



# StoneX<sup>®</sup>

StoneX Europe Ltd

Pillar 3 Disclosure

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September 2022

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## 1. Executive Summary

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### 1.1. Introduction

European Investment firms, such as StoneX Europe Limited ('SEL' or 'the Firm') have been subject to prudential rules set by the Basel III framework (the Basel Committee on Banking Supervision's recommended measures to regulate the financial services industry), comprising of the Capital Requirements Regulation and Directive ('CRR' and 'CRDIV'). As of 26<sup>th</sup> of June 2021, for non-systemic investment firms such as SEL, these requirements were replaced by the EU Regulation 2019/2033 (the 'Investment Firm Regulation' or 'IFR') and EU Directive 2019/2034 (the 'Investment Firm Directive' or 'IFD'), where the latter has been harmonized into Cyprus legislation through the issuance of the Cyprus Law on the Prudential Supervision of CIFs of 2021 (165(I)/2021). The new rules introduce changes in the methodologies that EU investment firms are required to apply for calculating their exposures to risk and their capital adequacy ratio and are considered to reflect better the specific risks faced by investment firms rather than banks, which continue to apply the Basel rules.

The IFR/IFD 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 at all times a sufficient amount of capital above the minimum requirement, as calculated using prescribed methods.
- Pillar 2 - Internal Capital Adequacy and Risk Assessment process ('ICARA') and Supervisory Review and Evaluation Process ('SREP') - ensures that the Firm and its supervisor (the Cyprus Securities & Exchange Commission, or 'CySEC') 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 risk governance policies and procedures, allowing market participants to view and compare meaningful information relating to the Firm and its peers.

The Firm's Pillar 3 disclosure has been prepared in compliance with Part 6 of IFR for the financial year ending on 30<sup>th</sup> September 2022. 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 publishes its Pillar 3 disclosure document on its website at [this location](#).

### 1.2. Exclusions

Please note that SEL meets the criteria referred to in Article 32(4)(a) of IFD<sup>1</sup>. Therefore, this Pillar 3 disclosure will not include details regarding the Investment Policy, nor Environmental, Social and Governance Risks outlined in Articles 52 and 53 of the IFR respectively.

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<sup>1</sup> IFD Article 32(4)(a) - "an investment firm, where the value of its on and off-balance sheet assets is on average equal to or less than EUR 100 million over the four-year period immediately preceding the given financial year".

## 1.3. Corporate Structure

The Firm is a Class 2 Cyprus Investment Firm ('CIF') company registered to the Department of Registrar of Companies and Official Receiver with a Registration Number HE409708 and authorised and regulated by the CySEC under license number 400/21, which had been granted on 24<sup>th</sup> May 2021. The Firm has a LEI Code of 5493000TJZHQRMOTYW79. It is required to hold €750k of initial capital set in accordance with Article 14 of IFR and Article 9 of IFD.

SEL is a wholly owned subsidiary of StoneX Group Inc., a US corporation ('the Group') quoted on the US NASDAQ exchange.

The Firm provides its clients with access to a diverse range of global financial markets, offering spread bet and contracts for difference ('CFD') products. Trading services and solutions are provided to clients through the Firm's platforms. These platforms enable clients to access services through web portals as well as mobile and other channels. The platforms provide clients with price discovery, trade execution and order management tools and give clients innovative trading solutions for research, analysis, and account management.

The Firm has the license to provide the following investment and ancillary services, in the financial instruments outlined below:

### **Investment Services**

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Reception and transmission of orders in relation to one or more financial instruments;  
Execution of orders on behalf of clients;  
Dealing on own account;

### **Ancillary Services**

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Safekeeping and administration of financial instruments, including custodianship and related services;  
Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction;  
Foreign exchange services where these are connected to the provision of investment services;  
Investment research and financial analysis or other forms

### **Financial Instruments**

1. Transferable securities;
2. Money-market instruments;
3. Units in Collective Investment Undertakings;
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, emission allowances or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash;
5. Options, futures, swaps, forwards and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties other than by reason of default or other termination event;
6. Options, futures, swaps, and any other derivative contracts relating to commodities that can be physically settled, provided that they are traded on a regulated market and/or an MTF or an OTF;
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point (6) above and not being for commercial purposes, which have the characteristics of other derivative financial instruments;
8. Derivative instruments for the transfer of credit risk;
9. Financial contracts for differences;
10. Options, futures, swaps, forward-rate agreements and any other derivative contracts relating to climatic variables, freight rates or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties, other than by reason of a default or other termination event, as well as any other derivative contracts relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Section, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market, OTF, or an MTF.

## 1.4. 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 a CySEC regulated firm, SEL is committed to the implementation of good corporate governance and to being accountable for and transparent in its decisions and activities.

As part of its overall governance and decision-making framework, the Firm has established its trading systems through a clear and formalised governance arrangement, having regard to the nature, scale and complexity of its business and setting out:

- a. clear lines of accountability, including procedures to approve the development, deployment, and subsequent updates of trading systems and to solve problems identified when monitoring trading;
- b. effective procedures for the communication of information within the investment firm, such that instructions can be sought and implemented in an efficient and timely manner; and
- c. separation of tasks and responsibilities of trading desks on the one hand and supporting functions, including risk control and compliance functions, on the other, to ensure that unauthorized trading activity cannot be concealed.

During compliance with the abovementioned requirements, the Firm considers the nature, scale and complexity of its business, and the nature and range of investment services and activities undertaken in the course of that business.

Given the global nature of the Firm’s business, the aim of the above governance structure is to ensure there is effective communication between the Firm and the wider StoneX Group.

