Second Line of Defence

The Risk and Compliance teams 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. Any material issues or concerns are raised with the Firm's Risk Management Committee as a route of escalation, and each of the aforementioned teams is represented on the Risk Management Committee. A member of the Internal Audit team also attends Risk Management Committee meetings as an observer.

Third Line of Defence

To give independent assurance to the Firm, the Firm's risk management, as well as its ICAAP and ILAAP, are reviewed and challenged by the Internal Audit team.

2.4. Risk Management Framework

The Firm's Risk Management Framework documents the risk policy and processes with which the Firm must comply. It is a global policy and applies to all entities within the GAIN Capital group. The group-wide risk management process seeks to identify, assess, monitor and report risks that could materially influence both the Firm and the GAIN Capital group's ability to achieve the Group Board's strategic objectives and obligations.

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

- understand all the material risks of the Firm;
- assess the potential for losses arising from these risks;
- monitor the significant risks 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 risk management roles and responsibilities;
- ensure that business incidents are captured, and remedial action can be taken to prevent recurrence; and
- meet regulatory requirements and guidance.

The Risk Management Framework provides the Firm's Board, senior management and the Risk Management Committee with the tools required to safeguard the Firm's assets, customers, brand, reputation and employees. The five pillars of the framework are:

- structure and guidance;
- identification and assessment;
- monitoring and control;
- training and awareness; and
- independent assurance

The figure below illustrates the Risk Management Framework.

2.5. Risk Monitoring and Reporting

The Firm invests significant resources in its ability to monitor and estimate the severity of all risks that it is subject to. In turn, this is reported to, reviewed, challenged and used by the Board, Risk Management Committee and others throughout the business.

In addition to manual and qualitative reporting, the Firm runs, where appropriate, daily and intraday reports to monitor and evaluate the risks to which it is exposed. For the purposes of monitoring risk and capital, an intraday solvency monitoring tool provides a real-time view of risk and capital; this is monitored by the Trading, Risk and Finance teams (to ensure the Firm's capital requirements are always met).

3. Capital Resources

3.1. Total Capital Ratio

The table below shows the capital resources for the Firm as at 31st December 2018 available to support its Pillar 1 capital requirements. The Firm's capital resources are based upon its audited Financial Statements for 31 December 2018 and is adjusted for regulatory adjustments required per the CRR.

Total Capital Ratio & Risk Exposure

	31 December 2018 £m	31 December 2017 £m
Common Equity Tier 1 Capital	152.4	154.1
Total Risk Exposure Amounts *(see below for breakdown)*	550.7	645.6
Total Capital Ratio (%)	*27.7%*	*23.9%*
Breakdown of Total Risk Exposure Amounts:		
Operational Risk Requirement	216.1	243.5
Counterparty Risk Requirement	148.1	175.8
Credit Valuation Adjustment	14.5	13.6
Large Exposure in the Trading Book	0.0	0.0
Market Risk Requirement	172.0	212.6
Total Risk Exposure Amounts	550.7	645.6

3.2. Tier 1 Capital

Tier 1 capital consists exclusively of common equity tier 1 capital which is comprised of ordinary share capital, share premium, other reserves and audited retained earnings.

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"*.[2]

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 4.9 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 brokers, 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. Credit Valuation Adjustment

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

[2] 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. 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.

3.8. 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 and no internal models are used. Please see Section 4.5 below for a discussion of the Firm's approach to managing market risk.

3.9. Internal Capital Adequacy Assessment Process

The 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

The Firm is required to hold the higher of the capital planning buffer as set by the FCA and the EBA Combined buffers, consisting of the capital conservation buffer ("CCB") and the countercyclical buffer ("CCyB"). A breakdown of the CCyB can be found in Appendix 4.

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 the Firm's overall credit and counterparty credit risk exposures by asset class as at 31st December 2018.

