HCFX IFPR Disclosures

IFPR Disclosures 2022

PART A: Introduction

Regulatory Context

From 1 January 2022, the Investments Firms Prudential Regime (**"IFPR"**) has replaced the previous Capital Requirements Regulation (**"CRR"**) in the United Kingdom for the purpose of formalizing a single yet proportionate capital requirements regime across all investment firms. This in turn, is expected to promote healthy competition and enhance transparency in the industry. The regulation is presented by the Financial Conduct Authority (**"FCA"**) and supported by its published rules and guidelines (**"FCA Handbook"**), and in particular those listed in its "MIFIDPRU" chapter (Prudential Sourcebook for MIFID firms).

The present document is informed by the Internal Capital Adequacy and Risk Assessment (**"ICARA"**) which is kept under review and subject to a formal annual revision and internal approval.

Scope and Application of Requirements

Hamilton Court Foreign Exchange (**"HCFX"**, the **"Firm"**) is incorporated in the UK and is authorised and regulated by the FCA (with reference number 810631) and is within the scope of the aforementioned IFPR regime. Under MIFIDPRU 8, the Firm is required to disclose certain information on a regular basis at a location readily available.

As per current regulatory requirements, for accounting periods ending during the calendar year of 2022, disclosures need to be made regarding the Firm's governance, own funds and own funds requirements. Full set of disclosures will need to be made for any account periods ending at a later date.

As a former "IFPRU 125K" firm, under MIFIDPRU 2.18[1], Hamilton Court FX is able to utilize the alternative schedule defined by the FCA when assessing its Permanent Minimum Capital Requirement (**"PMR"**). For clarity the schedule is as follows:

- From 1 January 2022 to 31 December 2022 – £125,000
- From 1 January 2023 to 31 December 2023 – £190,000
- From 1 January 2024 to 31 December 2024 – £330,000
- From 1 January 2025 to 31 December 2025 – £470,000
- From 1 January 2026 to 31 December 2026 – £610,000

The present document contains figures and information as on 31 March 2022 on the basis of the Firm being classified as an "non-SNI" firm.

Frequency of Disclosure

The Firm will be making IFPR disclosures at least annually, subject to its ongoing assessment that such disclosures do not need to be made even more frequently due to the characteristics of the Firm's business.

The disclosures will be as at the Accounting Reference Date, which is the last day of the calendar year, and any figures included in this document will be based on the latest accounts as at that date. The disclosures will be published in conjunction with the date of publication of the financial statements.

1 Source: www.handbook.fca.org.uk/handbook/MIFIDPRU/transchedule.pdf

Location of Disclosure

The disclosure will also be published on the Firm's website.

Verification

The information contained in this document has not been audited by the Firm's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm. The IFPR disclosures have been reviewed and approved by the Board of Directors.

Materiality and Confidentiality

If the Firm deems a certain disclosure to be immaterial, it may omit the disclosure from this document.[1] The Firm regards information provided in disclosures as "material" if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

Investment firms may also omit items of information where they believe that those items include information that is proprietary or confidential. The Firm regards information as "proprietary" if sharing that information with the public would undermine the Firm's competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments less valuable. The Firm regards information as "confidential" if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality.

The Firm has made no omissions on the grounds that certain information is immaterial, proprietary or confidential, other than as may be disclosed in the statutory accounts.

PART B: Risk Governance

The Firm is committed to good risk management – this is prioritised through operational structure, governance processes, monitoring and reporting activities. The senior management of the Firm are committed to best practices in governance and oversight.

The Firm is also committed to maintaining an effective internal control structure which includes oversight, monitoring and reporting of risks.

The Firm's risk governance policies are designed to provide objective assessments and monitoring of risks through independent lines of reporting for risk oversight and operations. On-going risk reporting ensures the Board and senior management are provided with risk management information concerning the Firm's risk exposure. This information also forms part of the Firm's ICARA.