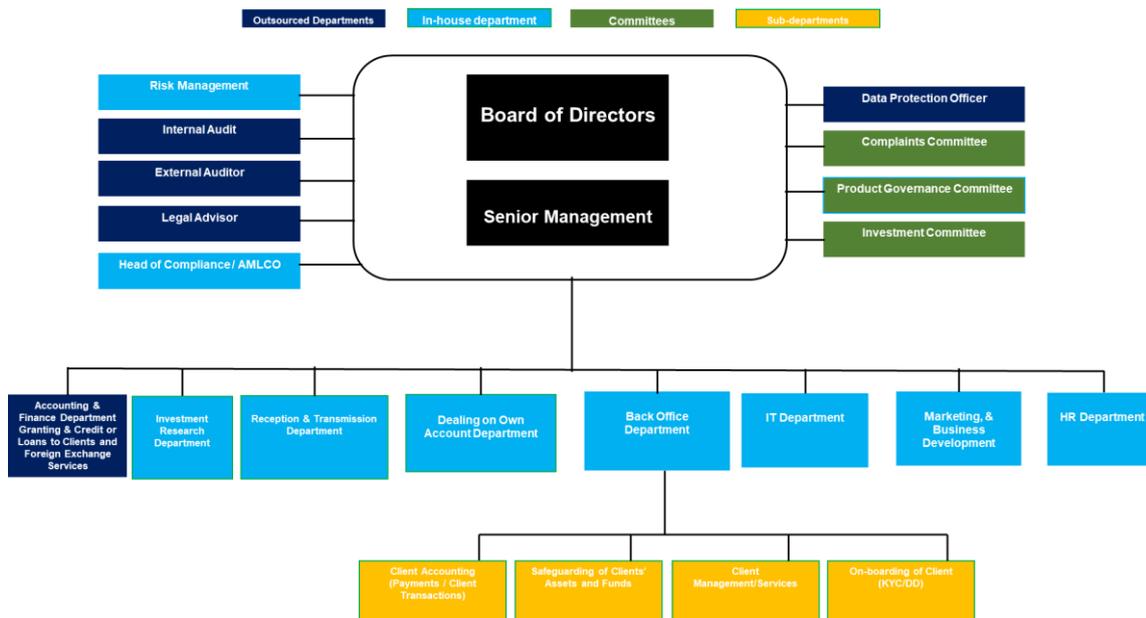
The StoneX Group maintains organisational structures with clear lines of responsibility, effective risk reporting and internal controls that flow to SEL.

The risk management and internal control systems are embedded in the operations of the Firm and are capable of responding quickly to evolving business risks, whether they arise from factors within SEL or from changes in the business environment.

## 1.5. Organisational structure

The Firm’s latest organisational structure is as follows:

Figure 1 - Organisational Structure



## 1.6. 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. 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 the StoneX 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 ICARA;
- 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;
- 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;
- 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.

Table 1 below discloses the number of directorships held by members of the management body, including the position held within the Firm. Executive and non-executive directorships held within the same group of companies are considered as a single directorship.

*Table 1 - Number of Directorships Held*

Director Name	Function	Number of Executive Directorships	Number of Non-Executive Directorships
Mr. Konstantinos Rafailidis	Executive Director	1	-
Mr. Diego Rotsztain	Non-Independent Non-Executive Director	-	1
Mr. Ioannis Assiotis	Independent Non-Executive Director	1	3
Mr. Nikolas Demetriades	Independent Non-Executive Director	-	2

*Notes: The information in this table is based only on representations made by the directors of the Firm.*

*Mr. Giorgos Koutroukis resigned as an Executive Director on 25<sup>th</sup> of November 2022. The Firm is in the process of recruiting an additional Executive Director. This process shall be completed by the end of March 2023.*

## 1.7. Diversification of the Management Body

The Firm established an Equal Opportunities Policy according to which certain diversity aspects shall be taken into consideration during the selection process of potential members of the management body. Specifically, the educational and professional background, gender, age, nationality and religion or belief are to be taken into consideration for the selection of members of the management body with the aim to promote diversity and equality within the management body.

Diversity in management functions is considered as an instrument that promotes efficiency, increases the independence within the management body and fosters equal opportunities and a socially responsible behaviour at the Firm.

## 1.8. Governance Committees

### **Product Governance Committee (Financial Product Approval and review Committee)**

The Firm established a Financial Product Approval and Review Committee. The Committee is comprised by the persons occupying the following positions in the Firm's Organisational structure:

- Two Executive Members of the Board of Directors
- Head of the Brokerage Department
- Head of Risk Management Department
- Head of Marketing

The Committee convenes on ad-hoc basis to propose new designs on offerings by the Firm.

The Committee may from time to time re-assess a product's features following changes in the market, regulatory shifts and/or requests, Firm's initiative, or other such prompts. The revised Product Assessment Sheet shall be reviewed by the Firm's Head of Compliance Function who will either approve or submit back to the Committee for reconsideration.

### **Investment Committee**

An Investment Committee is formed to ensure the practice of a proper investment policy and the monitoring of the provision of adequate investment services to Clients.

Quorum must be achieved before meetings can be considered open. Quorum shall be two members present, either physically or through telephone conference calls.

The Investment Committee reports to the Management Body and consists of:

- Two Executive Members,
- One Independent Non-Executive Director, and
- Head of Dealing on Own Account Department.

The chairman of the Investment Committee is the Managing Director.

The members of the Committee change only upon the approval of the Board. The latter must immediately replace the retiring member of the Committee or appoint a temporary member until a permanent member is selected.