Credit and Counterparty Credit Risk Exposure by Asset Class

	31 December 2018 £m
Institutional	94.7
Corporates	3.5
Retail	6.6
Collective Investment Undertakings	4.3
Other Items	21.7
Central governments or central banks	17.3
Total Credit and Counterparty Risk	148.1

The table below provides further analysis of the total credit and counterparty risk exposure by geographical region as at 31st December 2018:

Credit and Counterparty Credit Risk Exposure by Geographical Region at 31st December 2018

	United Kingdom £m	Europe £m	North America £m	APAC £m	Rest of the World £m	Total £m
Institutional	45.7	0.4	5.0	4.0	39.6	94.7
Corporates	2.9	0.0	0.4	0.0	0.2	3.5
Retail	4.9	0.7	0.1	0.4	0.5	6.6
Collective Investment Undertakings	0.0	4.3	0.0	0.0	0.0	4.3
Other Items	21.7	0.0	0.0	0.0	0.0	21.7
Central governments or central banks	17.3	0.0	0.0	0.0	0.0	17.3
Total Credit and Counterparty Risk	92.5	5.4	5.5	4.4	40.3	148.1

The Firm’s credit and counterparty credit risk exposure represents those of its own holdings and exposure to third parties consistent with the 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. Counterparty Credit Risk (Clients)

Counterparty credit risk is the risk of losses arising from the default of a counterparty to derivatives, margin lending, securities lending, repurchase and reverse repurchase or long settlement transactions before final settlement of the transaction’s cash flows and where the exposure at default is crucially dependent on market factors. This section addresses counterparty credit risk associated with the Firm’s clients.

The Firm offers clients the ability to trade CFD and spread bet products utilizing leverage by acting as a counterparty to the client transaction. The Firm is exposed to counterparty credit risk where the Firm’s exposure to a client exceeds the client’s total equity. These are then crystalized as losses for the Firm where the client’s losses exceed the margin they have posted as collateral and the shortfall remains unpaid.

The Firm has invested significant time and resource to manage and mitigate counterparty credit risk, primarily by requiring appropriate levels of margin to be deposited by clients and through effective liquidation policies and procedures. The primary controls are described in more detail below:

- **Margin Requirement** – Clients can only open, or maintain open positions if they have enough funds available to cover the margin required for those positions. The margin must be maintained in line with these requirements to keep these positions open. The level of margin required is calculated per product using a model which incorporates a range of factors such as market capitalisation, volatility, liquidity and position size.

  Margin Closeout (“MCO”) – This process refers to the automatic liquidation of client positions where there are insufficient funds in place to support the client’s margin requirement.

  Clients receive automatic alerts once certain trigger levels have been reached allowing them the opportunity to close out certain positions or provide additional funds to maintain margin requirements. Once thresholds have been breached, the process is both automatic and rapid. The process is monitored by the Firm’s Trading desk.

- **Debt Recovery** – Debt recovery is only necessary if the client fails to honour its obligation to maintain a positive net equity balance. The Firm utilises both internal and external resources to pursue the recovery of negative balances, 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 2018, including movements for write offs, bad debts realised and provision for 2018, are shown in the table below:

Bad Debt Provision

	31 December 2018 £m
Provision as at 1st January 2018	2.2
Release of provisions	(0.2)
Increase in Bad Debt Provision	0.7
Provision as at 31st December 2018	2.7

- **Daily Monitoring** – The Risk team meet daily to review the daily risk summary report which assesses a number of key credit risk indicators. This report includes predefined triggers and highlights potential areas of concern including clients located in high-risk jurisdictions or the concentration of exposure in specific markets or instruments. Stress and scenario analysis (see below) is included as part of the daily review. Resultant actions include additional analysis, changes to limits and triggers, or changes to specific margin requirements.

- **Monthly Monitoring** – The Firm's Risk Management Committee monitors client credit risk on a monthly basis. The committee monitors key risk indicators and risk performance metrics in accordance with risk appetite, including client VaR exposure and the results derived from stress testing. This forum allows senior representatives from across the business to engage in the process, better understand the risks the Firm is exposed to and agree actions to manage credit risk.

- **Economic Event Preparation** – The Risk team monitor economic events such as the UK Brexit referendum or the 2016 US Presidential Election. The team provide specific analysis and guidance for the Firm, advising on the approach to manage client margin requirements for example, whilst additionally ensuring that clients and the business are informed and prepared. This has proved to be an extremely effective risk management tool, particularly during periods of market volatility.

