2015

ADS Securities London Limited
Pillar 3 Disclosure

1. OVERVIEW

1.1 Introduction

1.1.1 The Pillar 3 disclosure (“Disclosure”) is a requirement of the European Union’s Capital Requirements Directive (“CRD”), as implemented in the UK by the Financial Conduct Authority (“FCA”) and aims to encourage market discipline by developing a set of disclosure requirements which will allow market participants to access key information on firms’ capital adequacy and risk assessment and control processes.

1.1.2 The Disclosure is in addition to minimum capital requirements (Pillar 1) and supervisory review (Pillar 2), also under the CRD. The relevant rules for implementation of Pillar 3 are contained in the FCA’s sourcebook BIPRU 11 (the “Rules”).

1.1.3 The three ‘Pillars’ which constitute the CRD are:

- Pillar 1, which establishes the minimum capital requirements in respect of credit, market and operational risk exposures or fixed overhead requirements;
- Pillar 2, which requires the assessment of whether ADSSL’s Pillar 1 Capital is adequate to meet risk exposures and the calculation of the amount of capital that should be held against those exposures and forms the basis of its Internal Capital Adequacy and Assessment Process (“ICAAP”) required by the FCA; and
- Pillar 3, which requires the public disclosure of specific information about the underlying risk management controls and capital position.

1.1.4 This statement contains the disclosures required under the Rules unless it is not applicable to ADS Securities London Limited (“ADSSL”) or it is considered as being proprietary or confidential information (the “ADSSL Disclosure”).

1.2 Frequency

1.2.1 ADSSL will make the ADSSL Disclosure on an annual basis, or more frequently if there is a material change in the approaches or permissions used to calculate regulatory capital.

1.2.2 The ADSSL Disclosure will be made as soon as reasonably practical after completion of our annual financial statements.

1.3 Scope of the ADSSL Disclosure

The ADSSL Disclosure relates to the business and activities of ADSSL only on an individual basis, and not to any of its affiliates or related entities.

1.4 Location

The ADSSL Disclosure is made available on ASDDL’s website at http://www.ads-securities.co.uk/about/legal and is included in its annual accounts.

1.5 Review and Approval

The ADSSL Disclosure has been reviewed and approved by the ADSSL Board of Directors (the “Board”) and is not subject to an external audit.

2. GOVERNANCE and BOARD COMMITTEES

2.1 Board structure

2.1.1 The Board is assisted in its oversight function by two permanent committees:

- Executive Oversight Committee; and
- Audit, Risk and Compliance Committee.

2.1.2 Each committee has a Terms of Reference which is reviewed a minimum of once a year by each committee chair and its members and is presented to the Board for approval.

2.1.3 The Terms of Reference set out each committee's 'Mission', 'Membership', 'Duties and Responsibilities'.

2.1.4 The committees will report regularly to the Board in accordance with their Terms of Reference.

3. RISK MANAGEMENT POLICIES AND OBJECTIVES

3.1 Risk Appetite

ADSSL's risk appetite statement has been defined as:

The Risk Appetite Statement (RAS) is an expression of the level of risk ADSSL is willing and able to take in pursuit of its strategic objectives.

ADSSL is a BIPRU €125k Limited Licence Firm which acts as a principal matched broker. It does not engage in proprietary trading and the firm does not take on market risk.

3.2 Risk Assessment

ADSSL has undertaken a full risk assessment and identified the following as the main areas of risk to which it may be exposed:

3.2.1 Market Risk

As part of its normal course of business ADSSL is exposed to exchange rate movements due to its commission income which is denominated in US dollars. ADSSL mitigates the risk of losses due to adverse movement in exchange rates by selling surplus foreign currency balances into sterling. ADSSL does not hold any proprietary trading positions and hence has no corresponding market risk.

3.2.2 Credit Risk

ADSSL has credit risk exposure to banks arising from funds deposited with these institutions for working capital requirements in addition to client funds. ADSSL mitigates the risk to its own funds by ensuring that ADSSL's counterparties are well capitalised institutions with a market rating of at least A- (Standard & Poor's). ADSSL follows the standardised approach to calculating credit risk: The credit risk capital requirement is 8% of the counterparty risk weighted exposure. As a result of a stress testing approach, ADSSL has also considered any further credit risk to counterparties and deemed this not to be necessary.

