

# Pillar III Disclosures

According to Part Six of Regulation (EU) 2019/2033 of the European Parliament and of the Council on the prudential requirements of investment firms

**YEAR ENDED 31 DECEMBER 2021**

**April 2022**

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## **1. INTRODUCTION**

### **1.1. Company Information**

The purpose of this document is to disclose information in accordance Part Six of Regulation (EU) 2019/2033 of the European Parliament and of the Council on the prudential requirements of investment firms (hereinafter “Law”) for APME FX Trading Europe Ltd (hereinafter, the “Company”).

The Company was incorporated in the Republic of Cyprus on 22 September 2015 as a private limited liability company with registration number HE 347219 and it is a Cyprus Investment Firm (hereinafter “CIF”). The Company was licensed by the Cyprus Securities and Exchange Commission (hereinafter the “CySEC”) with number CIF 335/17 to provide financial services on 10 August 2017 and the licence was activated on 26 January 2018.

The Company is categorised as “Class 2” CIF (under IFR) with minimum/initial capital requirement of €150,000.

The Company is authorised to provide the following Investment Services, in accordance with Part I of the First Appendix of the Law 87(I)/2017:

- Reception and transmission of orders in relation to one or more financial instruments.
- Execution of orders on behalf of clients
- Portfolio Management
- Investment Advice

The Company is authorised to provide the following Ancillary Services, in accordance with Part II of the First Appendix of the Law 87(I)/2017:

- Safekeeping and administration of financial instruments for the account of clients, including custodianship and related services such as cash/collateral management.
- Granting credits or loans to one or more financial instruments, where the firm granting the credit or loan is involved in the transaction.
- Foreign exchange services where these are connected to the provision of investment services.
- Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.

The Company is authorised to provide the aforementioned investment and ancillary services for the following Financial Instruments, in accordance with Part III of the First Appendix of the Law 87(I)/2017:

1. Transferable Securities
2. Money Market Instruments
3. Units in Collective Investment Undertakings

4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in point 6 of Part III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls
8. Derivative instruments for the transfer of credit risk.
9. Financial contracts for differences.
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.

**Company Licence Information (based on the First Appendix of the Law 87(I)/2017 as amended)**

		Investment Services and Activities								Ancillary Services						
		1	2	3	4	5	6	7	8	1	2	3	4	5	6	7
<b>Financial Instruments</b>	<b>1</b>	✓	✓	-	✓	✓	-	-	-	✓	✓			✓		-
	<b>2</b>	✓	✓	-	✓	✓	-	-	-	✓	✓			✓		-
	<b>3</b>	✓	✓	-	✓	✓	-	-	-	✓	✓			✓		-
	<b>4</b>	✓	✓	-	✓	✓	-	-	-	✓	✓			✓		-
	<b>5</b>	✓	✓	-	✓	✓	-	-	-	✓	✓			✓		-
	<b>6</b>	✓	✓	-	✓	✓	-	-	-	✓	✓	-	✓	✓	-	-
	<b>7</b>	✓	✓	-	✓	✓	-	-	-	✓	✓			✓		-
	<b>8</b>	✓	✓	-	✓	✓	-	-	-	✓	✓			✓		-
	<b>9</b>	✓	✓	-	✓	✓	-	-	-	✓	✓			✓		-
	<b>10</b>	✓	✓	-	✓	✓	-	-	-	✓	✓			✓		-
	<b>11</b>	-	-	-	-	-	-	-	-	-	-			-		-

## 1.2. Classification and prudential requirements

The Investment Firms Directive (EU) 2019/2034 (“IFD”) and the Investment Firm Regulation, Regulation (EU) 2019/2033 (“IFR”) entered into force on 26 July 2021, introducing a new classification system for investment firms, based on their activities, systemic importance, size and interconnectedness. All investment firms are classified as Class 1, 2 or 3 Investment Firms.

Class 1 Investment Firms are the largest and most interconnected investment firms, with risk profiles similar to those of significant credit institutions, have equal treatment with credit institutions in the sense of a level playing field accordingly and they will fall entirely under the Regulation (EU) No 575/2013 (“CRR”).

