Swiss Finance Corporation Limited

Prudential Disclosure

In accordance with the UK Investment Firms Prudential Regime ("IFPR") and MIFIDPRU 8

Publication date: 31 December 2024

Introduction

On 1 January 2022, the UK Investment Firm Prudential Regime ("IFPR") came into force, replacing the previous prudential regime applicable to MiFID investment firms. The IFPR is implemented through the FCA's Prudential sourcebook for MiFID Investment Firms ("MIFIDPRU"). It places increased emphasis on the potential harm firms may cause to clients, markets and the firm itself, both during ongoing operations and in an orderly wind-down.

Swiss Finance Corporation Ltd ("the Firm" or "SFC") is authorised and regulated by the Financial Conduct Authority ("FCA") as a MiFID investment firm and is classified as a non-Small and Non-Interconnected (non-SNI) firm for the purposes of IFPR.

This Prudential Disclosure has been prepared in accordance with MIFIDPRU 8 and sets out the information required to be publicly disclosed in relation to the Firm's risk management arrangements, governance, own funds, own funds requirements and remuneration practices. The disclosure is made available on the Firm's website and is intended to provide transparency to clients and market participants.

Disclosure policy

In accordance with MIFIDPRU 8, the Firm:

- publishes this Prudential Disclosure at least annually, aligned with the publication of its annual financial statements;
- ensures that the disclosure includes all mandatory information applicable to the Firm, taking into account the principle of proportionality;
- reviews and updates the disclosure where there is a material change to the Firm's business model, risk profile or governance arrangements;
- presents the disclosure in a clear and consistent format to facilitate understanding and comparability; and
- summarises any material changes compared with the previous disclosure period, where relevant.

Risk management

This section summarises the Firm's risk management objectives, policies and arrangements. It is consistent with, and draws from, the Firm's Internal Capital and Risk Assessment ("ICARA") framework as at 31 December 2024.

The Firm's risk management framework is designed to identify, assess, monitor and mitigate material risks of harm arising from:

- its ongoing activities, in accordance with MIFIDPRU 4 (Own Funds Requirements);
- concentration risks, in accordance with MIFIDPRU 5; and
- liquidity risks, in accordance with MIFIDPRU 6.

Statement on principal risks

The Firm's governing body has approved the following statement on the principal risks and potential harms associated with the Firm's business model, as identified through its ICARA process and business-wide risk assessment.

The Firm's approach focuses on risks that are inherent in its activities as a specialist wholesale FX market-making and matched-principal trading firm, and on the potential for those risks to crystallise under adverse but plausible conditions.

Business model and revenue concentration characteristics

The Firm operates a specialist wholesale business model serving professional and institutional counterparties. As is typical for firms of this nature, revenues are generated through a limited number of core trading activities and client relationships rather than a highly diversified retail base. This operating model can give rise to variability in revenues and earnings over time, particularly during periods of reduced market activity or changing client demand.

The Firm considers these characteristics to be an inherent feature of its business model rather than an indicator of financial weakness. They are monitored as part of ongoing financial planning, stress testing and capital adequacy assessments within the ICARA framework.

Market conduct and regulatory risk

The Firm is exposed to conduct, market abuse and conflicts of interest risks arising from its role as a principal trading and liquidity-providing firm in FX markets. A failure to identify or manage such risks effectively could result in regulatory intervention, financial penalties or reputational damage. The Firm therefore maintains a low tolerance for conduct-related failures and places significant emphasis on surveillance, compliance oversight and staff training.

Market conditions and earnings volatility

The Firm's financial performance is influenced by conditions in FX and related markets, including levels of volatility, trading volumes and competitive pricing dynamics. Prolonged periods of subdued market activity or margin compression could affect profitability if not addressed through cost management or strategic adjustment. This risk is assessed as manageable within the Firm's current capital and liquidity buffers and is explicitly considered in stress testing.

Counterparty, settlement and liquidity risk

The Firm is exposed to counterparty and settlement risks through its prime broker relationships and matched-principal trading activities. Disruption to counterparties or settlement processes, particularly during periods of market stress, could give rise to short-term liquidity or operational challenges. These risks are mitigated through conservative trading practices, daily monitoring and the maintenance of liquidity resources materially in excess of regulatory requirements.