- **Stress and Scenario Testing** – Stress and scenario testing is considered an essential analysis tool. Stress scenarios are reviewed annually, selected from a range of both actual and hypothetical scenarios and determined by plausibility and impact. A proprietary model is used to simulate the potential impact of these scenarios to evaluate market losses, credit losses and changes to capital solvency. This facilitates the identification of specific risks allowing the Risk team to take mitigating action and manage exposure to within the Firm's risk appetite.

4.2. Counterparty Credit Risk (Liquidity Providers)

The Firm is also exposed to counterparty credit risk in its dealings with its liquidity providers.

- **Broker Relationships** – The Firm offers clients the ability to trade CFD and spread bet products utilizing leverage by acting as a counterparty to the client transaction. This exposes the Firm to risks in volatility in the financial markets. To hedge this market risk, the Firm may open positions with brokers to offset positions booked by clients using a combination of exchange traded and OTC financial instruments. Although this activity reduces the Firm's market risk, it does potentially expose the Firm to the risk of these brokers not honouring their obligations or otherwise defaulting on the Firm.

- **Clearing Relationships** – The Firm is able to offer centrally cleared equity CFD and spread bet products to its clients. As such, the Firm can be exposed to counterparty credit risk with a central counterparty. However, given how well capitalised these institutions are, the Firm considers the risk posed with exposures to the LCH Group Ltd ("LCH") as minimal. This risk will be reduced to nil in light of the Firm having exited this business and given notice to terminate its membership with the LCH.

The Firm's key controls in the mitigation of counterparty credit risk losses are its robust assessment and diversification of exposures across multiple counterparties, as well as continuous and vigorous monitoring by relevant teams.

Counterparty Selection & Assessment

Counterparties are assessed by the Risk team using quantitative and qualitative criteria which are then further applied to set trading limits. The selection criteria have been articulated in the Firm's policies, where minimum approval requirements have been established that must be adhered to. If the institution fails to meet these requirements the case may be referred to the Risk Management Committee for further consideration. The key elements are summarised below:

- **Diversification:** The Firm ensures that both its broker and funding relationships are diversified amongst numerous counterparties.

- **Market Capitalisation:** Market Capitalisation is a measure of the financial size of an institution and is used as a means to assess the appropriate level of exposure the Firm is prepared to accept. This provides protection against funding smaller organisations that become reliant on the Firm's liquidity.

- **Credit Rating:** The Firm uses long-term ratings provided by external rating agencies (primarily S&P), to assess the credit worthiness of prospective counterparties. Once a relationship has been established, the counterparty's rating is monitored, and counterparty limits will be adjusted accordingly to any changes such as a review and reduction in the event of a downgrade.

- **Common Equity Tier 1 ratio ("CET 1 ratio"):** The CET 1 ratio signifies an institution's financial strength and resilience in the face of financial stress.

- **5-year Credit Default Swap ("CDS") price:** The CDS reflects the price of an insurance contract where a premium is paid to insure the organisation against debt default. The CDS reacts much faster to market news than the other credit measures and can indicate if an organisation's risk profile changes so the Firm monitors CDS prices daily and can be reactive and adjust funding limits or transfer funds accordingly.

- **Risk Monitoring:** The Firm applies a rigorous risk monitoring and reporting framework.

4.3. Credit Risk (Institutions)

The Firm is primarily exposed to institutional credit risk through the placing of surplus own funds with credit institutions.

- **Institutional 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 relevant investment guidelines. 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.

The Firm's key controls in the mitigation of institutional credit risk losses are its robust assessment of counterparties, the application of prudent exposure funding limits and the diversification of exposures across multiple counterparties, as well as continuous and vigorous 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 Management 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 Management Committee.

The assessment criteria and monitoring are the same as for liquidity providers as addressed in Section 4.2 - Counterparty Credit Risk (Liquidity Providers).

4.4. Banking Book Equity Exposures

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

4.5. Market Risk

The Firm is primarily exposed to market risk as a result of its trading activities. The Firm acts as a counterparty to customers' spread bet and CFD transactions and is therefore exposed to losses if adverse market movement causes the value of the Firm's open positions to decline. On a product level, the netting of individual client exposures reduces the Firm's market exposure. The Firm hedges this residual exposure, in accordance with its hedging strategy, using a range of prime brokers. The Firm does not hold any proprietary positions.

