Swissquote Ltd

PILLAR 3 DISCLOSURES

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Pillar 3 disclosures

1. Introduction

These Pillar 3 disclosures are made annually (or more frequently if necessary) by Swissquote Ltd ("the Company") and have been prepared in accordance with the requirements of European Union's Capital Requirements Directive ("CRD" or "the Directive") as implemented by the Financial Conduct Authority ("FCA").

The purpose of the disclosure is to encourage the stability of the financial markets by allowing market participants to assess key information on Company's capital adequacy and risk and control processes. The required disclosures are specified under Part 8, Articles 434-455 of the Capital Requirements Regulation ("CRR").

The CRR is constituted by three Pillars:

Pillar 1	Establishes the minimum capital requirements in respect of credit, market and operational risk exposures.
Pillar 2	Requires the assessment of whether the Company's Pillar 1 capital is adequate to meet risk exposures and calculate of the amount of capital that should be held against those exposures and forms the basis of the Internal Capital Adequacy Assessment Process ("ICAAP").
Pillar 3	Requires the public disclosure of specific information about the underlying risk management controls and capital position.

Pillar 3 disclosures are made where the regulations apply to the Company. The Pillar 3 disclosures made within this document have been reviewed by the Board of Directors.

These Pillar 3 disclosures are not subject to external audit.

Quantitative disclosures are made as at 31 December 2017 and are made as soon as reasonably possible after the completion of the annual financial statements. Any disclosure described herein apply to the Company on an individual basis.

2. Background information

Swissquote Ltd is based in the United Kingdom and is authorised by the FCA (registration number 562170). The Company provides online foreign exchange, commodities and stock indices trading services for traders based in the European Union. The Company executes trades in an agency capacity and uses the Group to execute its clients' trades.

The Company's revenue is primarily earned from the mark-up spread applied to clients on market prices received from the Group (in its capacity of liquidity provider).

Therefore the Company is dependent upon transaction volumes, regardless whether the clients' trading is profitable or not (except that profitable clients are likely to generate sustained trading volumes).

Swissquote Ltd is part of the Swissquote Group with its ultimate shareholder of the Company being Swissquote Group Holding Ltd ("the Parent Company"), which is listed on SIX Swiss Exchange since 29 May 2000.

Swissquote Group Holding Ltd:

Ticker symbol	Reuters SQZ.S Bloomberg SQNSW Telekurs SQNt
Security number	1,067,586
ISIN number	CH0010675863
Investor relations	https://en.swissquote.com/company/investors

The Parent Company and its subsidiaries provide online financial services that mainly consist of the services provided by Swissquote Bank Ltd ("the Bank"). The Bank was incorporated on 24 November 2000 and is a bank under the supervision of Swiss Financial Market Supervisory Authority FINMA ("FINMA").

3. Risk management

The Company is committed to having corporate governance, risk management and control framework appropriate to its size and level of risk within the business.

As of 31 December 2017, the Board of Directors comprises of:

Markus Bürki	Chairman of the Board Non Executive Director
Gilles Chantrier	Non Executive Director
Federico Cirulli	Executive Director CEO of the Company
Jude Bahnan	Non Executive Director (since 28 February 2017)

The Board of Directors has overall responsibility in relation to the risk management of the Company.

- The Directors of the Company determine its business strategy and the risk appetite. The Company's mission is to become a leading provider of foreign exchange trading and other complementary leveraged financial derivative products to retails clients primarily in the European Union.

- The risk appetite is defined by the Directors as the level of risk that the Company is prepared to sustain whilst pursuing its business strategy.

- The Directors have designed and implemented a risk management framework that recognises the risks that the Company's business faces. The Directors have also determined how those risks may be mitigated and the Directors assess on an ongoing basis, the controls and procedures necessary to manage those risks. The Board has put in place a set of high level principles and key risk indicators which are a balance of quantitative and qualitative measures that provide an indication of increasing or reducing risk levels over an appropriate time horizon

The Company review at least annually its Internal Capital Adequacy Assessment Process ("ICAAP") which includes an assessment and quantification of the risks that the Company is exposed to.

