

# BTIG Limited

## Pillar 3 Disclosure and Policy

### Introduction

#### Regulatory Context

The Pillar 3 disclosure of BTIG Limited (“the Firm”) is set out below as required by the FSA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3 R](#). This follows the introduction of the Capital Requirements Directive (“CRD”) which represents the European Union’s application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

#### Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date (“ARD”) which is 31 December 2011.

#### Media and Location

The disclosure will 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.

#### Materiality

The Firm regards information as material in disclosures 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. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

#### Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

### Summary

The CRD requirements have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements. The regulatory aim of the disclosure is to

improve market discipline.

BTIG Limited is an authorised broker and generally acts as agent or as a matched principal broker.

The Firm seeks to mitigate risk by implementing sound systems and controls and corporate governance arrangements.

We have grouped the risk categories in the overall Pillar 2 rule (GENPRU 1.2.30R) into five groups that are relevant to our type of firm i.e. credit, market, operational, business and other risk. In the case of other risk, we have grouped together liquidity risk; insurance risk; interest rate risk and pension obligation risk. Our greatest risks are business risks (including our reputation) and operational risk.

For business risk, we have identified several scenarios which may have a detrimental impact on our business and subjected them to analysis and a stress test. The results inform the Firm that our capital planning forecasts and proposed management actions ensure we have adequate regulatory capital. The existing financial planning process has been integrated into the Internal Capital Adequacy Assessment Process (“ICAAP”) to develop forward looking financial forecasts.

For operational risk, we have assessed if Pillar 2 capital is required taking into account our mitigation plans.

## **Background to the Firm**

### **Background**

The Firm is incorporated in the UK and is authorised and regulated by the FSA as a Full Scope BIPRU €730k firm.

The Firm is a Solo regulated entity.

## **BIPRU 11.5.1**

### **Disclosure: Risk Management Objectives and Policies**

#### **Risk Management Objective**

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

#### **Governance Framework**

The Board of Directors (“the Board”) is the Governing Body of the Firm. It meets at least 4 times a year, and is composed of:

- Gary M Hayes, CEO
- Scott Kovalik, Director

The role of the Board is:

To provide strategic leadership of the Firm within a framework of good corporate governance and prudent and effective controls which enables risk to be assessed and managed. The Board should set the Firm’s strategic aims, ensure that the necessary financial and human resources are in place for the Firm to meet its objectives and review management performance. The Board should set the Firm’s values and standards and ensure

that its obligations to its shareholders and others are understood

### **The Risk Management Framework**

The Board regards managing risk as a process of continuous improvement and the Firm's Risk Management Framework is made up of the following components:

#### **Governing Body**

The Board of the Firm is responsible for the total process of risk management, as well as forming its own opinion on the effectiveness of the process. The Board, in liaison with the senior management, sets the risk strategy policies.

The Board decides the Firm's appetite or tolerance for risk – those risks it will accept and those it will not take in the pursuit of its goals and objectives. In addition, the Board ensures that the Firm has implemented an effective, ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to ensure that such risks are actively managed.

The Board will, at least annually, conduct a review of the effectiveness of the Firm's system of internal controls and should report to shareholders they have done so. The review will cover all material controls, including financial, operational and compliance controls and risk management systems.

#### **Senior Management**

- Senior 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 company.
- Senior Management is responsible for effectively communicating the Firm's approach and commitment to establishing and maintaining an effective risk management framework and approach.
- Senior Management is responsible for ensuring that employees are adequately equipped with the right tools and knowledge to enable employees to fulfil their obligations to the risk management process.
- There is no separate risk committee due to the small number of staff.
- Additionally, senior management will:
  - (a) monitor, consider, review and make recommendations to the Board concerning all elements of compliance with the rules of The Financial Services Authority (FSA) and other organisations (e.g. the London Stock Exchange) as they apply to any regulated companies within the Firm;
  - (b) oversee the risk management systems, practices and procedures to ensure effectiveness of risk identification and management throughout the Firm;
  - (c) consider and deal with any other matters as may from time to time be referred to the Committee by the Board;
  - (d) approve or do any act, matter or thing ancillary to any matter referred to in paragraph (a), (b) or (c).
  - (e) consider the adequacy of the procedures that have been established to ensure compliance with the Rules and Guidance of the FSA and other regulatory bodies;
  - (f) review and assess the risk management strategy of the Firm and its subsidiary companies and, where appropriate, to ensure that risks are adequately mitigated;
  - (g) consider any reports or correspondence with the regulatory authorities;
  - (h) consider the external auditor's management letter with respect to

- regulatory and compliance issues;
- (i) ensure that all employees within the Firm are aware of their responsibilities with respect to compliance and risk management;
  - (j) ensure that the compliance and risk management function are adequately resourced and has appropriate standing and independence within the Firm;
  - (k) consider other topics, as defined by the Board from time to time.