Any member wishing to retire from the Committee must submit a written resignation to the Board. In the letter, the member must state the reason for resigning, while sufficient time must be given, so that the Board may select an alternative member. The Board has the duty to convene at short notice to examine the resignation letter, with the participation, if deemed necessary, of the said member of the Committee.

### **Complaints Committee**

The Complaints Committee has the responsibility to decide/issue further instruction to the Head of Client Management and/or to the Head of Compliance of the Firm for the handling and settlement of the complaints received.

The Complaints Committee bears the responsibility to monitor the adequacy and effectiveness of complaints handling procedures that are in place, the level of compliance of the Firm and its relevant persons with the policies and procedures adopted, as well as the adequacy and effectiveness of measures taken to address any deficiencies with respect to those policies and procedure, including failures by the Firm's relevant persons to comply with those policies.

Additionally, the role of the Complaints Committee together with Senior Management includes analysing on an on-going basis the complaints handling data, to ensure that any recurring or systemic problems, and potential legal and operational risks are identified and addressed accordingly. For example, by:

- analysing the cause of the individual complaint to identify root of cause common to types of complaints;
- considering whether such root of causes also affect other processes of financial means, including those not directly complained of; and
- correcting, whether reasonable to do so, such root causes.

It is noted that, following consideration of its size, internal organisation and the nature, the scope and the complexity of its activities, the Firm does not deem necessary the establishment of a Nomination, Risk or a Remuneration Committee.

## 2. Risk Management

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### 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.

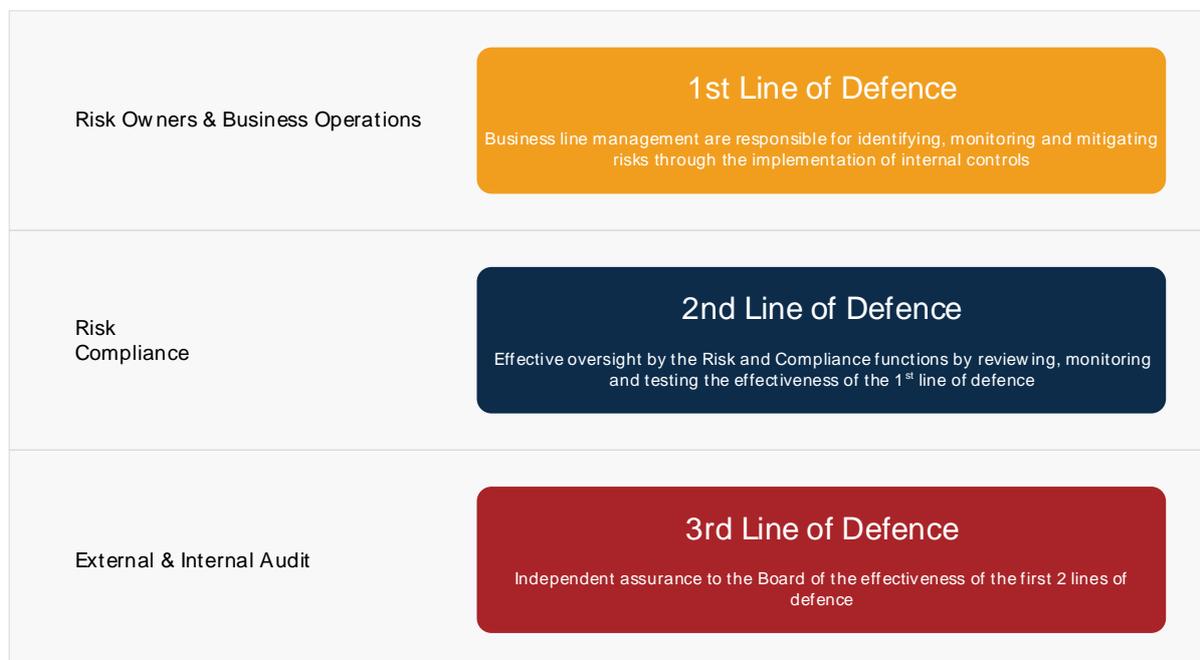
In order to exercise its responsibilities effectively, the Firm's Board:

- 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. 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's 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.

Figure 2 - Three Lines of Defence



### 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.

### 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.

### Third Line of Defence

As the Firm's third line of defence, Audit provides objective and independent assurance. The scope of audit encompasses, but is not limited to, the examination and evaluation of the adequacy and overall effectiveness of the Firm's governance, risk management, internal processes, and controls, as well as the quality of performance in carrying out assigned responsibilities to achieve the Firm's stated goals.

## 2.3. Risk Management Framework & Objective

The objective of risk management is to ensure that all risks can be effectively identified by the Firm, and that these risks are then mitigated as far as possible. Continued monitoring of the risks identified ensures that the Firm can reduce any potential exposure it has.

The Firm's Risk Management Framework documents the risk policy and processes with which the Firm must comply. It is a European-wide policy and applies to all European entities within the StoneX Group.

The group-wide risk management process seeks to identify, assess, monitor, and report risks that could materially influence the Firm's ability to achieve the 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 framework provides the Firm's Board and Senior Management with tools required to safeguard the Firm's assets, clients, brand, reputation, and employees. The Board uses the framework to help it oversee and manage SEL's principal risks.

## 2.4. 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 and others throughout the business.

## 2.5. Risk Appetite

Risk and reward are common factors in the management of any business, including regulated investment firms. It is not realistic to run a business and assume that there is no risk inherent in its activities, even if they are soundly mitigated. However, all businesses should have a good grasp of what these risks are, how to measure them and whether they are acceptable given the rewards expected.

