

Pillar 3 disclosures
SWISS FINANCE CORPORATION LIMITED

December 2017

Registered No: 02278043

Disclosure policy

The Basel II Accord, implemented by the European Union through the Capital Requirements Directive ("CRD"), details the standard regulatory capital framework for the financial services industry within the EU.

Up until 31 December 2013 the guidelines contained in the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") regulated these activities.

From 1 January 2014, with the implementation of the Capital Requirement Directive IV (CRV IV), regulations under BIPRU are replaced by:

- The Capital Requirements Regulation ("CRR")
- IFPRU sourcebook of the FCA handbook
- additional standards released by the European Banking Authority

The Directive is based on three pillars:

- Pillar 1 set out the minimum capital requirements of Firms to cover credit, market and operational risk.
- Pillar 2 requires the Firm to assess whether additional capital should be maintained against any risks not adequately covered under Pillar 1.

Pillar 3 specifies a set of disclosure requirements which enable market participants to assess information on Firms' risks, capital and risk management procedures

Swiss Finance Corporation Limited ("SFC") is an investment Firm regulated by the Financial Conduct Authority ("FCA").

The company's Disclosures below have been prepared using 31 December 2017 data in accordance with the Directive.

Basis of Disclosure

This document has been prepared by SFC in line with its internal policy for Pillar 3 disclosure and FCA requirements.

The effective date of these disclosures is as at 31 December 2017 and the figures are based on the last twelve months' accounts, unless otherwise stated.

SFC intends to update its Pillar 3 disclosures on an annual basis shortly after completion of the annual audited Financial Statements. Additionally, a review will be conducted if there are significant changes to the business profile.

Location of Publication

This report will be published on the SFC's website www.sfc-uk.com.

The company makes its Pillar 3 disclosures on an annual basis. However, the Board continually monitors this frequency to ensure it remains appropriate and will consider more frequent publication if necessary.

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The disclosures have been reviewed by the Board but have not been subject to external audit.

Scope and Application of the Requirements

The company is authorised and regulated by the Financial Conduct Authority (“FCA”) to conduct investment business, with permission to hold and control client money. The company is categorised as a limited licence IFPRU €730K firm by the FCA for capital purposes.

SFC is a wholly owned subsidiary of SFC Geneva Holdings SA, a company incorporated in Switzerland, which is wholly owned by Mr Marc Degani.

Risk appetite and Management

SFC’s is exposed to a variety of risks, as analysed and quantified below. However, the company’s appetite for risk is regarded as low given that systems and controls in place are robust and well in place.

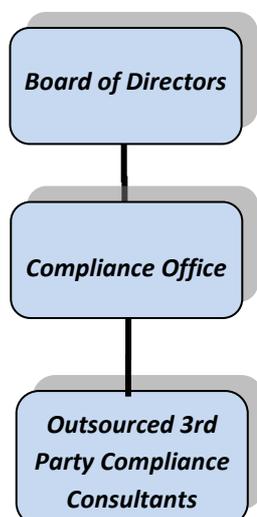
Key to this is the Individual Capital Adequacy Assessment Process (ICAAP) which is reviewed and documented at least annually. The document is reviewed and assessed by the board of directors with input from relevant personnel and independent advisors as required.

The review encompasses:

- Assessment of current risks.
- Assessment of risks associated with known developments anticipated in the business.
- Review of “worst case scenario” to ensure ongoing appropriateness.

In the light of this review the current and projected capital levels are reassessed and if appropriate the ICAAP capital requirement adjusted. The conclusions of our ICAAP are that no additional Pillar 2 capital is required as our Pillar 1 capital is sufficient to meet our business needs.

The company’s risk management is focused on the key areas of credit risk, market risk and operational risk. The following diagram shows the risk management structure of the company.



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Board of Directors

The board of directors retains overall responsibility within the company for assessing the risks faced by the business and for determining the acceptability of these risks. It is also ultimately responsible for ensuring that an effective framework is in place to mitigate these risks. On a day to day basis this responsibility is delegated to the Compliance Officer.

Compliance Officer

The compliance officer is responsible on a day to day basis for the ongoing management of risk. Client positions and account equity are monitored on a daily and intra-day basis. When necessary daily and intra-day margin calls are made to clients to reflect market movements affecting their positions.

