Schneider Trading Associates Limited

Pillar 3 Disclosures

v2016

Overview

Schneider Trading Associates Ltd (STA) is a company authorised and regulated by the Financial Conduct Authority. This statement is published in accordance with the FCA handbook rules concerning Pillar 3 disclosures.

The Capital Requirement Directive (CRD) established a regulatory capital framework across Europe governing the amount and nature of capital to be held by Banks and Investment firms.
The framework consists of three pillars:

- Pillar 1 sets out the minimum capital to be held to meet the firm's credit, market and operational risks.
- Pillar 2 requires the firm to assess whether its pillar 1 capital is adequate to meet its overall risk requirements and involves an assessment using an Internal Capital Adequacy Assessment Process (ICAAP), conducted on a minimum annual basis and being subject to regulatory review (SREP).
- Pillar 3 requires disclosure of specified information concerning its risk management policies and procedures and its regulatory capital position.

Disclosure

The firm may omit one or more of the required disclosures if the information is:

- Immaterial
- Proprietary
- Confidential

No disclosures have been omitted on the grounds of proprietary or confidential information.
Where information has been omitted on the grounds of immateriality this is stated.

Frequency of Disclosure

The Pillar 3 disclosure is published on an annual basis, as soon as is practical after the publication of the annual report and accounts and is available on the company website.

Company background

The firm is a brokerage facilitation company acting as a broker dealer in the wholesale inter-dealer market space.

The firm is a Limited License €50K BIPRU (MiFID activity restriction) firm and does not hold client money.

The company is small and with a relatively simple operating infrastructure.
The firm is not part of a consolidation group for prudential regulatory reporting purposes.
All reporting is based on Schneider Trading Associates Limited.

The Board considers risk management to be central to the firm's strategic business model.
The firm has a conservative attitude to risk whilst accepting certain types of risk as inherent to the firm's business model.

Risk Governance

The STA Board of Directors (the Board)

- Takes ultimate responsibility for the risks undertaken by the business and risk management is driven from the top down
- The Board defines and articulates its appetite and tolerances to risk in accordance with the business strategy
- Ensures that Risk Management objectives and policies are a key driver within the overall business strategy

Risk Committee

- The Board delegates authority to a specific executive committee (The Risk Committee) which reports on a formal basis to the Board.

The Risk Committee is required to:

- In accordance with the Board mandated risk appetite, articulate the total financial capital the firm is placing at risk of loss (capital at risk) as distinct from a regulatory authority's imposed minimum capital requirements
- Clearly identify the risks to which the capital is exposed
- Articulate the acceptable levels of exposure to specific risk types and counterparties
- Approve risk limit policies
- Ensure that the policies and procedures for conducting business are adequate and up to date
- Ensure appropriate internal controls are in place
- Review and approve risk management policies on a regular basis

In doing so the Risk Committee must take into consideration:

  - The firm's overall business strategy
  - Appropriateness as to the size, nature and complexity of transactions entered into by the firm
  - Quality of internal procedures
  - Sophistication of the firm's monitoring capabilities, systems and processes
  - Past experiences and performance
  - Regulatory constraints

Risk Management Framework and Objectives

The primary risk management objective of the firm is to develop appropriate systems and controls and ensure it holds sufficient capital to ensure it can mitigate risks to within its risk appetite.

The Board has oversight responsibility to ensure the risks the business faces are adequately mitigated and to assess on an on-going basis the arrangements to manage risk are appropriate.

The Board has determined that the main areas of risk to which the business is exposed are:

- Operational Risk
- Counterparty risk
- Credit Risk
- Liquidity Risk
- Business Risk
- Compliance Risk

An ICAAP is carried out at least annually and identifies and seeks to mitigate the risks that the firm is exposed to. The ICAAP considers the overall pillar 2 risks including the material risks outlined above and includes stress tests, scenario analysis and a wind-down based upon these risks.
None of these additional overall pillar 2 risks are deemed material and no further disclosure is made in this report.
Based upon the ICAAP, the Board deems the capital held by the business to be adequate and appropriate.

STA has a continuous process of monitoring its capital resource availability and to ensure that the company is compliant with its requirements the company uses risk management and control systems to provide a continuous reporting mechanism. This in turn leads to a series of key indicator reports being used by the company to monitor its daily activities and risks inherent or external to the business environment.
With regard to counterparty credit risk the company's risk systems are real-time/near-time and through the middle office risk staff provides a constant monitoring at all times of client exposures. The use of software and technology to control exposures and place limits, to provide warnings and alerts enables senior management to be up to date at all times on counterparty credit risk issues.
Operational risk is managed by individual business areas that have responsibility for putting in place appropriate controls for their departments. Regular reporting of risks then takes place at Management, Board and Risk Committee levels.