The risk appetite is an expression of the volatility in earnings the business is prepared to accept in pursuit of a stated strategy. It is also a critical element in the forward-looking estimate of the capital and liquidity needs of the business.

SEL's Board is required to ensure that its strategy and risk parameters conform to the Group's boundaries. Therefore, SEL is looking to form its risk appetite that aims to:

- be reflective of current Group strategy, including objectives, business plans and stakeholder expectations;
- take account of all key risk attributes of the businesses;
- acknowledge a willingness and capacity to take on specific risks (within appropriate limits); and
- enable management to determine the necessary processes and employee resourcing required to manage and monitor risk exposure versus the stated risk appetite.

## 3. Principal Risks

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The Firm faces several key risks in conducting business. These are assessed further below.

### 3.1. Risk to Client

Risk to Client ('RtC') is the risk that an investment firm poses to clients if it fails to carry out its services or operations correctly.

There are four K-factors under RtC:

- **K-AUM (Assets Under Management)** – This looks at the risks associated with discretionary portfolio management and non-discretionary arrangements constituting investment advice of an ongoing nature. As the Firm does not provide such services, this does not apply.
- **K-CMH (Client Money Held)** – Captures the risk of an investment firm causing potential harm to clients where it holds their money.
- **K-ASA (Assets Safeguarded and Administered)** – The risk of harm associated with the safeguarding and administering of a client's financial instruments. The Firm does not take on activities that relate to asset safeguarding or administration, therefore, this does not apply. We note that the safeguarding of clients' positions in CFD products is captured under K-CMH.
- **K-COH (Client Orders Handled)** – Captures the potential risk to clients of an investment firm which executes orders in the name of the client. The Firm executes its clients' orders by acting as principal to their trades, therefore this does not apply.

Failure to carry out its services or operations correctly will be a key risk that the Firm would need to manage. The negative impact on clients of this failure could be substantial if not managed appropriately.

#### **K-CMH**

The Firm holds clients' funds as part of its day-to-day trading operations. As such, it has policies and processes in place to ensure that client funds are not comingled with the Firm's own funds in accordance with Directive DI87-01 for the Safeguarding of Financial Instruments and Funds belonging to Clients and Circular C458 on the enhancement of procedures regarding safeguarding of client funds held by CIFs. The Firm does not expect there to be any non-segregated client money to form part of K-CMH.

### 3.2. Risk to Market

Risk to Market ('RtM') is the risk that an investment firm poses to the financial markets that it operates in and the counterparties that it trades with.

There are two K-factors under RtM:

- **K-NPR (Net Position Risk)** – SEL is subject to market risk as a result of its trading activities where it acts as a counterparty to customers' CFD transactions. SEL is therefore exposed to losses if adverse market movement cause the value of SEL's open positions to decline.
- **K-CMG (Clearing Margin Given)** – This is an alternative to K-NPR to provide for market risk for trades that are subject to clearing as set out in Article 23 of IFR. This does not apply to SEL.

#### **K-NPR**

The Firm is primarily exposed to market risk as a result of its trading activities. The Firm acts as a counterparty to clients' CFD transactions and is therefore exposed to losses if adverse market movements cause the value of the Firm's open positions to decline. As such, the Firm manages its market risk by entering into a back-to-back arrangement with an affiliate, in line with the StoneX Group's hedging strategy.

By transferring all traded market risk, the Firm mitigates this risk.

However, the Firm is still subject to foreign exchange risk in the non-Trading Book, which is a subset of K-NPR. It arises from the possibility that fluctuations in foreign exchange rates will give rise to losses when a company engages in financial transactions denominated in a currency other than its reporting currency.

The Firm seeks to take on clients in the same reporting currency (Euro) as SEL that will inherently reduce this risk from arising. Any FX risk is monitored, and any balances causing significant FX risk are addressed.

## 3.3. Risk to Firm

Risk to Firm ('RtF') is the risk that an investment firm faces through its trading activity and market participation.

There are three K-factors under RtF:

- **K-TCD (Trading Counterparty Default)** – This looks at the risk of losses arising from the default of a counterparty with which a company maintains open Trading Book positions in derivatives and other specified transactions. This includes both clients and liquidity providers.
- **K-DTF (Daily Trading Flow)** – This captures the operational risk related to the value of trading activity that the investment firm conducts.
- **K-CON (Concentration Risk)** – This seeks to apply additional own funds to manage concentration to a single counterparty or a group of connected counterparties to which a company incurs Trading Book exposures.

### K-TCD

K-TCD captures the risk of a client or a liquidity provider from defaulting.

The Firm offers clients the ability to trade CFD products utilising leverage by acting as a counterparty to the client transaction. The Firm is exposed to risk where the Firm's exposure to a client exceeds the client's total equity. These are then crystallized 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 resources to manage and mitigate this risk, primarily by requiring appropriate levels of margin to be deposited by clients and through effective liquidation policies and procedures. Some of the key controls are described 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.

The Firm is also exposed to K-TCD through its dealings with its affiliate where back-to-back transactions are placed. Although this arrangement reduces the Firm's market risk, it does expose the Firm to the risk of these affiliates defaulting on the Firm. It is noted that for that purpose, the Firm has in place an ISDA 2002 master agreement with its affiliate, StoneX Financial Ltd.

These policies, procedures and master agreement enable the Firm to reduce its K-TCD significantly.

## K-DTF

K-DTF applies to firms that are able to deal on own account, such as SEL. It seeks to assess the total value of daily trading flow in each business day in order to capture the operational risks related to those trades. The Firm is required to control operational risk arising from systems, processes, people, and external events.