Management regularly reviews the level of risk it regards as appropriate in order to operate within its regulatory obligations and achieve its business objectives.

Risk Management Framework

Risk management within the Firm is based on a 'three lines of defence' model, as follows:

- first line of defence: business management and staff are responsible for (i) identifying and assessing the risks faced in the business and (ii) ensuring that appropriate controls are established and maintained;
- second line of defence: the Compliance and Finance teams are responsible for establishing an effective policy framework for the business and conducting compliance monitoring; and
- third line of defence: the external audit and the Firm's Board provide independent and objective oversight of the effectiveness of the risk management, control and governance processes. The Firm does not have an internal audit function therefore this activity is outsourced to third parties who report directly to the Board on specific items at the Board's request.

The Firm is committed to on-going review and development of all three lines of defence in line with its businesses scale and risk profile.

The Firm's Board meets at least four times a year. The Board is comprised of executive and non-executive directors, with at least one independent non-executive director.

Risk Appetite

The Firm has developed systems and controls to mitigate certain risks. This ensures those risks remain within the appetite of its risk program, as defined by the Finance team and approved by the Firm's Board.

The Firm sets its risk appetite by considering material risks in the business and then evaluates the level of acceptable risk (either subjective or objective) and the related measurements. Any risk exceeding the risk appetite will be reported to the Board along with the proposed action plan to bring the risk back within tolerance.

For those key risks which cannot be mitigated sufficiently, the residual financial risk is quantified and included in the ICARA assessment such that additional capital may be held to resolve any risk event which may occur.

Key Risk Categories

The Firm considers its operations to be prudent and risk averse. The prime business objectives of the Firm are:

- achieving client satisfaction and
- ensuring the financial strength of the Firm over a long term, as opposed to prioritising rapid growth or returns.

Whilst the Firm is exposed to risks inherent in its business and activities, it has put in place risk management policies, practices and reporting for each category of risk it is exposed to.

The following inherent risks have been identified and analysed for their impact on the Firm:

Credit Risk - HCFX's credit risk process aims to fully assess and map the potential risks associated with offering forms of credit to clients. The firm accepts that the offering of credit is a tool which can benefit the firm in attracting new business and in assisting the maintenance of existing client relationships, however, also notes that credit exposure from clients when not properly managed can undermine the firm's stability. HCFX seeks to balance the convenience and benefits of offering credit with those risks and seeks to mitigate those risks through oversight and management.
The prime responsibility for managing the firms credit exposure will sit with the firm's Group Finance Director who provides weekly information on the firm's current credit position and exposures.
The Firm's main exposure to credit risk comes from the extension of margin credit and the potential subsequent default by its clients. Consequently, the Firm carries out initial and on-going due diligence on clients, including an assessment of their credit risk. Credit is extended on a per client basis, based on need and trading vintage.
Credit risk exposure is therefore considered as a "Medium" risk and will be mitigated by process controls such as reporting and monitoring credit management. A provision is available and has been considered as part of the firms CVA calculate that, if necessary, allows for certain credit risk events to funded from the Firm's capital and liquidity provisions.

Market Risk - Market risk is the risk of loss due to adverse changes in the financial markets, where such changes have not been properly accounted for and hedging strategies are not in place.
The Firm does not trade on its own account and does not book trades unless it has established a counterparty able to deliver funds and so exposure is limited. However, capital market fluctuations can have an effect on client activity and on the Firm's counterparties.
The Firm's revenue will be impacted by overall market performance and prices due to decreasing sales. However, a comparison of historical market movements against revenue has shown that the impact on the Firm is less than actual market movements. This is because instability in markets often results in clients seeking more security, thus increasing the utilisation of hedging products which may counteract the reduction in spot FX trading.
On this basis, market risk is mitigated through the pricing structure and a diversified underlying client base. This is coupled with all HCFX being placed directly with counterparties, as opposed to trading on our own book and creating our own exposure.
HCFX also retains its own profits, allowing it to accumulate a capital buffer which allows it to avoid market risks impacting its business. On this basis market exposure is considered low risk.