Investment Firms categorized as Class 2 and Class 3 will have the most impact from the new prudential framework as, the capital requirements, reporting requirements and internal governance policies are subject to the provisions of IFR/IFD.

CIFs that meet all of the below criteria are categorised as Class 3 Investment Firms while when they exceed any of the following specific size thresholds, they are categorised as Class 2 Investment Firms.

Criteria	Thresholds
Assets Under Management (AUM)	<€1.2 billion
Client orders handled – cash trades (COH-Cash)	<€100 million per day
Client orders handled – derivative trades (COH-Derivative)	<€1 billion per day
Assets safeguarded and administered (ASA)	nil
Client money held (CMH)	nil
On- and off-balance sheet total	<€100 million
Total annual gross revenue	<€30 million

Further to the above, the Company is categorised as a Class 2 Investment Firm and as such it should maintain own funds of at least the higher between:

- Permanent minimum capital requirement - The permanent minimum capital requirement of the Company is €150k since it is not authorized to provide the investment service of “dealing on own account”.
- Fixed overhead requirements - The Fixed Overheads Requirement is calculated as one quarter of the previous year fixed expenses based on audited figures.
- K-Factors requirement - The new K-Factors are quantitative indicators that reflect the risk that the new prudential regime intends to address. Specifically, capital requirement from applying K-factors formula (pursuant to Article 15 of the IFR) is the sum of Risk to Client (‘RtC’), Risk to Market (‘RtM’) and Risk to Firm (‘RtF’) proxies. The Company is not required to calculate RtM (except on balance sheet FX risk exposure) and RtF since it is not authorised to offer the Dealing on Own Account investment service.

### 1.3. Scope of application

The Pillar III disclosures Report (the ‘Report’) is prepared in accordance with the disclosure requirements as laid out in Part Six of the IFR. Investment firms are required to disclose their capital resources, capital requirements, remuneration policies, practices and governance standards.

The Report has as a starting point the financial information used in the Financial Statements which are prepared in accordance with the International Financial Reporting Standards (“IFRS”). As the two documents serve different purposes, the reported figures illustrate differences, which lie on the differences of the fundamental concepts between the IFR and the IFRS.

#### **1.4. Pillar III Regulatory framework**

The Report has been prepared in accordance with the new regulatory regime for investment firms the European Parliament has adopted, the IFR and the IFD as well as the relevant provisions of the Law 165(I)/2021 “The Prudential Supervisions for Investment Firms Law of 2021” (the “Law”) and the Law 164(I)/2021, amending Law 97(I)/2021, “The Capital Adequacy Investment Firms Law of 2021”.

The IFR establishes the prudential requirements in terms of own funds, level of minimum capital, concentration risk, liquidity requirements and level of activity with respect to small and non-interconnected investment firms. Furthermore, IFR introduced significant changes in the prudential regulatory regime applicable to Investment Firms including a new classification system, an amended minimum initial capital and minimum capital ratios, changes to the calculation of the capital requirements, the reporting requirements and the internal governance policies and the introduction of the K-Factors methodology and new measures relating to liquidity requirements, large exposures and consolidation requirements.

The Regulatory framework consists of a three “Pillar” approach:

- Pillar I - Covers minimum capital and liquidity requirements.
- Pillar II - Regulates the investment firm’s accountability to the regulator for capital and liquidity adequacy. If the regulator deems the capital to be insufficient, a corrective requirement can be imposed on the Group in the form of what is known as a ‘SREP decision’.
- Pillar III - Market Discipline requires the disclosure of information regarding the prudential requirements, risk management and principles of the remuneration policy.

The Company has a formal policy, approved by the Board, which details its approach in complying fully with the Pillar 3 disclosure requirements as laid out in Part Six of the IFR

The provisions on disclosure requirements are described in Articles 46 to 53 of the IFR. In addition, these disclosures must be verified by the external auditors of the CIF. The CIF will be responsible to submit its external auditors’ verification report to CySEC. The CIF has included its risk management disclosures on its website.

Materiality is based on the criterion that the omission or misstatement of information would be likely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions. Where the CIF has considered a disclosure to be immaterial, this was not included in the document.