Operational risk management forms part of the day-to-day responsibilities of management at all levels. The operational risk management framework includes qualitative and quantitative methodologies and tools to assist management to identify, assess and monitor operational risks and to provide management with information for determining appropriate controls and mitigating measures. The framework is based around Risk and Control Self-Assessments (RCSA), Key Risk Indicators (KRIs), incident reporting and stress testing. All incidents are reported to the executive directors, as are KRI reports. In addition, the Operational Risk Department escalates where appropriate to work with management to mitigate any risks.

## K-CON

SEL incurs concentration risk through its TCD exposures towards its clients for which it acts as the counterparty for executing their CFD transactions, as well as through its TCD exposures towards the affiliate that it places back-to-back CFD trades with, to cover the market risk that arises from its aforementioned client servicing activities. In addition, SEL incurs concentration risk as a result of the positive excess of the long over short notional position in issuers of equity and interest-rate instruments in the Trading Book.

As the execution of clients' CFD transactions through its own account and the back-to-back arrangement are core parts of the business strategy of SEL, the Board considers the risk to each of these counterparties as acceptable. The same holds for SEL's exposure towards the various issuers of the underlying instruments of its CFDs. It is worth noting that these are closely monitored to ensure that they do not exceed the Firm's capital thresholds. As at the reference date, the Firm's TCD exposures towards its clients, affiliate and issuers of equity and interest-rate instruments in the Trading Book do not exceed the Firm's capital thresholds as this are prescribed in Article 37 of IFR.

The Firm is also subject to concentration risk towards major international regulated banks with which it holds both client and own funds. To better manage and mitigate this risk, the Firm is looking to diversify in order to better protect the clients and itself from the risk of default of one such counterparty. It should be noted that this risk reflects non-Trading Book exposures and is therefore not captured under the Firm's Pillar 1 k-CON calculations, but in its ICARA process instead.

## 3.4. Risks related to crypto assets and financial instruments relating to crypto assets

The Firm bears risk arising from crypto assets and financial instruments relating to crypto assets. The Firm offers to its clients CFDs in various assets. Trading income represents gains (including spread, commission, and funding charges) and losses arising on client trading activity, in CFDs primarily on shares, indices, commodities, ETFs, foreign exchange and cryptocurrencies.

All CFDs transactions entered with the clients are fully hedged with the related party, StoneX Financial Ltd. Net trading income represents trading income after adding/(deducting) the aforementioned gain/loss from hedging transactions with the related party.

As at 30<sup>th</sup> of September 2022, the Firm did not hold any material exposure in crypto assets.

## 3.5. Other Risks

### Liquidity Risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability but can also increase the risk of losses. No maturity

table disclosing the undiscounted cash flows of the underlying liabilities has been presented as all outstanding balances are due within 12 months and consequently their carrying amounts are representative of their contractual cash flows and the impact of discounting is not significant. In addition, the Firm will ensure that it maintains on its balance sheet, and/or arranges with reputable third parties, adequate liquidity resources on a solo basis to meet its obligations as and when they fall due.

It is understood that the Firm must always ensure adequate liquidity set out in the specific liquidity requirements with liquid assets as set out in Article 43 of IFR. As at 30th of September 2022, the Firm satisfied the liquidity requirement.

## Operational Risk other than DTF

Based on the sources of risk information, the SEL risk control function noted the following existing and emerging risks:

- Risk of failure of IT Controls (inc. Cyber Risk);
- Risk of failure to adequately protect personal data and/or adhere to GDPR regulations;
- Risk of AML compliance failures;
- Risk of failure of systems and/or applications;
- Risk of failure to comply with all regulatory requirements (including change in requirements);

The firm has ongoing Risk and Control Self Assessment, to assess the operational risk that might impact SEL. The purpose of the project is to identify and quantify the operational risk and assess the control in place effectiveness.

Anticipation and identification of material and emerging risks occurs through regular gathering and analysis of information from a variety of internal and external sources. Sources of risk information may include:

- Operational risk incident reports and operational key risk indicators;
- Reviews or audits that result in control weaknesses identified by regulators, external auditors, Internal Audit, Compliance, or other internal control functions;
- Input from Authorised Management or Board of Directors;
- Information on changes that could give rise to emerging risks (addition of new products, changes in systems and processes);
- Requirements and/or requests from regulators;
- External sources (external databases).

## Credit Risk

The Firm is exposed to credit risk in various forms, one of which is Counterparty Credit Risk. The main counterparty exposure risk for SEL, other than intercompany exposures, is Eurobank Cyprus. The firm have set limits per counterparty following an internal credit review and the perceived ability to protect funds.

The Firm is also subject to concentration risk towards Eurobank Cyprus with which it holds both client and own funds. Worth to mention that concentration to a single credit institution might cause operational risk in case of service interruption as there is not other alternative banking relationship at the moment. The Firm is looking to diversify in order to better protect the clients and itself from the risk of default of one such counterparty.

## COVID-19 pandemic, conflict between Ukraine and Russia

Economic and financial market conditions, including those caused by the COVID-19 pandemic, the conflict between Ukraine and Russia and related sanctions imposed by the UK government and other governing bodies in countries in which the Firm conducts business, created significant market volatility, uncertainty, and economic disruption. While increased volatility is typically a driver of increased client activity and growth in the Firm's operating revenues, longer periods of extreme volatility and dislocation in global securities, foreign exchange and commodity markets may affect the Firm's ability to establish effective offsetting positions in the Firm's principal trading and market-making activities which may expose it to

trading losses. In addition, in the event that a global recession or slowdown occurs, this could lead to extended periods of decreased volatility which could adversely affect the Firm's profitability. The Firm also may be exposed to increased counterparty default, liquidity, and credit risks with respect to its client accounts, which means if the Firm's clients experience losses in excess of the funds they have deposited with it, the Firm may not be able to recover the negative client equity from its clients. In these circumstances, the Firm may nonetheless be required to fund positions with counterparties using its own funds, which in turn would reduce its liquidity buffers. If any of these risks materialise, the Firm's operating results or ability to conduct its business may be materially adversely affected.