Settlement Risk - The Firm does not offer contractual settlement credit to customers and works on a "cleared funds only" basis, resulting in limited settlement risk. A small settlement risk, resulting from FX market movements, will occur where trade obligations are not fulfilled by clients. The Firm operates as a matched principal and settlement risk is mitigated contractually as far as possible.
HCFX has controls in place to close out positions as soon as possible following a default event by a client. HCFX also

operates margining provisions on clients who enter into FX derivatives.
Settlement risk and calculation of counterparty risk is also considered as part of the firms ongoing CVA calculations.

Operational Risk - The Firm does not run a trading book or take proprietary positions, so it is not required to calculate operational risk under the FCA's rules. Instead, the fixed overhead requirement acts as a proxy for the calculations of basic liquid asset requirement. The firm's fixed costs are calculated using a CVA calculation process. Notwithstanding this, the Firm has implemented a risk management framework to remove or mitigate the risks inherent in its business and associated with operational errors, including administrative errors, process failures, loss of IT services, and the competence and negligence of employees. This recognises that operational risk is a significant risk area within the Firm if not carefully managed.
The Firm uses its Finance, Compliance and Internal Audit monitoring teams to reinforce and oversee the operation of these controls and the risk framework. If required, third parties may also be engaged to undertake independent reviews as a third line of defence.
The operational risk framework, put in place to mitigate operational risks, includes regular reporting to the board from senior management and heads, as well as an active engagement in the firm's operations from the board who maintain active positions inside the firm.
Error reporting, reaction and management interventions will be utilised to ensure root cause and preventative actions are investigated and implemented promptly by the Firm. The Board is satisfied that all foreseeable operational risks can be mitigated by process controls and, where necessary, residual risks can be funded from core liquid assets held.

Concentration Risk - Concentration risk is the risk of business being generated by too few clients. HCFX operates a policy to ensure that no single client contributes more than 15% of the firm's total income.

PART C: Governance and Oversight Framework

The Board is the Governing Body of the Firm. It meets at least quarterly and is composed of executive and non-executive directors.
The Firm has a remuneration committee ("RemCo") to agree remuneration policy and approve staff remuneration. This meets at least two times a year.

The management of the firm is led by 5 officers and 3 non-executive Directors. Across this group, the individuals hold a total of 96 directorships, including those held with HCFX.

Recruitment of the senior team is handled through the firm's recruitment policy, which manages the hiring of senior staff members. Members of the management team are formed of senior staff inside of the firm, each holding a different position inside of the firm (CEO, COO, CTO etc) as required. This ensures a broad and wide selection of senior management presence.

The firm also established a Risk Committee, who meets regularly and reports directly to the Board to ensure ongoing risks faced by the Firm are mitigated appropriately.

Capital Resources and Requirements

Own Funds

In line with IFPR requirements, own funds disclosures are completed by using the template clarified in **MIFIDPRU 8 Annex 1R**. The below presented table reflects all items applicable to Hamilton Court FX and were sourced from the Firm's latest audited financial statement for year end 31 March 2022.

Composition of regulatory own funds as on 31.03.2022			
		Item	Amount (£ 000)
1	**OWN FUNDS**		
2	**TIER 1 CAPITAL**		**15,619**
3	COMMON EQUITY TIER 1 CAPITAL		15,619
4	Fully paid-up capital instruments	Ordinary Share Capital	4,813
5	Share premium	Share Premium	13,288
6	Retained earnings	P&L account	7,596
11	**(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1**	Goodwill	10,078

HCFX total Regulatory Capital is in excess of the Own Funds Requirement. This surplus, along with liquidity, is monitored by the Finance department and is reported regularly to the Board to ensure that the Firm has sufficient capital and liquidity to meet its regulatory requirements at all times. Any potential future failures will be identified in the projected budgets and addressed internally in advance of any actual breaches. HCFX shall take into account risks, such as Own Funds Requirements, Position Risk, Settlement Risk, Exposure risk and Commodities risk among others.