#### **BIPRU 11.5.4**

**Disclosure:** Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the Overall Pillar 2 Rule

#### **BIPRU 3**

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach ([BIPRU 3.4](#)) and the Simplified method of calculating risk weights ([BIPRU 3.5](#)).

##### **Regulatory Risk calculation**

All figures are based on the unaudited figures as at 30<sup>th</sup> November 2011.

##### **Credit Risk Capital Component**

Credit risk represents the risk of loss through a debtor's non-payment and in the context of BTIG's business, such risk is deemed immaterial. The credit risk component represents around 7% of the Tier 1 capital.

##### **Counterparty Risk Component**

BTIG had negligible counterparty risk at this time.

#### **BIPRU 4**

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

#### **BIPRU 6**

As a Full Scope Firm BTIG is subject to the Operational Risk Requirement. The Firm adopts the Basic Indicator Approach for managing its Operational Risk exposures.

#### **BIPRU 7**

To the extent the Firm has an Equity Positional Risk Requirement (BIPRU 7.2), this is included in the Capital Adequacy calculation.

#### **BIPRU 10**

The Firm closely monitors and assesses its Non-Trading Book limits in line with ([BIPRU 10.5.2 R](#) to [BIPRU 10.5.10 R](#)). When the Firm has a single exposure exceeding 25% of its capital resources, it is recorded in the Breaches Register, reported to the FSA and monitored until such time as is rectified upon receipt of fees.

##### **Overall Pillar 2 Rule**

The Firm has adopted the "Pillar 1 plus" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment is reviewed by the Board and amended where necessary. The

<p>Governing Body of the Firm reviews and endorses the risk management objective on a regular basis or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.</p>
<p><b>BIPRU 11.5.8</b>  <b>Disclosure:</b> Credit Risk and Dilution Risk</p>
<p>The Firm is primarily exposed to Credit Risk from counterparties failing to settle their trades. However trades are generally made on a delivery versus payment basis and all trades are closely monitored as settlement dates approach.</p>
<p><b>BIPRU 11.5.12</b>  <b>Disclosure:</b> Market Risk</p>
<p>The Firm Trading Book Exposure to Market Risk is to Equity Position Risk following client facilitation. The Firm is not exposed to; Interest Rate Position Risk, Commodity Position Risk, Option Position Risk, Collective Investment Undertaking Position Risk or Securitisation Position Risk.</p>
<p><b>BIPRU 11.5.2</b>  <b>Disclosure:</b> Scope of application of directive requirements</p>
<p>This disclosure is not required as the Firm is not within scope of the <a href="#">Banking Consolidation Directive</a>.</p>
<p><b>BIPRU 11.5.3</b>  <b>Disclosure:</b> Capital Resources</p>
<p>The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (<a href="#">GENPRU 2 Annex 4</a>).  BTIG has Tier 1 Capital of approximately £1.9 million.</p>
<p><b>BIPRU 11.5.5</b></p>
<p>This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by <a href="#">BIPRU 11.5.4R (3)</a>.</p>
<p><b>BIPRU 11.5.6</b></p>
<p>This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by <a href="#">BIPRU 11.5.4R (3)</a> .</p>
<p><b>BIPRU 11.5.7</b></p>
<p>This is disclosure of the Firm's exposure to Counterparty Credit Risk on its Trading Book, such as Internal Credit Limits for Counterparty Exposures, Credit Reserves etc.</p>

**BIPRU 11.5.9**

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under [BIPRU 11.5.8R \(9\)](#).

**BIPRU 11.5.10**

**Disclosure:** Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights ([BIPRU 3.5](#)).

**BIPRU 11.5.11**

**Disclosure:** Firms calculating Risk Weighted Exposure amounts using the IRB Approach

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

**BIPRU 11.5.13**

**Disclosure:** Use of VaR model for calculation of Market Risk Capital Requirement

This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.

**BIPRU 11.5.14**

**Disclosure:** Operational Risk

BTIG's Operational Risk Capital Requirement was calculated as less than the base capital resource requirement for a BIPRU €730k Firm.

**BIPRU 11.5.15**

**Disclosure:** Non-Trading Book Exposures in Equities

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

**BIPRU 11.5.16**

**Disclosures:** Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

**BIPRU 11.5.17 Disclosures: Securitisation**

This disclosure is not required as the Firm does not Securitise its assets.

**BIPRU 11.5.18****Disclosure:** Remuneration

The Firm is a Remuneration Code Proportionality Tier 3 Firm and has applied the rules appropriate to its Proportionality Tier. The Governing Body is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.