In addition, the COVID-19 pandemic has led to increased operational and cybersecurity risks. These risks include, among others, increased demand on the Firm's information technology resources and systems and the increased risk of phishing and other cybersecurity attacks. Any failure to effectively manage these increased operational and cybersecurity demands, and risks may materially adversely affect the Firm's results of operations and the ability to conduct the Firm's business.

To the extent the continuation of the COVID-19 pandemic and the ongoing conflict between Ukraine and Russia adversely affects the Firm's business, financial condition, liquidity or results of operations, these events may also have the effect of heightening many of the other risks described now and in the future.

As a result of there being no material impacts to revenue, costs, liquidity, reputation and regulatory capital, the directors are satisfied that the business has not been significantly impacted by the COVID-19 pandemic or the conflict between Ukraine and Russia.

## 4. Own Funds

### 4.1. Composition of Own Funds

The Firm's capital is fully in the form of Common Equity Tier 1 ('CET1'). This is the highest-ranking form of capital that comprises of ordinary shares and audited retained earnings.

Table 2 below shows an extract from the own funds templates EU IF CC1, which was compiled in line with Article 49(1)(a) and (c) of IFR. The full EU IF CC1 can be found in Appendix 1, Composition of Regulatory Own Funds.

Table 2 – Own Funds as of 30<sup>th</sup> September 2022

EU IF CC1 Reference	Amounts (€'000)	Source based on reference numbers/letters of the balance sheet in the audited financial statements (Cross reference to EU IF CC2)
4 Fully paid-up capital instruments	7,600	Ref 1 (Shareholders' Equity)
6 Retained earnings	19	Ref 2 (Shareholders' Equity)
10 Adjustments to CET1 due to prudential filters	(2)	
27 CET1: Other capital elements, deductions and adjustments	(3)	Ref 2 (Assets)
<b>3 COMMON EQUITY TIER 1 CAPITAL</b>	<b>7,614</b>	
<b>2 TIER 1 CAPITAL</b>	<b>7,614</b>	
<b>1 OWN FUNDS</b>	<b>7,614</b>	

Appendix 2, Own Funds Features, provides a detailed breakdown of the main features of the Firm's Own Funds in accordance with Article 49(1)(b) of IFR.

## 4.2. Own Funds Reconciliation with Financial Statements

The amounts referenced in Table 2 can be reconciled back to the financial statements.

Table 3 below shows SEL's audited balance sheet as of 30<sup>th</sup> September 2022 along with cross reference to Table 2.

Table 3 - Reconciliation of Audited Balance Sheet to Own Funds

EU IF CC2 Reference	Balance sheet as in published/audited financial statements As at period end	Cross reference to EU IF CC1
<b>Assets</b>		
1 Trade and other receivables	511	
2 Cash at bank (Additional ICF Cash Buffer)	3	Ref 27
3 Cash and cash equivalents	7,957	
<b>Total Assets</b>	<b>8,471</b>	
<b>Liabilities</b>		
1 Trade and other payables	850	
2 Borrowings	2	
<b>Total Liabilities</b>	<b>852</b>	
<b>Shareholders' Equity</b>		
1 Share capital	7,600	Ref 4
2 Accumulated losses/Retained Earnings	19	Ref 6
<b>Total Shareholders' equity</b>	<b>7,619</b>	

Note that Table 33 above is the own funds template EU IF CC2, which was compiled in accordance with Article 49(1)(a) of IFR.

## 5. Own Funds Requirement

### 5.1. Internal Capital and Risk Assessment Process

The Internal Capital and Risk Assessment ('ICARA') process focuses on the assessment of risks that a firm is exposed. SEL is seeking to document the process that identifies, measures, manages, and monitors the risks it faces. This will form the basis of the Firm's Pillar 2 requirements that SEL views as the additional amount of capital and liquidity it needs to hold against any risks that are not covered by Pillar 1. This would be reviewed on an annual basis, with updates being made if there are any significant changes to the Firm's business.

### 5.2. Own Funds Requirement

Table 4 - Own Funds Requirement

€'000	30th September 2022
<b>K-factor Requirement</b>	
Risk to Client	31
Risk to Market	99
Risk to Firm	27
Total K-factor Requirement	157
<b>Fixed Overhead Requirement ('FOR')</b>	
FOR	445
<b>Permanent Minimum Capital Requirement ('PMCR')</b>	
PMCR for SEL	750

Table 4 above breaks down the Pillar 1 minimum capital requirement that the Firm is required to hold as of 30<sup>th</sup> September 2022.

The Firm's K-factor requirement is calculated in accordance with Articles 16 through to 33 of IFR. As the Firm is still in its infancy, the level of activity that it carries out results in an overall low K-factor requirement figure. As the Firm increases its level of activity as set out in its business plan, it is anticipated that this figure will increase in the future.

FOR is calculated in accordance with Article 13 of IFR where the Firm assesses the fixed costs within its audited financial statement. FOR is equal to one quarter of the fixed costs.

As stated in Article 11(1) of IFR, SEL is required to hold the higher of its K-factor requirement, fixed overhead requirement and permanent minimum capital requirement.