Operational and resilience risk

The Firm relies on trading infrastructure, technology platforms and third-party service providers to deliver its services. Operational failures, cyber incidents or technology disruptions could impair trading activity or client service. The Firm maintains business continuity and operational resilience arrangements proportionate to its size and complexity to reduce the likelihood and impact of such events.

The risks described above are actively monitored by senior management and the Board and are incorporated into the Firm's ICARA process, including stress and reverse stress testing. The Firm considers that it holds capital, liquidity and governance arrangements that are appropriate to mitigate these risks and to support its ability to operate in an orderly manner during both ongoing business and a potential wind-down.

Strategies to manage risks and reduce potential for harm

Risk management objectives

The Firm has established a risk management framework that is proportionate to the nature, scale and complexity of its activities. The framework applies on a solo entity basis, as the Firm does not form part of an investment firm group for MIFIDPRU purposes.

The objectives of the Firm's risk management framework are to:

- identify material risks arising from the Firm's business model and activities;
- assess the potential for harm to clients, markets and the Firm;
- ensure that risks remain within the Board-approved risk appetite;
- support informed decision-making and strategic planning;
- ensure timely escalation and reporting of risk issues;
- clearly define risk management roles and responsibilities; and
- ensure compliance with regulatory obligations, including the Overall Financial Adequacy Rule ("OFAR").

Risk management policies

Risk materiality and identification

Materiality is assessed by reference to the potential impact of a risk on the Firm's viability, clients and the integrity of the market. The Firm considers risks arising from:

- its legal and ownership structure as a standalone UK-authorised firm;
- the nature of its regulated activities, including FX dealing as principal and matched-principal broking;
- its business model, risk strategy and conservative risk appetite;
- client concentration and key counterparty relationships;
- remuneration arrangements;
- information technology, cyber security and business continuity arrangements; and
- outsourcing and third-party service providers.

Stress testing and reverse stress testing form a core part of the Firm's risk identification and assessment processes and are used to evaluate the Firm's resilience under severe but plausible scenarios.

Risk measurement

Risks are measured using a combination of quantitative metrics (including K-factor calculations, liquidity buffers and capital projections) and qualitative assessments. The Firm's risk management processes are embedded in day-to-day decision-making and are forward-looking, taking into account macroeconomic conditions and market developments.

The Firm maintains systems and controls, supported by appropriately skilled personnel, to ensure that risks are measured prudently at all times.

Managing risks to client money and assets

The Firm does not safeguard or administer client assets. Client money exposures are limited and managed in accordance with regulatory requirements. Controls are in place to ensure that client money risks are identified, monitored and mitigated.

Risk management governance

Ultimate responsibility for risk management rests with the Board of Directors. Day-to-day oversight is delegated to senior management, supported by the compliance and risk function.

Given the Firm's size and complexity, the risk management function is combined with the compliance function. It is independent from the Firm's trading and sales activities and is led by a senior manager with direct access to the Board.

Risk appetite, assessment and oversight

The Board sets the Firm's risk appetite and reviews it at least annually. The Firm operates with a conservative risk appetite, particularly in relation to liquidity, market abuse, financial crime and operational resilience.

Risk appetite is monitored through management information, key risk indicators and regular reporting to the Board.

Assessing the effectiveness of the risk management process

The Firm assesses the effectiveness of its risk management arrangements through:

- regular Board and senior management review of risk reports;
- ongoing monitoring of key risk indicators and early warning triggers;
- periodic stress and reverse stress testing;
- external assurance, including audit and independent reviews.

The Firm considers that its governance, leadership and culture support effective risk management and that sufficient resources are allocated to the management of material risks.

Governance

The Firm has established a clear and proportionate governance framework to ensure effective and prudent management, with due regard to the interests of clients and the integrity of the market.

The Board of Directors:

- has overall responsibility for the Firm;
- approves and oversees the Firm's strategy, risk appetite and internal governance arrangements;
- oversees the integrity of financial reporting and regulatory disclosures;
- provides effective oversight of senior management; and
- monitors the adequacy and effectiveness of policies and controls.

The Firm assesses the fitness and propriety of members of the management body on appointment and on an ongoing basis, ensuring they possess sufficient knowledge, skills, experience and integrity.