In order to ensure we have sufficient capital to cover some of these operational risks the company also maintains a range of insurance policies to cover eventualities and has an annual review of all policies to ensure that their cover is sufficient.

Risk Category disclosures

Market Risk

Position Risk

STA defines Market Risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices or risk factors within the STA trading book or the non-trading book.

The STA Board of Directors has stated its objective to remain neutral to market risks.
The firm operates under agency or riskless matched principal basis and does not hold positions with the intent to benefit from changes of market prices or risk factors.
The calculation of regulatory capital required for market risk exposures under Pillar 1 is undertaken using rules and guidance within BIPRU 7.1 to 7.8
The STA Board of Directors has assessed the available capital resources required for Market Risk under Pillar 1 as adequate.

Foreign Exchange Risk

STA maintains small balances in a number of currencies, primarily Euros and US Dollars and has an active policy to keep these foreign currency positions to a minimum.

For the purposes of Foreign Exchange Risk calculation, STA calculates the net open positions in each currency (the company is primarily long of any currency) and applies a charge of 8% against these positions.

The Directors believe that there is no need to calculate any further capital requirement for either the position risk or foreign exchange risk under Pillar II as they believe that Pillar I provides sufficient capital.

Credit risk

In accordance with BIPRU 3.1.6R STA's credit risk capital relates to the company's non-trading book which has not already been deducted from its capital resources.

The company maintains cash balances at its bankers and with its clearing members assigned high credit ratings. Additionally, there are balances due from other credit institutions relating to STA's brokerage business, prepayments and transactions between STA and other firms.

Depending on the nature of the debt, credit risk exposure is charged either at 8% or a lower limit of 1.6% for balances at recognised credit institutions.

There is a continuous monitoring of all brokerage debts to ensure that all outstanding sums are paid in a timely manner and as stated per the invoices. Disputed details are dealt with by the credit control department and the relevant broker to ensure that there are minimal impaired debts at any time.
STA has adopted the simplified approach for the purposes of calculating risk weights as detailed under BIPRU 3.5.2 (G).

This approach is based on the following rationale:

- The size and complexity of the firm.
- Current and future operations are centred on providing brokerage services to clients who can be categorised as Eligible Counterparties or Professionals.
- We do not provide any credit to clients, irrespective of their perceived, declared or otherwise determined creditworthiness.

Counterparty credit risk

STA generates risks through the potential default of its counterparties to fulfil their obligations to STA and these may arise through non-payment or failure to settle transactions. Triggers for these default events will likely be driven by changes in market risk factors (market driven counterparty risks) and STA differentiates between these and other types of repayment risk arising through its non-trading book.
STA measures pre-settlement risks on a credit equivalent exposure (CCE) basis reflecting both the current replacement cost of any positions plus an estimate of the potential future exposure resultant from movements of market rates or risk factors.
Current Exposure is the current replacement cost of transactions – this can be thought of as their current market value (marked to market) and represents what would be lost if the counterparty defaulted (today).
Potential Exposure is an estimate of the future replacement cost of open transactions and represents what may be lost at a future date if the counterparty defaults during the life of transaction.
The calculation of regulatory capital required for counterparty credit risk under Pillar 1 is assessed under BIPRU 13 and BIPRU 14.
The STA Board of Directors has assessed the available capital resources required for Counterparty Credit Risk under Pillar 1 as adequate.

Operational Risk

The Board defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The firm utilises the Fixed Overhead Requirement calculation under Pillar 1 in relation to capital resources requirements. As the FOR is based on annual expenses the firm monitors costs on a

monthly basis to determine whether the capital held using the FOR is an appropriate proxy for operational risk or whether any adjustments need to be made to capital held.
The firm is not required to calculate an operational risk requirement (as a BIPRU Limited License firm) though it considers operational risk as part of its ICAAP process to identify the overall level of risk based capital required to be held by the firm.
STA has assessed its Pillar II requirements in relation to operational risks utilizing a Risk Register containing a comprehensive matrix of risks factors. It has determined both an expected severity and an expected frequency for each factor and assigned a capital sum to each after adjusting for such mitigants as are deemed appropriate. As a result of this analysis, STA has determined that capital held by the firm is appropriate to meet its requirements under Pillar II.

Liquidity Risk

The Board defines Liquidity Risk as the risk that the firm, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due.
The firm has a comprehensive Liquidity Framework Policy designed to comply with the firm's liquidity risk appetite, outline liquidity risk management practises, explain the principles behind the stress tests used to support the risk assessment process and tie in with the company's ICAAP. There are a number of key drivers that are monitored on a continuous basis by the Finance and Treasury functions:

- Liquid Cash
- Working Capital
- Net Cash Flow from brokerage
- Brokerage Collection rates

The policy specifically covers the daily control points for the organization and reviews the key components:

- Bank statements
- Short term investments
- Clearer cash reconciliation
- Daily funding analysis
- Daily cash flows
- Daily margin analysis
- Cash balance interest
- Receipts and payments

Liquidity reports are prepared daily for the management team in conjunction with weekly and monthly reporting of key indicators.