For SEL, as the Firm is still relatively in its infancy, the PMCR of €750k<sup>2</sup> is the highest amount of minimum capital that it must hold at all times.

### 5.3. Capital Excess/Ratio

Table 5 - Capital Excess/Ratio

€'000	30th September 2022	Reference

<sup>2</sup> PMCR set in accordance with Article 14 of IFR and Article 9 of IFD

<b>Capital</b>		
Common Equity Tier 1	7,614	
Additional Tier 1	-	
Tier 2	-	
<b>Total Own Funds</b>	<b>7,614</b>	<b>a</b>
<b>Own Funds Requirement</b>		
K-factor Requirement	157	b
Fixed Overhead Requirement	445	c
Permanent Minimum Capital Requirement	750	d
<b>Minimum Own Funds Requirement</b>	<b>750</b>	<b>e = (higher of b, c &amp; d)</b>
<b>Capital Excess/Ratio</b>		
Capital Excess	6,864	a-e
Capital Ratio	1,015%	a/e

Table 5 above shows that SEL has excess capital of €6,864k above the minimum it is required to hold. This equates to a capital ratio of 1,015% which is above the minimum threshold of 100% set out in Article 9(1)(c) of IFR.

## 6. Remuneration Policy & Practices

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### 6.1. Overview

The Firm has established a Remuneration Policy ('the Policy'), the purpose of which is to set out the remuneration practices of the Firm, taking into consideration the salaries and benefits of the employees in accordance with the provisions of IFD as well as the CySEC Circular 031, Circular 138 and Circular 145 (Circulars 031, 138 and 145 have been issued in place of Guidelines GD-IF-07 for the correct filing purposes) on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Firm's size, internal organisation and the nature, scope and complexity of its activities.

The design of the Policy is approved by the people who effectively direct the business of the Firm, after taking advice from the Compliance Function, and implemented by appropriate functions to promote effective corporate governance.

The Senior Management should be responsible for the implementation of the remuneration policies and practices and for preventing and dealing with any relevant risks that remuneration policies and practices can create. The Board discusses remuneration policy matters at least annually and is responsible for its approval.

Furthermore, the Policy should also benefit from the full support of senior management or, where appropriate, the supervisory function so that necessary steps can be taken to ensure that relevant persons effectively comply with the conflicts of interest and conduct of business policies and procedures.

Finally, the Policy should also adopt and maintain measures enabling them to effectively identify where the relevant person fails to act in the best interest of the client and to take remedial action.

### 6.2. Remuneration System

The Firm's remuneration system and policy is concerned with practices of SEL for those categories of staff whose professional activities have a material impact on its risk profile. The practices are established to ensure that the rewards for the 'executive management' are linked to the Firm's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels taking into account the market practice.

The Firm uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Firm's short- and long-term success.

The remuneration mechanisms employed to calculate the remuneration, are well-known management and human resources tools that consider the staff's skills, experience, and performance, whilst supporting at the same time the long-term business objectives.

The Firm's remuneration system considers the highly competitive sector in which SEL operates in, and the considerable number of resources the Firm invests in each member of the staff. It is noted that, as previously mentioned, the Firm has considered its size, internal organisation and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific Remuneration Committee.

Decisions on these matters are taken on a Board of Directors level while the Remuneration Policy is periodically reviewed. The total remuneration of staff currently consists of a fixed and a variable component (which shall not exceed 100% of the fixed component). The remuneration varies for different positions/roles depending on each position's actual functional requirements, obligations and liabilities and it is set at levels that reflect the educational level, knowledge, and expertise.

The Board of Directors considers such an approach as the most practical as it corresponds to the scale and complexity of Firm's operations.

Fixed remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels that reflect the educational level, experience, accountability, and responsibility needed for an employee to perform each position/role.

Fixed remuneration is also set in comparison with standard market practices employed by the other market participants/competitors.

The remuneration that employees receive for their activities at the Firm must be stipulated definitively in their employment contracts. The employment contract and any subsequent amendments must be in written form.

Furthermore, the Firm ensures that variable remuneration reflects a sustainable and risk adjusted performance, as well as performance in excess of that required to fulfil the employee's job description as part of the terms of employment. Where variable remuneration is performance related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall results of the Firm and when assessing individual performance, financial and non-financial criteria are taken into account.

## 6.3. Other Individual Benefits

The Firm may award other benefits to individuals on a case-by-case basis and in accordance with local market practice.

## 6.4. Remuneration of Executive Directors

The remuneration of the Executive Directors ensures the Firm's continued ability to attract and retain the most qualified Executive Board members and a good basis for succession planning.

The remuneration of Executive Directors is based on fixed percentage of the total Firm's financial results for the period. Fixed percentage is stipulated in the Executive Director agreement. The amount of the annual remuneration of Executive Directors is a subject of Shareholder's decision.

Executive Board members are not covered by any incentive programs.

## 6.5. Remuneration of Independent Non-Executive Directors

Independent Non-Executive members of the Board of Directors receive a fixed annual fee. The basic fee of a Board member is set at a level that reflects the qualifications and contribution required in view of the Firm's complexity, the extent of the responsibilities and the number of board meetings. Remuneration rate is stipulated in Non-Executive Director agreements.

Independent Non-Executives Board members are not covered by any incentive programs and do not receive performance-based remuneration.

## 6.6. Remuneration of Outsourced Functions

The remuneration relating to outsourced functions such as Internal Audit, Finance and Accounting is fixed and based on fixed fee contracts.