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements		
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		As at period end (£ 000)
	FIXED ASSETS	
1	Fixtures & fittings	13
2	Computer equipment	162
3	Office equipment	198
4	Motor cars	54
5	Leasehold improvements	393
6	Goodwill	8,749
7	Investments	4,753
8	**Total Fixed Assets**	**14,322**
9	CURRENT ASSETS	
10	Accrued income	5,777
11	Prepayments	1,651
12	Other debtors	1,377
13	Office cash	5,881
14	Cash held with counterparties	29,458
15	**Total Current Assets**	**44,144**
16	**TOTAL ASSETS**	**58,466**
1	CURRENT LIABILITIES	
2	Accounts payable	400
3	Collateral held as security against future obligations	18,394
4	Funding on swaps	4,091
5	PAYE & NI	120
6	Hire purchase	112
7	Corporation tax	233
9	Accruals	3,910
10	Directors' loans	6
11	**Total Current Liabilities**	**27,266**
12	LONG-TERM LIABILITIES	
13	Loan facility	4,000
14	Loan fees	-141
15	**Total Long-term Liabilities**	**3,859**
16	**TOTAL LIABILITIES**	**31,125**
1	SHARE CAPITAL AND RESERVES	
2	Ordinary Share Capital	4,813
3	Share Premium	13,288
4	Shareholders' Reserve Account	1,644

5	Profit and Loss Account	7,596
6	**TOTAL SHARE CAPITAL AND RESERVES**	**27,341**
1	**TOTAL LIABILITIES AND EQUITIES**	**58,466**

Hamilton Court FX does not issue its own instruments at present.

Part D: Remuneration

In accordance with the IFPR's remuneration disclosure requirements (MIFIDPRU 8) and the FCA's "General Guidance on Proportionality: The Remuneration Code (SYSC 19A) for non-SNI firms, such as Hamilton Court FX, it is required to provide the following disclosures regarding its remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile ("material risk takers").

The Firm has established a remuneration policy and a RemCo in accordance with the FCA's Remuneration Code for non-SNI firms.

The RemCo comprises two executive and one non-executive director of the Firm and meets twice per financial year. The RemCo is responsible for establishing, implementing and maintaining remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. In particular, RemCo is responsible for ensuring the Firm's compliance with the FCA's Remuneration Code, as well as other applicable laws and regulations. It reports its findings and recommendations to the Board. No external consultant has been used for the determination of the remuneration policy.

Part E: Code Staff and Link Between Pay and Performance

The Firm classifies those staff whose professional activities have a material impact on its risk profile as material risk takers in line with the FCA's Remuneration Code. The firm has classified eight individuals as material risk taker in the financial year 2021-2022. The aggregate remuneration paid to the Firm's Code Staff during the financial year ending on 31 March 2022 was £2,473,838. Of this amount, £946,794 represents fixed salaries, and £1,527,044 represents bonus or commission based income.

Remuneration comprised base salary, pension contributions and benefits in kind. Bonuses were paid to material risk takers in the period in keeping with the Firm's remuneration policy. It is currently HCFX policy to pay remuneration on a tiered and delayed basis in order to ensure trades are made which are beneficial to the firm long term. Remuneration is determined on a monthly basis, with its prime basis for calculation being on performance, with performance being the total volume and value of trades placed. In determining remuneration, the RemCo considers the individual and the Firms performance. Certain material risk takers identified are primarily sales led and are remunerated based on sales targets. Senior management and control staff bonuses are based primarily on firm performance.

Individuals' performance is measured against documented and agreed objectives. There is no minimum pay increase and no contractual bonuses for current material risk takers.

The above disclosures were made by Hamilton Court Foreign Exchange Limited in and were correct at the time of publication. HCFX has completed a full financial year when making these disclosures.