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IFPR Disclosures 2023

HAMILTON COURT FOREIGN EXCHANGE LIMITED (FRN:810631)

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1. INTRODUCTION

Hamilton Court Foreign Exchange Limited ("**HCFX**" or the "**Firm**") is incorporated in the UK and is authorised and regulated by the FCA as an investment firm (FRN: 810631). It is also authorised as a payment services firm (FRN: 810625). As an investment firm, HCFX is within the scope of MIFIDPRU chapter of the FCA Handbook. The principal activities of HCFX are that of trading of regulated and unregulated over-the-counter foreign exchange transactions on a matched principal basis.

The MIFIDPRU regulations apply to the Firm's regulated foreign exchange transactions. As per current regulatory requirements, for accounting periods ending during the calendar year of 2023, disclosures need to be made regarding the Firm's governance, own funds and own funds requirements.

As a former "IFPRU 125K" firm, under MIFIDPRU 2.18[1], HCFX 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 2023** on the basis of the Firm being classified as an "**non-SNI**" firm.

2. 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 process.

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

2.1 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 team is responsible for establishing an effective policy framework for the business and conducting compliance monitoring; and

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

- **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.

2.2 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 Risk 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 process such that additional capital may be held to resolve any risk event which may occur.

2.3 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 protection; 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:

2.3.1 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 Firm's credit exposure sits 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 Firm's CVA calculate that, if necessary, allows for certain credit risk events to funded from the Firm's capital and liquidity provisions.

2.3.2 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 client 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 foreign exchange trading.

On this basis, market risk is mitigated through the pricing structure and a diversified underlying client base. This is coupled with all HCFX trades 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.

2.3.3 Settlement Risk

The Firm does not offer contractual settlement credit to clients and works on a "cleared funds only" basis, resulting in limited settlement risk. A small settlement risk, resulting from foreign exchange 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 foreign exchange derivatives.

Settlement risk and calculation of counterparty risk are also considered as part of the Firm's ongoing Credit Valuation Adjustment ("**CVA**") calculations.

2.3.4 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/or 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 Risk 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 of functions, as well as an active engagement in the Firm's operations by the Board.

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.

2.3.5 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.

3. GOVERNANCE AND OVERSIGHT FRAMEWORK

The Board is the Governing Body of the Firm and is ultimately responsible for ensuring that the Firm has adequate risk management arrangements with sufficient capital and liquidity. The Board is composed of executive and non-executive directors. The Directors are ultimately responsible for the oversight of the Firm and for setting its strategy and monitoring its governance structure.

The Board meets every quarter and on ad hoc basis if there is need to convene a meeting. In the meetings, the Board considers the performance of the Firm, key management issues, market conditions, strategic developments and matters reported to the Board by the Chair of the Audit and Risk Committee (the "**ARC**").

The Board has established the ARC and delegated to monitor and assess the integrity and effectiveness of the Firm's systems and controls framework relating to compliance, risk and prudential requirements. The ARC meets quarterly, or on ad hoc basis if required, and reports directly to the Board to ensure ongoing risks faced by the Firm are mitigated appropriately.

The Board has also established a remuneration committee ("**RemCo**") who is responsible for setting and overseeing the implementation of the Firm's remuneration policy and procedures. See Section 5 on Remuneration.

The senior management of the Firm is led by 5 Senior Managers Functions ("**SMF**") and 1 Certified Significant Management Function.

The composition of the Boards and senior management support the Firm's commitment to encourage equality, diversity and inclusion ("**EDI**") among its workforce in order to eliminate unlawful discrimination. The Firm's commitment to EDI is incorporated in its Employee Handbook.

4. CAPITAL RESOURCES AND REQUIREMENTS

4.1 Own Funds

The below presented table reflects all items applicable to HCFX and were sourced from the Firm's financial statements for year end 31 March 2023. Note that AT1 or Tier 2 (T2) capital is not shown below, due to the fact that all the Firm's capital qualifies as Tier 1, therefore AT1 and T2 are both considered to be zero.

Composition of regulatory own funds as on 31 March 2023			
		Item	**Amount (£ 000)**
1	**OWN FUNDS**		
2	**Tier 1 capital**		**25,868**
3	**Common equity tier 1 capital**		
4	Fully paid – up capital instruments	Ordinary Share Capital	4,813
6	Retained earnings	P&L account	15,067
8	Other reserves		13,408
11	(-) Total deductions from common equity tier 1	Goodwill	(7,420)

HCFX's 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 takes into account risks, such as Own Funds Requirements, Position Risk, Settlement Risk, Exposure risk and Commodities risk among others.

The regulatory capital position on 31 March 2023 was as per below, showing a surplus of £11.09m.

2023	**£'000**
Capital Resources	
Share Capital	4,813
Other reserves	13,408
Retained Earnings	5,343
Current year profit/(loss)	9,724
Intangible Assets	(7,420)
Tier 1 Capital	**25,868**
Tier 2 Capital	**0**
Own Funds	**25,868**
Capital requirements	
Daily Trading Flow (K-DTF)	1,656
Trading Counterparty Default (K-TCD)	10,886
Concentration Risk (K-CON)	2,237
Total K-factor requirement	**14,779**
Surplus on requirement	**11,089**

The Firm does not issue its own instruments at present.

5. 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, HCFX, 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 directors 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, the 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.

5.1 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 a total of fifteen individuals as material risk takers in the financial year 2022-2023. Of these, five individuals are considered as Tier 1 material risk taker, with aggregate remuneration paid during the financial year ending on 31 March 2023 was £3,971,316.36. The other ten individuals are classed as Tier 2 material risk taker and they, collectively, earned £4,007,461.11 in the same period. These figures represent fixed salaries and bonuses 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's 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. Variable Remuneration is determined on a quarterly 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 Firm's 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 the Firm's 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.

Hamilton Court Foreign Exchange Limited is registered as a limited company in England. Companies House No. 11366742

Hamilton Court Foreign Exchange Limited is registered with the Financial Conduct Authority under the Payment Services Regulations 2009 (FRN 810625) for the provision of payment services.

Hamilton Court Foreign Exchange Limited is Authorised and Regulated by the Financial Conduct Authority (FRN810631).

Hamilton Court Foreign Exchange Limited is registered with the Information Commissioners office under the 2018 Data Protection Act and GDPR (Registration Number ZA469532)

Hamilton Court Foreign Exchange Limited is registered with FINTRAC to act as a Foreign Money Services Business in Canada, with registration number M21048900.