The Firm's hedging strategy is governed by trading mandates proposed by the Risk team and approved by the Board, as documented in the Firm's Group Market Risk Management Policy. The mandates have been designed to ensure the Firm operates within risk appetite at all times. Real-time monitoring allows the Firm to manage its exposure on a live basis with a clear segregation of duties between the Trading desk, responsible for executing the trades and Risk management who provide oversight.

In addition to the above, the Firm's hedging strategy determines with whom the Firm automatically hedges its exposure and with whom the Firm is prepared to assume market risk, within the confines of the trading mandates.

Market Risk Exposure by Instrument Type

	31 December 2018 £m
Traded debt instruments	2.7
Equity	132.5
Foreign Exchange	5.6
Commodities	31.2
Total Market Risk	172.0

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

- **Hedging Strategy –** The Firm's hedging strategy is designed to manage market risk within appetite and pre-determined limits to generate revenue from market exposure and volatility. The strategy and limits are set by the CRO reporting back to the Risk Management Committee and Group Risk Committee with the Trading team responsible for monitoring exposure and the execution of hedge trades within trading mandates. Hedging activity is primarily conducted using straight through processing and automation, removing the opportunity for human error, to ensure the strategy is responsive to client and market activity. This process is closely monitored with controls in place to ensure the strategy is executed as designed. Risk based dashboards have been developed to monitor the effectiveness of this strategy with key metrics monitored including daily returns, standard deviation and Sharpe ratio.

- **Trading Mandates –** Trading mandates are the notional position limits set in line with risk appetite and in accordance with the hedging strategy. They are the primary tool in controlling market risk and are set at varying levels of granularity, from overall asset class (FX/Index/Equity) on a combined basis, to individual products which manages concentration in any single product.

  The Risk team sets the mandates by product and asset class based upon historical research to incorporate characteristics such as liquidity and transactional volume, balanced against potential returns. Trading mandate changes are approved by the Group CRO and the Group CEO and reviewed at the Risk Management Committee. These are then reviewed quarterly by the Board.

  Once approved by the CRO, the Risk team manage the trading mandates and can amend them dynamically where necessary. For example, mandates can be reduced prior to weekends when markets are closed, when liquidity is lower during off-peak trading periods, or when economic events could have a material impact on the market.

- **Market Loss Limits** – the GAIN Capital group sets a limit for the maximum market related losses (P&L) it is prepared to accept on any individual trading day.

- **Solvency Limits** – The Firm monitors its capital requirements at all times. Trading limits are set to ensure the Firm remains in excess of these requirements for the entire market risk portfolio allowing for an appropriate buffer so that pre-emptive action can be taken before any capital thresholds are breached.

- **Intraday Monitoring** – Market risk exposure, trading mandates, P&L loss limits and solvency limits are actively monitored and managed intraday on a real-time basis using proprietary applications and web-based risk monitors. The monitors are supported by alert services that, in the event of a trigger warning or a breach, send an automated email alert to relevant traders and where appropriate the Risk team including the CRO.

- **Daily Monitoring** – The Risk team review daily reports to monitor trading activity and market exposure, this includes:

  - trading position VaR exposures per product and consolidated;
  - client concentrations – individual markets;
  - stress and scenario testing results (see below); and
  - anomalous single stock positions – liquidity comparison.

  The daily risk reports include historical analysis for individual risk categories with pre-determined triggers and actions to be taken to manage market risk exposure.

- **Stress and Scenario Testing** – Scenario tests are performed using proprietary systems. Up to twenty different stressed market scenarios including various types of market crisis, some hypothetical in nature and others based on actual historical experiences, are modelled against current positions held by the Firm to simulate the consequences of each event.

4.6. 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.

4.7. 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 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 team carries out a weekly scenario analysis to test the worst-case stress on the Firm's liquidity position.

4.8. 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.

4.9. 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 therefore technological interruptions, business disruption and system failures or constraints

are viewed as key operational risks. These specifically include the failure of systems within the Firm's IT infrastructure and applications, technology issues experienced during the integration of systems, third-party technology service provider failures, platform outages, data security, cyber security, business continuity and damage to physical assets.