The nature, scale and complexity of the business mean that the Company does not have separate committees below the Board level. The Board meets regularly to discuss all aspects of the business including adherence to client money regulations, controls and procedures. Additional levels of assurance are provided by control functions which are independent from the business, namely compliance oversight (CF10), client money oversight (CF10a), money laundering (CF11) and systems and controls (CF28). These control functions provide reporting to the Board of Directors as appropriate.

4. Business risks

4.1 Credit risk

Credit risk is defined by the possibility of a loss being incurred as a result of a counterparty failing to meet its financial obligation. Credit risk arises from deposits with banks and financial institutions, as well as from the credit exposure to customers.

All financial institutions are evaluated for credit worthiness and exposures are monitored on a regular basis. Customer cash is managed in accordance with FCA Client Money rules and is held in bank accounts with authorised institutions. Under these rules and to safeguard its security, customer cash is segregated from the Company's cash.

The credit risk in respect of customers arises from a customer's trading position going into deficit through incurring a loss in excess of he required margin deposit. The trading platform provided to customers compares in real time client margin deposits with potential losses, and where margin deposits are insufficient, will close out immediately all open positions to avoid a debtor position occurring (in normal market conditions).

From time to time, the Company is exposed to its affiliate companies with respect to intercompany balances that are not cleared. The Company monitors this exposure as well in accordance with the limits defined by the Board of Directors. For the purposes of risk management, the Company does not consider Group risk as a standalone risk category. Instead the consequences of Group risk are considered as part of the other risk categories.

4.2 Liquidity risk

The risk arises primarily from funding client open positions. All trades are on a matched-principal basis with the Group, which provides funding to the Company.

Liquidity risk also arises from the risk of not being able to liquidate investments in a timely manner. To mitigate this risk, the Company maintains sufficient liquid cash resources. Anyway, given the short term nature of the Company's financial assets and liabilities and the support of the Group, the Company has sufficient liquid assets available to meets its liabilities.

4. Business risks (continued)

4.3 Market risk

The Company trades on a matched-principal basis with the Group and takes no proprietary positions and hence is not exposed to direct market risk.

Foreign exchange risk	The functional currency is GBP but the Company operates on a cross-border basis, hence has assets and liabilities denominated in other currencies and is exposed to movements in foreign exchange rates. The Company seeks to mitigate its exposure by minimising the exposure in other currencies.
Market liquidity risk	It represents the risk that the level of expected market activity changes dramatically and, in certain cases, may even cease to exist. This situation resulting in the inability for a market participant to liquidate a position in a timely manner at a reasonable price. The effects of the market liquidity risk can result into a price impact of trading activity and/or a postponed trading execution. This exposes the Company to the risk that it will not be able to transact business and execute trading in an orderly manner which may impact the results and/or client account balances. The Company mitigates the risk through real-time monitoring of client positions and stress testing scenarios.
Interest rate risk	Cash flow interest rate risk is the risk that the future cash flow of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. As the Company does not hold any material assets or liabilities subject to interest rates, this risk is considered as insignificant.

4.4 Operational risk

The operational risk is defined as the risk of direct or indirect losses resulting from inadequacy or failure attributable to procedures resulting from human, systems or external factors. The following list presents some event types of operational risk:

- Fraud (internal or external),
- Litigation,
- Business disruption,
- Information security,
- Breakdown in processes.

This risk is mitigated by the Company's systems of internal controls, policies and procedures. The Company is highly dependent on outsourced services to its affiliate companies. The affiliate companies are backed by the systems and controls in place to supervise the outsourced units.

6. Capital resources

The Company maintains sufficient capital to meet its regulatory requirements and takes a prudent approach to the management of its capital base.

