

ILLIQUIDX limited ("ILLIQUIDX") Pillar 3 disclosures and remuneration disclosures
As at 31 March 2020

The Capital Requirements Directive 2013/36/EU ("CRD IV") of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ("FCA") and the Prudential Regulatory Authority ("PRA") since 1 April 2013 in its regulations through the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, IFPRU and the Regulation of the European Parliament and the Council on prudential requirements for credit institutions and investment firms (Regulation (EU) No 575/2013) and amending Regulation (EU) No 648/2012, together "EU CRR".

The FCA framework consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2 requires the Firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FCA and PRA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

ILLIQUIDX is permitted to omit required disclosures if its management believes that the information is immaterial and that such omission would be unlikely to change or influence the decision of a reader relying on that information. The Firm has made no omissions on the grounds that any information is immaterial, proprietary or confidential.

Scope and application

ILLIQUIDX is a Full Scope IFPRU 730K firm and does not form part of a consolidation group; it is not a Globally Systemic Important institution and is subject to IFPRU and the EU CRR. ILLIQUIDX has the permission to provide advisory and arranging services in addition to dealing on a principal and agency basis. The permissions allow the Firm to hold and trade own account positions. The Firm has no permission to hold client money or safeguard client assets. The Firm mainly deals in distressed fixed income, equities and other securities transactions, as well as bankruptcy claims. ILLIQUIDX also provides corporate finance advisory and arranging services. ILLIQUIDX deals with professional customers and eligible counterparties and

executes sell orders for retail clients in distressed securities, helping them to find liquidity and receive some return on a holding that would otherwise have zero value.

The Firm is based in the UK but has counterparties and clients throughout Europe and the rest of the world.

Statement of risk appetite

ILLIQUIDX' risk appetite is low by design and limited by its business model, by the products it trades and by dealing in general as a matched principal broker. The Firm also considers imposing trade volume limits on the basis of a counterparty's creditworthiness.

The Firm considers the following risk typologies and has quantified its risk appetite for each typology in an appropriate manner (e.g. system downtime tolerances for IT, monetary impact on the balance sheet for financial risk) and scores its exposures accordingly and uses this information to implement controls that bring the risk exposures within the Board's tolerances:

- Trading risk;
- IT risk;
- Systems and Controls risk;
- Regulatory risk;
- Legal risk;
- Personnel risk; and
- Financial risk.

The risk appetite statement is approved at Board level.

Risk management objectives and policies

Risk Management Objective

The Firm's risk management objective is to develop and maintain appropriate systems and controls to mitigate the risks to which it is exposed to ensure the exposures remain within its risk appetite.

Governance Framework

The Board is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets generally quarterly (and not less than four times a year).

The Board is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Board decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Line Management is accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

The Firm engages an external firm of consultants to review the appropriateness and effectiveness of the risk assessment, the ICAAP, the monitoring programme and the overall risk management and reporting process.

Disclosures concerning Executive Committee

Number of directorships (excluding those held in respect of ILLIQUIDX and companies in the same group) held by members of Executive Committee

The number of outside directorships held by members of the Executive Committee is as follows:

- Celestino Amore - 4
- Galina Alabatchka - 2
- Policy on Diversity

The Firm complies with national legislation of diversity and does not discriminate on the basis of gender, sexual orientation religion or disability. The Firm is focused on hiring the best talent and the most appropriate person for the role, irrespective of any other factors.

- Risk Committee

Due to the size of the Firm a separate Risk Committee has not been set up. The existing Board of Directors is actively involved in the day to day trading activities of the Firm and incorporates risk issues within its regular meetings.

Risk Framework

Risk within the Firm is managed by use of the following:

- Regular meetings of management
- A detailed risk register for the firm which supports the ICAAP and Recovery and Resolution Plan

- Annual and periodic stress testing, including reverse stress testing

ILLIQUIDX has identified the material risks below.

Credit risk (including counterparty risk)

Credit risk is determined pursuant to EU CRR Capital Requirement for Credit Risk, Chapter 1 and Chapter 2 specifically; Art 107, 111 – 122 and 134.

With regard to bank deposits, ILLIQUIDX deposits money with several approved reputable credit institutions with high credit ratings for diversification purposes.

The Firm does not use the Internal Ratings Based Approach.

Market Risk

ILLIQUIDX' market risk is its exposure to foreign exchange fluctuations, due to some assets and liabilities being denominated in currencies other than sterling, and a position risk requirement based on our own account positions in financial instruments. This risk is not considered material to the business and is significantly less than the Firm's fixed overhead requirement.

Business Risk

The principal business risk assessment principally takes the form of a fall in execution business following a market downturn that leads to lower brokerage fees. To determine impact, the Firm regularly analyses various different economic scenarios to model the impact of economic downturns on its financial position. Senior management is seeking to add further revenue streams to limit impact.

Operational Risk

Operational risk includes everything, from risk to the Firm's high-level strategy to risk of administrative errors and relates to a failure of the Firm's people, processes, systems or controls which has, or might have had, a financial impact. ILLIQUIDX' policy is to operate a robust and effective risk management process, embedded within the governance and management structures of its business and founded on a detailed risk assessment and risk-based monitoring programme designed to ensure the Firm can monitor and ensure that the Firm's exposures remain within its risk tolerances.

Liquidity risk

At 31 March 2020, ILLIQUIDX held capital of £1,154,247. There was £563,553 cash in the business.

Under normal trading conditions liquidity risk is not generally an issue, however, liquidity risk could become an issue in the event of one of ILLIQUIDX' settlement brokers or banks going into liquidation or in the event of a significant decrease or complete disappearance of volatility in the market.