Outsourced 3rd Party Compliance Consultants

The Board appointed Kinetic Partners to act as 3rd party compliance consultants in evaluating the effectiveness of internal controls, reasonableness of the risk appetite and ongoing monitoring of compliance and making recommendations to the Board.

Internal Capital Adequacy

The company's internal capital levels and future requirements are managed by the board of directors and the compliance officer. Any increase in the capital requirements of the company due to unforeseen circumstances or due to a change in the company's forecasts or business plan must be assessed and approved by the board of directors. The capital resources model is then updated by the finance department to reflect such changes.

Capital Resources

Pillar 1 requirement

The company's capital is currently falling within Tier 1 capital. It does not currently have any capital falling into the Tier 2 category and we do not anticipate that this will change in the immediate future.

Our Tier 1 capital consists entirely of permanent share capital and retained earnings for the year ended 31 December 2017.

Capital resources summary

Summary of the company's total capital at 31 December 2017 is shown below:

	£'000
Tier 1 Capital	
Permanent Share Capital	2,900
Profit and Loss Account Reserve	(1,189)
Total Tier 1 Capital After Deductions	1,711
Tier 2 Capital	
None	-
Total Capital Resources	1,711

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Market Risk

Market risk is the risk of loss arising from adverse movements in the level or volatility of the exchange rate in which the company and its clients hold positions. The company considers market risk to consist of credit, financial and liquidity risk.

Credit risk refers to the risk of financial loss due to the default of a counterparty to pay money owed to the company.

Financial and liquidity risk refers to the risk of suffering financial loss or loss of permission to operate due to improper financial reporting, poor management of revenues, costs and liquidity, and/or due to financial crime.

Foreign Currency PRR

The company's foreign currency PRR arises primarily from its US Dollar exposures as its income is predominantly in US dollars and overheads are predominantly sterling based. The company has a long position in US dollars and a short position in sterling.

The company's foreign currency PRR at 31 December 2017 was £62,000.

Credit risk

SFC defines credit risk as the risk of financial loss resulting from the failure of a counterparty or Customer to honour its obligations to the company as its falls due.

The company's credit risk requirement consists of its credit risk and counterparty risk capital components

SFC makes margin calls and occasionally holds collateral in order to mitigate its exposure to counterparty risk in the trading book. Margin calls comprise both initial and variation margins and take account of any minimum call facility or credit line which may apply to the account.

Our credit risk capital component at 31 December 2017 was £177,000, our concentration risk was £nil and our counterparty risk capital component was £157,000.

Impairment and past due items

Items are considered to be past due where a counterparty has failed to make a payment due to the company on a timely basis and in accordance with their contract terms.

Debts due are deemed to be impaired if there is objective evidence that an impairment loss has incurred upon which an appropriate provision is made against the debt.

Trading book debtors are reviewed on a daily basis by the finance department. Non-payment of margin calls by customers is reported to the managing director immediately. Under the company's standard terms and conditions SFC reserves the right to close out any positions held on a client's behalf in order to settle any overdue amounts.

Non trading book debtors are reviewed by the directors and the finance department on a monthly basis at the monthly management accounts meeting. Ad hoc interim reviews are carried out if and when they are deemed necessary.

Operational risk

Operational risk is the inherent risk to the business of financial loss or loss of reputation arising from failures in the internal processes, systems and controls of the company. This includes errors, omissions, disasters and deliberate acts such as fraud.

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Management of operational risk Systems and internal processes

Customer limits and positions are monitored on a daily and intra-day basis by the risk managers and the managing director to prevent unacceptable exposure to market movement.

Systems for recording trades are such that disputes and errors are identified, and where possible resolved, before the start of the next business day. There is a daily reconciliation of trades on client and broker accounts and all errors must be reported immediately to the managing director. All trades are confirmed to clients daily.

All IT systems are monitored daily with maintenance carried out daily, weekly, monthly and ad hoc where needed. All servers are backed up overnight and the data stored off site. The network has Firewall protection.

Employee access to all areas of the network is password protected.

SFC has a disaster recovery site in place which the company could operate out of in the event of a disaster occurring in London, thus ensuring business continuity at all times. All senior management and staff are aware of the procedures to follow should such an event occur.

Calculation of operational risk

SFC has used the basic indicator approach to calculate its operational risk capital requirement. Based on this approach the company's operational risk requirement at 31 December 2017 was £421,000.