#### **Frequency**

The Company's policy is to publish the disclosures required on an annual basis. The frequency of disclosure will be reviewed should there be a material change in approach used for the calculation of capital, business structure or regulatory requirements.

### **Medium and location of publication**

The Pillar III disclosures are published on the CIF's websites:

<https://apmefx.com/en/legal/regulation>

<https://ozios.com/license-and-regulation/>

<https://oziotrader.com/>

### **Verification**

The Pillar III disclosures are subject to internal review and validation prior to being submitted to the Board for approval. The Pillar III disclosures have been reviewed and approved by the Board. In addition, the Remuneration disclosures have been reviewed by the Risk Manager.

## **1.5. Risk management objectives and policies**

To ensure effective risk management, the Company has adopted the Three Lines of Defence model, with clearly defined roles and responsibilities.

**First Line of Defence:** Managers are responsible for establishing an effective control framework within their area of operation and identifying and controlling all risks so that they are operating within the organisational risk appetite and are fully compliant with policies and where appropriate defined thresholds. First Line of Defence acts as an early warning mechanism for identifying (or remedying) risks or failures.

**Second Line of Defence:** The Risk Management Function is responsible for proposing to the Board appropriate objectives and measures to define the risk appetite and for devising the suite of policies necessary to control the business including the overarching framework and for independently monitoring the risk profile, providing additional assurance where required. The Risk Management Function will leverage their expertise by providing frameworks, tools and techniques to assist management in meeting their responsibilities, as well as acting as a central coordinator to identify enterprise-wide risks and make recommendations to address them. Integral to the mission of Second Line of Defence is identifying risk areas, detecting situations/activities, in need of monitoring and developing policies to formalise risk assessment, mitigation and monitoring.

**Third Line of Defence:** Comprised by the Internal Audit Function which is responsible for providing assurance to the Board on the adequacy of design and operational effectiveness of the systems of internal controls. Internal Audit undertakes on-site inspections/visits to ensure that the responsibilities of each Function are discharged properly (i.e., soundly, honestly and professionally) as well as reviews the relevant policies and procedures. Internal Audit works closely with both the First and Second Lines of Defence to ensure that its findings and recommendations are taken into consideration and followed, as applicable.



## The Three Lines of Defense Model



### 1.5.1. Risk Management Framework

Managing risk effectively in a Company operating in a continuously changing risk environment requires a strong risk management culture. As a result, the Company has established an effective risk oversight structure and the necessary internal organisational controls to ensure that the Company undertakes the following:

- The adequate risk identification and management
- The establishment of the necessary policies and procedures
- The setting and monitoring of the relevant limits and
- Compliance with the applicable legislation

The Board meets on a regular basis and receives updates on risk and regulatory capital matters from management. The Board reviews regularly (at least annually) written reports concerning compliance, risk management and internal audit policies, procedures and work as well as the Company's risk management policies and procedures as implemented by Management.

As part of its business activities, the Company faces a variety of risks, the most significant of which are described further below. The Company holds regulatory capital against three all-encompassing main types of risk: credit risk, market risk and operational risk.

### 1.5.2. Risk Statement

The Company's activities expose it to a variety of risks, and in particular to credit risk, market risk, operational risk, compliance risk, regulatory risk, reputational risk, group risk, strategic risk, liquidity risk, conduct risk etc. The Company, through its operations, has significant exposure to the economies and financial markets.

### Risk Strategy

The risk strategy of the Company is the responsibility of the Board, which formulates it and is responsible for monitoring its implementation. This is achieved through the development of risk management processes and procedures as well as through an assessment of the risks undertaken and the effectiveness of the risk management framework, given the Company's business model. One important characteristic of the Company's risk strategy is the alignment with the strategic and operational targets that are set by the Board. The risks that arise from the implementation of the Company's strategic and business plans are regularly analysed in order to ensure the adequacy of the relevant policies, procedures and systems.

The risk strategy of the Company aims to provide to both Senior Management and employees a general risk framework for the management of the different types of risk in line with the overall risk management and risk bearing capacity of the Company. The Company recognises the importance of risk management to its business success and therefore the overall objective is to establish effective risk management policies that are able to mitigate the Company's exposure to the various risks.