3.2.3 Liquidity Risk

Liquidity risk is the risk that ADSSL will not have sufficient liquid assets to meet its financial obligations as they fall due. In order to mitigate this risk, ADSSL operates a prudent business model in relation to its own monies and it's interaction with clients. ADSSL's own resources are kept predominately in cash or cash equivalent instruments and there is no leverage within the business. This ensures that the full weight of ADSSL's balance sheet is available at short notice to support any liquidity requirements.

3.2.4 Operational Risk

ADSSL could experience operational risk as a result of losses through failure of its processes (clearing and settlement), personnel, technology platforms or infrastructure or by external forces impacting on any of those. There are a number of policies in place to cover operational risk for each of the individual areas identified.

3.2.5 Foreign Exchange Risk

ADSSL uses sterling as its functional currency with the vast majority of its operating expenses denominated in sterling. Income however is derived in other currencies (mainly USD and Euro) giving rise to a foreign exchange exposure. An FX PRR is calculated as part of Pillar 1 and sufficient capital is held to ensure that this risk is mitigated.

3.2.6 Business Risk

ADSSL is aware of the potential business risk resulting from its significant revenue exposure to ADS Securities LLC ("ADSS"), with whom it has an introducing broker arrangement. The exposure arises from the possibility for "ADSS" to reduce its trading volumes which would impact on ADSSL's revenue and profitability.

3.2.7 Regulatory/Legal Risk

Regulatory/Legal risk is the risk that a change in laws and regulations will materially impact ADSSL's business or the markets in which it operates. A change in laws or regulations made by the government or a regulatory body may increase the costs of operating a business, reduce the attractiveness of investment and/or change the competitive landscape. Regulatory developments are continuously monitored and where there is likely to be an impact, the Legal and Compliance departments work with the Board to implement the necessary changes. The Compliance Department constantly monitors ADSSL's regulatory obligations and is the main point-of-contact with the FCA.

3.2.8 Key Personnel Risk

Key Personnel risk is the risk of ADSSL losing either a member of the Board or of the Senior Management team. This may have an adverse effect on both the growth of the business and/or the retention of existing business.

ADSSL operates a competitive remuneration structure designed to reward and recognise performance. It also has succession plan to ensure that there is cover for key roles should they become vacant and comprehensive training is offered to ensure that skills and knowledge rests with more than one individual.

4. CAPITAL RESOURCES

4.1 Pillar 1 Capital, Pillar 2 Capital and Wind-down Costs

The firm's Tier 1 Capital as at 31st July was £5.46 million, a surplus of £2.59 million over total Capital Requirements of £2.87 million.

The Board of ADSSL agreed to conduct a review of its regulatory reporting obligations including the ICAAP framework / submission.

Pillar 1 Capital requirement consists of 3 months of fixed overheads - amounting to £1.45 million - as these costs are greater than the combination of credit risk, market risk and operational risk.

Pillar 2 Capital covers business risk and client concentration risk. Stress testing was applied to both projected revenue and also to the loss of existing clients. These stresses resulted in a total Pillar 2 Capital requirement of £0.81 million.

The total capital requirements (Pillar 1 & Pillar 2) consequently amounts to £2.26 million.

Wind down costs as at 31st July added up to £2.87 million. Since the wind down costs exceed the Pillar 1 and Pillar 2 combined requirements, ADSSL's total Capital requirements is calculated as its wind down costs.

5. REMUNERATION

5.1 BIPRU 11.5.18 requires firms to disclose total aggregate remuneration for BIPRU Remuneration Code Staff. Aggregate BIPRU Remuneration Code Staff annual remuneration was £1,990,361 for the financial year ended 31st December 2014. The remuneration - awarded on a case by case basis - may comprise of base salary, variable remuneration in the form of monetary awards, long-term incentive plans, pension contributions and benefits in kind in accordance with FCA rules.

5.2 ADSSL seeks to attract and retain employees, who are motivated by its culture, high ethical business standards and reputation.

5.3 ADSSL's remuneration policy promotes staff retention and loyalty and all variable remuneration paid rewards excellence based upon individual and group success with the ADSSL's profitability underpinning all variable remuneration schemes in operation.

5.4 The remuneration governance is operated through regular meetings between the Board, Human Resources and a select number of senior managers.