Given the Firm's size and business model, the Board performs the functions of committees such as risk and remuneration committees, which is considered proportionate.

Own funds

Composition of regulatory own funds

The Firm's regulatory own funds consist entirely of Common Equity Tier 1 (CET1) capital, comprising issued share capital and retained earnings, net of regulatory deductions.

As at 31 December 2024, the Firm's own funds amounted to **£5.28 million**, all of which qualifies as CET1 capital. The Firm has not issued Additional Tier 1 or Tier 2 capital instruments.

Own funds: main features of own instruments

The Firm's own funds are fully paid-up ordinary share capital and retained earnings. There are no restrictions on the availability or quality of CET1 capital for regulatory purposes.

Own funds requirements

Overview

As a non-SNI MIFIDPRU investment firm, the Firm is required at all times to maintain own funds equal to at least the highest of:

- its Permanent Minimum Requirement (PMR);
- its Fixed Overheads Requirement (FOR); or
- its K-Factor Requirement (KFR).

In addition, under the Overall Financial Adequacy Rule, the Firm must hold own funds sufficient to remain viable during ongoing operations and to wind down in an orderly manner.

Approach to assessing the adequacy of own funds

The Firm assesses the adequacy of its own funds through its ICARA process, which considers:

- compliance with threshold capital requirements;
- K-factor exposures arising from ongoing activities;
- stress and reverse stress testing outcomes; and
- capital required to support an orderly wind-down.

Disclosure of own funds requirements

As at 31 December 2024:

- Permanent Minimum Requirement (PMR): £750,000
- Fixed Overheads Requirement (FOR): £741,000
- K-Factor Requirement (KFR): £317,000
- Wind-down capital requirement: £940,000

The Firm's own funds threshold requirement is therefore £940,000, being the highest amount identified through the ICARA process.

The Firm's own funds of £5.28 million significantly exceeds this requirement.

Remuneration policy and practices

Qualitative disclosures

Principles

The Firm's remuneration policy is designed to:

- promote sound and effective risk management;
- support a healthy and responsible firm culture;
- align remuneration with the Firm's long-term strategy and risk appetite; and
- ensure fair treatment of clients.

The policy is gender-neutral and proportionate to the Firm's size and business model.

Variable remuneration and performance

Variable remuneration is discretionary and is linked primarily to the profitability of relevant business units, subject to risk-adjusted outcomes. Staff do not have the ability to influence transaction volumes in a manner that would create excessive risk-taking incentives.

Categories of staff eligible for variable remuneration

Variable remuneration may be awarded to senior management and other staff performing executive functions. Variable remuneration is not paid to members of the management body who do not perform executive functions.

Material risk takers

The Firm has identified a limited number of staff as Material Risk Takers (MRTs), reflecting senior management roles and responsibilities.

Risk adjustment

The Firm applies malus and clawback provisions to variable remuneration where appropriate, including in cases of misconduct or material error.

Guaranteed variable remuneration and severance

The Firm does not award guaranteed variable remuneration or severance payments, other than in exceptional circumstances, and none were awarded during the period.

Quantitative remuneration disclosures

For the year ended **31 December 2024**, total remuneration awarded to all staff was:

- **Fixed remuneration:** £1,331,016
- **Variable remuneration:** £908,869
- **Total remuneration:** £2,239,885

Variable remuneration caps set out in the Firm's Remuneration Policy were not exceeded during the year.

The Firm has identified three individuals as Material Risk Takers in accordance with the criteria set out in the MIFIDPRU remuneration requirements, reflecting senior management responsibilities and control functions within the Firm.

Further quantitative breakdowns are not disclosed where this would risk the identification of individual staff members, having regard to the size, structure and remuneration profile of the Firm and the proportionality considerations set out in the MIFIDPRU disclosure requirements.

Investment policy

This section is not applicable. The Firm is not required to make investment policy disclosures under MIFIDPRU, as it does not meet the criteria for largest non-SNI firms and does not hold relevant voting rights in listed companies.

Conclusion

The Firm considers that this Prudential Disclosure accurately reflects its risk profile, governance arrangements and financial adequacy as at 31 December 2024 and complies with the requirements of MIFIDPRU 8.