The amount and type of own funds (also referred as "Capital resources") of the Company is set out in the table below:

Own funds/Capital resources	31 December 2017 (amounts in GBP)	31 December 2016 (amounts in GBP)
Equity share capital	4,260,100	3,760,100
Other reserves	2,000,000	2,000,000
Retained earnings, including profit for the year (if audited)	(480,203)	(3,348,683)
Total Tier 1 capital	**5,779,897**	**2,411,417**
Less: deductions from Tier 1 capital	-	-
Total Tier 2 capital	-	-
Total Capital resources	**5,779,897**	**2,411,417**

As the Company is a Limited Licensed firm, the Company's Pillar 1 capital requirement is calculated as the higher of (1) the sum of its market and credit risk capital requirements and 2) the Fixed Overhead Requirement, which is based on one quarter of the Company's relevant fixed expenditure as per the Company's most recent audited annual accounts.

Pillar 1 Capital requirements	31 December 2017 (amounts in GBP)	31 December 2016 (amounts in GBP)
Credit risk	377,803	122,322
Counterparty risk	1,202,316	385,009
Market risk	559,422	100,205
Total sum of market risk and credit risk capital requirements	**2,139,541**	**607,546**
Fixed Overhead Requirements	**666,204**	**538,932**
Total Pillar 1 Capital requirement	**2,139,541**	**607,546**
Total risk weighted exposure	26,744,263	7,594,325

Excess of capital resources over capital requirements	3,640,356	1,803,871
Total capital ratio (%)	**21.6%**	**31.8%**

The Company monitors its capital ratio on a monthy basis and reports the results to the Senior Management. This includes actual business performance to date, budget analysis and any known changes in regulatory requirements.

6. Capital resources (continued)

The Company also carries out an Internal Capital Adequacy Assessment Process ("ICAAP") to determine if any additional Pillar 2 capital is required. The outcome of the ICAAP is formally approved by the Board of Directors at least annually (with more frequent reviews if there is a fundamental change to the business or the operating environment).

The ICAAP is the mechanism that the FCA requires a regulated firm to use to assess the level of internal capital that it considers adequate to cover the nature and level of risk to which it is or might be exposed. The ICAAP process includes an assessment of specific risks to the Company's business, the likelihood of these risks occurring and controls implemented to mitigate these risk. Pillar 2 covers any risk not fully addressed in Pillar 1.

In order to manage its capital risk, the Company monitors, constantly, its capital adequacy ratio to ensure that this remains at all times above the regulatory minimum.

Calculations are submitted to the FCA on a quarterly basis. FCA rules also establish a supervisory process for the FCA to challenge firm's own assessments of their risk exposures and corresponding capital requirements.

7. Remuneration

The Company seeks to attract and retain employees, who are motivated by its culture, highly ethical business standards and reputation. The Company's remuneration policy promotes staff retention and loyalty.

Given the size and the nature of the Company, the Directors considers that it does not need to maintain a separate remuneration committee. This decision will be reviewed by in the event of any material changes in the business.

In accordance with FCA's code of practice, the Company is required to implement and maintain a remuneration policy, procedures and practices for all Directors and employees that are consistent and promote sound effective risk management.

Details of the remuneration paid to the Company's staff and directors in 2017 is as follows (amounts in GBP):

	Fixed	Variable	Total
Board of Directors and Senior Management	280,490	34,183	324,673
Staff	1,058,204	271,564	1,329,768
Total	**1,348,694**	**305,747**	**1,654,441**

As part of the Swissquote Group, the Company is subject to the Group's remuneration policy, which is seen as an important component of the Group's corporate framework. Since 2001, it has been the Group's policy to issue annually a Remuneration Report. The Group Remuneration Report provides information on the remuneration policy and the components of the remuneration, and reports on the type and size of payments made during the period under review. The Group Remuneration report is available on the Group website (https://en.swissquote.com/company/governance).

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