- **Business Operations** – the Firm defines "Business Operations" as all other non-technology operational risks. These include internal and external fraud, the failure of products, business practices, people or processes, damage to physical assets, human error or misconduct, issues experienced during integration and business change. It also includes conduct risks such as compliance breaches, money-laundering, financial crime and client money issues. The Firm considers the impact of any reputational risk and 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 and other confidential and proprietary information. The Firm uses a combination of firewalls, intrusion protection defence and access management controls to mitigate against the threat of system penetration and data breaches caused by cyber criminals. In addition to anti-cyber intrusion measures, the business invests in hardware and software protection against dedicated denial of service and other cyber-attacks and provides training to its employees designed to empower them to recognize and avoid phishing and other social-engineering attacks.

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

- **Incident Management and Monitoring:** Incidents or failures are managed via the Firm's business continuity process.

- **Change Management Processes:** The Firm uses Agile development methodology to manage the updating and development of 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 to back testing. Robust testing of new software and system releases, a quantitative regression testing phase and user acceptance ensure that the business is widely engaged in the process. Once changes have been thoroughly tested and approved, they are reviewed by a Change Acceptance Board before release to the live environment.

To manage business operation risks, the Firm has adopted the following key controls:

- **Policies and Procedures:** The global policy framework provides a level of standardisation to ensure that all policies are produced in line with the Firm's governance structure.

- **Risk and Control Self-Assessment (“RCSA”) program:** The Firm’s RCSA requires business owners to identify and manage risk within their areas.

- **Incident Monitoring:** The Operational Risk team monitor and report all incidents which are reviewed at weekly meetings.

- **Complaints Procedure:** The Firm’s Client Management team provides assistance to customers. If customers are dissatisfied, the Firm has set procedures to ensure they are able to raise the issue without impediment and that it is appropriately investigated.

- **Conduct / Quality Assurance:** All client facing staff must follow the Firm’s code of conduct. Communications are routinely monitored by the Firm’s Compliance team.

- **Training & Awareness:** Staff are required to complete training programmes which are administered by the Compliance team, including core courses such as Anti-Money Laundering, Treating Customers Fairly, Preventing Market Abuse and General Data Protection Regulation.

- **Business Continuity, Disaster & 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.

- **Monthly monitoring:** The Firm’s operational risk exposures are presented, reviewed and challenged at the Risk Management 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.

4.10. Interest Rate Risk in the Banking Book

Interest Rate Risk in the Banking Book (’IRRBB’) is the risk of the Firm being impacted by adverse movements in interest rates that would affect its non-trading book positions (e.g. not CFD and Spread Betting positions) and the income earned from client monies deposited as collateral. As part of the ICAAP process, an interest rate shock is applied to on and off-balance sheet exposures leading to the calculation of a pillar 2a add-on to reflect an appropriate level of capital that should be set aside to cover this risk.

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 ECAIs 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 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

	31 December 2018 £m
Capital & Reserves per the financial statements	
Called up share capital	86.7
Share premium	44.4
Retained earnings	37.5
Special Reserve	3.4
	171.9
Less:	
Unaudited Profits*	(19.5)
Core Equity Tier 1 Capital	152.4

*****_At the point when the 31 December COREP filing was made, 2018 profits were unaudited and hence represent the one reconciling item between CET 1 capital and total equity per the year end accounts._

8. Appendix 4 – Countercyclical Buffer

Country of Exposure	Own Funds Requirements (Credit/Specific Risk relating to relevant credit exposures) £000	Own Funds Weight %	CCyB rate %	Weighted Average CCyB rate %
Norway	6	0.09%	2.00%	0.00%
Sweden	8	0.12%	2.00%	0.00%
Hong Kong	56	0.80%	1.88%	0.02%
Iceland	0	0.00%	1.25%	0.00%
Slovakia	3	0.04%	1.25%	0.00%
Czech Republic	1	0.01%	1.00%	0.00%
United Kingdom	4,091	58.62%	1.00%	0.59%
Lithuania	0	0.00%	0.50%	0.00%
Other	3	0.04%	0.00%	0.00%
Total	**6,979**	**100%**	**10.88%**	**0.61%**

	£000
Total Risk Weighted Exposure Amount ('TREA')	550,652
Weighted Average CCyB rate %	0.61%
Countercyclical Buffer ('CCyB')	3,336
Total Risk Weighted Exposure Amount ('TREA')	550,652
CCB rate %	1.875%
Capital Conservation Buffer ('CCB')	10,325
Combined Buffer ('CB')	**13,661**