The company believes that the operational risk charge is an accurate indicator of the risks faced and is sufficient to mitigate its risks.

Pillar 2 requirement

The company undertakes an annual Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP is a substantial report on the SFC's business and risk environment. The ICAAP considers risk appetite, risk types, risk mitigates, a three-year scenario analysis and stress testing of those scenarios.

The ICAAP process also considers the impact on the company in a theoretical 'winding down' scenario and whether additional capital is required, above and beyond the Operational Risk, to mitigate the risk that the SFC does not have sufficient resources to wind up the business in an orderly fashion such that all liabilities could be met.

Having assessed this unlikely scenario, the stress testing carried out indicates that the Firm might need additional capital in 2018 in order to maintain the minimum capital resources requirement and therefore an additional £500,000 has been set aside by the shareholder should the minimum regulatory capital start to diminish.

Wind-Up Scenario

The fixed overheads of the company are high to moderate but can be forecast with a high degree of certainty. Most costs would cease immediately with the exception of contractual commitments covering information technology, office rent, other subscription and third party services. It is estimated that the company would take about six months to wind-down. The company's current Pillar I capital exceeds these costs and with the injection capital after year end, it would be sufficient to wind down the business. In addition, the wind up costs for SFC have been calculated as a reasonableness check on the Pillar II capital and therefore SFC is comfortable that in an extreme scenario it would be able to wind up its operations without detriment to its clients and shareholder.

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Satisfaction of capital requirements

Since SFC's ICAAP (Pillar 2) process has not identified capital to be held over and above the Pillar 1 requirement, the capital resources detailed above are considered adequate and normally no additional capital injections are considered necessary at present. However, should a major event happening and any remedial actions would not be sufficient, then SFC would contemplate an orderly wind down. Overall the gross cost of wind down are estimated to be £1,091,000 and therefore in excess of the minimum CRR by £467,000. Should the company continue making similar losses in 2018, the shareholder indicated a willingness to inject further regulatory capital should the company need additional capital injection later in the year.

Remuneration Code

The company is within scope of the FCA's Remuneration Code ("Code"), which governs the application of remuneration policies and practices within the company in order to promote sound and effective risk management. The company is classified as a Level 3 Firm, which allows for a proportional approach to be taken in the application of the Code. In addition, the company is required to make certain remuneration disclosures under the Basel Pillar 3 framework.

The company maintains remuneration policies and procedures that are consistent with and promote sound and effective risk management.

Swiss Finance Corporation Limited do not have a formal remuneration committee, although the company is not required to establish one under the proportionality provisions available under the Code. Remuneration policy is controlled by the Board of directors to take account of the company's strategic objectives and seek to ensure that shareholder interests are not damaged as a result of staff retention, recruitment or motivation issues.

Code Staff criteria

The following employees have been identified as meeting the FCA's criteria for Code Staff:

- Members of the Board of directors and employees that hold key control functions,
- Employees who could have a material impact on the company's income

The categories above include all senior level management across the company as well as those responsible for the management of the main businesses and control function heads.

Link between pay and performance

Remuneration at Swiss Finance Corporation Limited is made up of fixed and performance-related pay. Performance related pay is designed to reflect success or failure against the range of targets which are set for employees, taking into account the context in which results were achieved.

The key objective in determining bonus awards is to incentivise, retain and motivate employees relative to the market for comparable roles whilst ensuring pay is warranted given business performance.

Quantitative Remuneration Disclosure

The company is required to disclose aggregate quantitative remuneration information for its Code Staff.

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1. Aggregate Remuneration Expenditure

There were 3 Code Staff that have been classified as Senior Management and 9 other Code Staff.

Aggregate remuneration expenditure was as follows:

Directors and senior management	£360,000
Dealing staff	£792,512

2. Amounts and form of fixed and variable remuneration

Fixed Remuneration

Fixed remuneration paid in 2017 consisted of base salaries paid during the year:

Directors and senior management	£350,000
Dealing staff	£452,512

Variable Remuneration for 2017 Performance

Variable remuneration payable in respect of 2017 performance consisted of cash bonuses plus discretionary pension benefits awarded during the year:

Directors and senior management:-

Bonus	£10,000
Pension contributions	£Nil

Dealing staff:-

Bonus	£340,000
Pension contributions	£Nil