Liquidity risk has been separately analysed in the ILLIQUIDX Liquidity Policy document, covering areas of the organisational structures for liquidity management, liquidity monitoring and management and early warning indicators and strategies followed by scenario analysis. ILLIQUIDX follows the rules and guidance as set out in BIPRU 12, in the managing of its liquidity risk. ILLIQUIDX has high levels of liquidity and no risk capital allowance has therefore been made for liquidity risk in the ICAAP.

The Directors of the Firm are its controllers and have are able to ensure that the Firm has sufficient liquidity to meet its liabilities as they fall due. The Firm has also conducted reverse stress testing scenarios to determine when it would invoke its Orderly Wind-Down plan which is documented in its ICAAP.

Internal Capital Adequacy Assessment Process ("ICAAP")

As required by the FCA rules, ILLIQUIDX has established an ICAAP document and process which is linked to the Firm's risk assessment and monitoring programme. ILLIQUIDX monitors the adequacy of its capital and other resources relative to its risks on a regular basis to ensure that it always has a material buffer of capital in excess of its regulatory capital requirement (in line with the Board's conservative attitude to risk). The Board of Directors reviews and approves the ICAAP document at least once a year, and on any material change to the Firm's business model.

The ICAAP contains forward-looking projections for the business and stress-tests those projections against key stress events (e.g. loss of a trading team and associated revenue) to determine what management actions, if any, would be required in order to ensure the Firm continued to meet its capital and liquidity obligations.

Capital adequacy (own funds & leverage ratios)

CAPITAL SUMMARY 31/03/2019

£

Capital Adequacy - Own funds

Paid up capital instruments - issued ordinary share capital	1,203,750
Other reserves	
Audited profit and loss account	-49,503

OWN FUNDS/TIER 1 CAPITAL/COMMON EQUITY TIER 1 CAPITAL

1,154,247

Capital Adequacy - Risk Weighted Exposure Amounts (based on unaudited numbers)

Institutions

Credit institutions	112,710
Other items	1,568,656

Operational risk (Basic indicator Approach)	5,662,188
Market risk (Foreign exchange)	2,262,614
Market Risk (Debt instruments)	2,476,584

TOTAL RISK EXPOSURE AMOUNT

12,082,752

Capital Adequacy - Ratios

CET1 Capital ratio

12.18%

Surplus(+)/Deficit(-) of CET1 capital	927,719
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Tier 1 Capital ratio	12.18%
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Surplus(+)/Deficit(-) of Tier 1 capital	746,478
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Total capital ratio	12.18%
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Surplus(+)/Deficit(-) of total capital	504,823
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Initial CAPITAL REQUIREMENT (€730K)

652,193

Disclosure: use of ECAI

Article 112 exposure	ECAIs and ECA	Exposure value	Exposure value after Credit Risk Mitigation
exposures to central governments or central banks;			
exposures to regional governments or local authorities;			
exposures to public sector entities;			
exposures to multilateral development banks;			
exposures to international organisations;			
exposures to institutions;	United Kingdom	1,227,787	1,227,787
exposures to corporates;			
retail exposures;			
exposures secured by mortgages on immovable property;			
exposures in default;			
exposures associated with particularly high risk;			
exposures in the form of covered bonds;			
items representing securitisation positions;			
exposures to institutions and corporates with a short-term credit assessment;			
exposures in the form of units or shares in collective investment undertakings ("CIUs");			
equity exposures;			
other items.		644,207	644,207
Total		1,871,994	1,871,994

Pillar 3 Remuneration Disclosure

Decision-making process for remuneration policy

The Board is responsible for human resource issues connected to terms and conditions of employment, remuneration (fixed and variable) and benefits. The Firm is not considered large enough to warrant a separate Remuneration Committee.

Remuneration disclosures for the year ended 31 March 2020

The Board determines remuneration policy taking full account of the firm's business strategy, objectives, values and long-term interests of the firm, including the extent and quality of staff compliance with legal and ethical requirements. The Remuneration Policy encourages staff to improve how they undertake work rather than with a focus on how much revenue or profit they can make. This is based on the fact that most of the criteria which determine any variable remuneration are non-financial.

Remuneration Code Staff comprise staff that hold significant influence functions, are senior management, risk takers, staff who undertake controlled functions and employees receiving remuneration on par with senior management.

Pay-performance link

The pay performance link for Code Staff is made up of variable profits based on completed transactions by the relevant person, as well as on the profits of the Firm. Compensation levels are determined by a set of criteria for each Code Staff member and their responsibilities.

These criteria are performance measures linked to the quality of the work done with linkage to agreed financial targets. The performance component of the remuneration relates to a percentage of a Code Staff members' transactional profit production, in addition to the total profit generation and overall financial performance of the Firm.

One of the Directors is the Firm's Compliance and Risk Officer and feeds in to the Board's decisions any material information relating to non-compliance by key staff with regulatory or risk requirements which may result in variable remuneration being reduced where performance has been achieved through non-compliant behaviours.

Remuneration Deferral

While the Firm is not of such size, complexity and market impact as requires the deferral of remuneration as required by SYSC 19A, the Firm operates a "rolling deferral" of up to 100% of variable remuneration for up to 3 months from the date on which it was earned to ensure that there is always the potential to withhold variable remuneration in the event that non-compliant behaviours are identified.

Code Staff remuneration

ILLIQUIDX has 4 Code Staff which are Senior Management. Aggregate remuneration in respect of Code Staff was £187,135.

The breakdown of fixed and variable remuneration at the Firm for the period was:

Staff	Fixed Remuneration	Variable Remuneration
Code	86.9%	13.1%
Non-code	66.3%	33.7%