## 6.7. Remuneration Breakdown

SEL has identified seven members of senior management staff including Non-Executive Directors, and three members of other staff who have a material impact on the risk profile of SEL. The aggregate remuneration

for all relevant Code Staff and senior management for the period from 1<sup>st</sup> of October 2021 up to 30<sup>th</sup> September 2022 of SEL was as follows:

*Table 2 - Remuneration Breakdown*

Position/Role	Number of Beneficiaries	Fixed Remuneration €'000	Variable Remuneration €'000	Aggregate Remuneration €'000
Senior Management	7	309	34	343
Other Staff	3	117	6	123
<b>Total</b>	<b>10</b>	<b>426</b>	<b>40</b>	<b>466</b>

*Note: The 'Senior Management' category includes the Executive and Non-Executive Directors and the Heads of the Risk and Compliance Functions. The 'Other Staff' category includes the Heads of the Dealing on Own Account, Reception & Transmission and Back Office Departments.*

During the abovementioned period, the Firm did not pay or award any deferred remuneration, any severance payments, or any guaranteed variable remuneration. The Firm also did not award any deferred remuneration or severance payments for/in previous performance periods.

Moreover, the Firm benefits for the derogation in points (a) and (b) of Article 32(4) of the IFD in relation to the remuneration principles set by points (j) and (l) of paragraph 1 and the third subparagraph of paragraph 3 of IFD Article 32. This derogation applies to all staff employed by the Firm.

## Appendix 1. Composition of Regulatory Own Funds

### Template EU IF CC1

	(a) Amounts (€'000)	(b) Source based on reference numbers/letters of the balance sheet in the audited financial statements (Cross reference to EU IF CC2)
1 OWN FUNDS	7,614	
2 TIER 1 CAPITAL	7,614	
3 COMMON EQUITY TIER 1 CAPITAL	7,614	
4 Fully paid up capital instruments	7,600	Ref. 1 (Shareholder's Equity)
5 Share premium		
6 Retained earnings	19	Ref. 2 (Shareholder's Equity)
7 Accumulated other comprehensive income		
8 Other reserves		
9 Minority interest given recognition in CET1 capital		
10 Adjustments to CET1 due to prudential filters	(2)	
11 Other funds		
12 (-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
13 (-) Own CET1 instruments		
14 (-) Direct holdings of CET1 instruments		
15 (-) Indirect holdings of CET1 instruments		
16 (-) Synthetic holdings of CET1 instruments		
17 (-) Losses for the current financial year		
18 (-) Goodwill		
19 (-) Other intangible assets		
20 (-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities		
21 (-) Qualifying holding outside the financial sector which exceeds 15% of own funds		
22 (-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds		
23 (-) CET1 instruments of financial sector entities where the institution does not have a significant investment		
24 (-) CET1 instruments of financial sector entities where the institution has a significant investment		
25 (-) Defined benefit pension fund assets		
26 (-) Other deductions		
27 CET1: Other capital elements, deductions and adjustments	(3)	Ref. 2 (Assets)
28 ADDITIONAL TIER 1 CAPITAL	-	
29 Fully paid up, directly issued capital instruments		

30	Share premium	
31	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	
32	(-) Own AT1 instruments	
33	(-) Direct holdings of AT1 instruments	
34	(-) Indirect holdings of AT1 instruments	
35	(-) Synthetic holdings of AT1 instruments	
36	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	
37	(-) AT1 instruments of financial sector entities where the institution has a significant investment	
38	(-) Other deductions	
39	Additional Tier 1: Other capital elements, deductions and adjustments	
40	TIER 2 CAPITAL	-
41	Fully paid up, directly issued capital instruments	
42	Share premium	
43	(-) TOTAL DEDUCTIONS FROM TIER 2	
44	(-) Own T2 instruments	
45	(-) Direct holdings of T2 instruments	
46	(-) Indirect holdings of T2 instruments	
47	(-) Synthetic holdings of T2 instruments	
48	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	
49	(-) T2 instruments of financial sector entities where the institution has a significant investment	
50	Tier 2: Other capital elements, deductions and adjustments	

## Appendix 2. Own Funds Main Features

### Template EU IF CCA

#### Common Equity Shares

1	Issuer	StoneX Europe Ltd
2	Unique identifier ( <i>Legal Entity Identifier</i> )	5493000TJZHQRMOTYW79
3	Public or private placement	Private
4	Governing law(s) of the instrument	Cyprus
5	Instrument type (types to be specified by each jurisdiction)	Common Ordinary Shares

#### Regulatory Treatment

6	Amount recognised in regulatory capital	€7,600,000
7	Nominal amount of instrument	7,600,000
8	Issue price	€ 1.00
9	Redemption price	N/A
10	Accounting classification	Shareholders' equity 30 May 2020 (1,000)
11	Original date of issuance	16 September 2021 (1,599,000) 30 June 2022 (6,000,000)
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
20	Fully discretionary, partially discretionary or mandatory ( <i>in terms of timing</i> )	Fully discretionary
21	Fully discretionary, partially discretionary or mandatory ( <i>in terms of amount</i> )	Fully discretionary
22	Existence of step up or other incentive to redeem	N/A
23	Noncumulative or cumulative	N/A
24	Convertible or non-convertible	Non-convertible
25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A
30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	N/A
32	If write-down, write-down trigger(s)	N/A
33	If write-down, full or partial	N/A
34	If write-down, permanent or temporary	N/A
35	If temporary write-down, description of write-up mechanism	N/A
36	Non-compliant transitioned features	No
37	If yes, specify non-compliant features	N/A
38	Link to the full term and conditions of the instrument ( <i>signposting</i> )	N/A