Business Risk

The Board defines Business Risk as the current or prospective risk to earnings or capital due from changes in the business environment and from adverse business decision making or improper implementation of strategic planning. To ensure adherence with the Board mandated risk appetite a framework of Key Performance Indicators and tolerances is monitored by the Board and Management team allowing corrective or remedial actions where necessary. Any subsequent impact upon budgetary forecasts and capital planning is assessed and considered within the overall business strategic objectives.

Compliance Risk

The Board defines Compliance Risk as the risks associated with the complexity of regulations and countering financial crime. The firm operates an on-going comprehensive compliance monitoring programme designed to ensure the firm meets the relevant domestic or international regulatory standards.

Capital Resources

The firm has a simple capital structure with all its capital held as Tier 1 capital.
Aside from its share capital, the company's audited reserves make up the largest elements in its capital structure.
The table below illustrates the current capital structure.

	30/06/2016 GBP000's
Authorised and paid up share capital	3,350
Audited Reserves	3,800
Core Tier One Capital	**7,150**

Capital Resources Requirement

STA is a €50K BIPRU (MiFID activity restriction) Limited License firm and as such its capital requirements are the greater of:

- The base capital requirement of €50,000 or
- The sum of its market and credit risk requirements or
- The Fixed Overhead Requirement

The table below illustrates the breakdown of the capital resources required.

	30/06/2016 GBP 000's
Credit Risk Capital Component	448
Counterparty Credit Risk Capital Component	2
Concentration Risk Capital Component	0
Credit Risk Capital Requirement	**450**
Commodity PRR	0
Foreign Exchange PRR	18
Market Risk Capital Requirement	**18**
Base Capital Requirement	**40**
Fixed Overhead Requirement	**920**
Total Capital Resources Requirements	**920**

Credit Risk Capital Component Analysis

	30/06/2016 GBP 000's	
	RWA	**CRCR**
Institutions and CAD Firms	1,556	125
Corporates	1,505	121
Other	2,497	201
Total	**5,558**	**448**

Remuneration Code

As a €50K BIPRU (MiFID activity restriction) Limited License firm, STA falls under the obligation of the Remuneration Code (RC) being designated a Proportionality Tier 3 (PT3) solo Remuneration Code firm which requires that the firm makes disclosures under BIPRU 11.5.18R. These disclosures cover matters such as the decision making, links between pay and performance and remuneration of workers that have significant influence on the firm's activities or risk profile. There is also a requirement for disclosure of the amount of remuneration during the period under review.

Overview

In accordance with the implementation of Capital Resource Directive 3 the firm is required to have a documented policy on the remuneration of workers whose practices have or may have a material impact on the institution's risk profile, the Code Staff ("CS"). General information concerning the firms approach to compensation for workers should also be available. Such disclosure should be proportionate to the firm's size and complexity. The overall amount of disclosure required is based on the firm's PT. As a PT3, the company has elected in light of its size and the nature of its activities, to dis-apply the requirements for it to have a remuneration committee as prescribed by the RC. The disclosure requirements relevant to STA are detailed in the FCA document Finalised guidance on proportionality: The Remuneration Code and Pillar 3 disclosures on remuneration, published Sept 2012.

Decision-making process used for determining remuneration policy

The firm pays directors and workers a combination of salary, bonus and other benefits.
The salaries of all workers are determined by a line manager in consultation with the relevant Director. All of the Directors and senior management remuneration levels are agreed by the Board. Financial and non-financial criteria are taken into account when assessing individual performance and deciding upon remuneration and this is done formally through an Annual Performance Review. In determining the appropriate level of remuneration, the following factors are considered when determining the appropriate level of total compensation and eligibility for bonus payments.

- Education, Experience & Seniority;
- Nature of role, e.g. Support, Administration or Management;
- Current compensation, Guidance from recruitment agencies, market research;
- Peer review.

Link between performance and remuneration

Bonus payments where paid are in recognition of the contribution to the firms overall performance. The amounts payable are based on a standard percentage of earnings before tax awarded to all workers including Directors. All workers are evaluated equally on matters such as, work ethic, willingness to assist others, desire to improve and internal motivation.
The firm has no Directors or workers on a guaranteed bonus scheme.

Remuneration of senior management and workers whose actions have a material impact on the risk profile of the firm.

Category	No of Code staff	Fixed Remuneration	Pension/Other Bens	Variable Remuneration
Senior Managment	4	£430,960	£6,141	£197,264