### **Risk Appetite**

Risk appetite is the level and type of risk a firm is able and willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders. Risk appetite is generally expressed through both quantitative and qualitative means and should consider extreme conditions, events and outcomes. In addition, risk appetite should reflect potential impact on earnings, capital and funding/liquidity. The Company has a low-risk appetite in respect to investing and to managing business and operational activities.

According to Financial Stability Board (FSB) an appropriate risk appetite framework (RAF) should enable risk target, risk appetite, risk limits and risk profile to be considered for business lines and legal entities as relevant, and within the group context. The Risk appetite framework is defined as the overall approach, including policies, processes, controls, and systems through which risk appetite is established, communicated, and monitored. Moreover, it includes a risk appetite statement, risk limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. The RAF should consider material risks to the financial institution, as well as to the institution's reputation vis-à-vis policyholders, depositors, investors and customers. The RAF aligns with the institution's strategy.

The Company is assessing its risk appetite in respect to investing and to managing business and operational activities while the Company's Risk Appetite Statement is prepared by the Risk Manager and approved by the Board.

**Table 1: Risk Appetite areas**

<b>Capital Indicator</b>	<b>Normal</b>	<b>Warning</b>	<b>Limit</b>
Own Funds	≥€225k	<€225k	€150k
Common Equity Tier 1 Ratio	≥100%	<75%	56%
Tier 1 Capital Ratio	≥125%	<100%	75%
Total Capital Ratio	≥150%	<125%	100%

Liquid Assets	≥€75k	<€75k	€50k
Return on Assets	≥5.00%	<5.00%	0.00%

The Risk Appetite framework has been designed to create links to the strategic long-term plan, capital planning and the risk management framework. The Board approves the Company's corporate strategy, business plans, budget, long term plan and ICARA. The Company employs mitigation techniques defined within the policies, to ensure risks are managed within Risk Appetite.

### **1.5.3. Risk Culture**

Risk culture is a critical element in the Company's risk management framework and procedures. Management considers risk awareness and risk culture within the Company as an important part of the effective risk management process. Ethical behaviour is a key component of the strong risk culture, and its importance is also continuously emphasised by the management.

The Company is committed to embedding a strong risk culture throughout the business where everyone understands the risks they personally manage and are empowered and qualified to take accountability for them. The Company embraces a culture where each of the business areas is encouraged to take risk-based decisions, while knowing when to escalate or seek advice.

### **1.6. Declaration of the Management Body**

The Management Body is required to proceed with an annual declaration on the adequacy of the Company's risk management framework and ensure that the risk management arrangements and systems of financial and internal control in place are in line with the Company's risk profile.

The risk management framework is designed to identify, assess, mitigate and monitor all sources of risk that could have a material impact on the Company's operations. The Board considers that it has in place adequate systems and controls with regard to the Company's size, risk profile and strategy and an appropriate array of assurance mechanisms, properly resourced and skilled, to avoid or minimise loss.

## **2. CORPORATE GOVERNANCE**

The systems of risk management and internal control include risk assessment, management or mitigation of risks, including the use of control processes, information and communication systems and processes for monitoring and reviewing their continuing effectiveness. The risk management and internal control systems are embedded in the operations of the Company and are capable of responding quickly to evolving business risks, whether they arise from factors within the Company or from changes in the business environment.

### **2.1. The Board of Directors**

The Board has the overall responsibility for the establishment and oversight of the Risk Management Framework. The Board satisfies itself that financial controls and systems of risk management are robust. The number of directorships held by Executive and Non-Executive Directors in the Company do not exceed the maximum number allowed.

The Company has in place the Internal Operations Manual which lays down the activities, processes, duties and responsibilities of the Board, Committees, Senior Management and staff constituting the Company. It also implements and maintains adequate risk management policies and procedures which identify the risks relating to the activities, processes and systems, and where appropriate, set the level of risk tolerated by the Company. The Company adopts effective arrangements, processes and systems, in light of that level of risk tolerance, where applicable.

### **2.2. Number of Directorships held by members of the Board**

The number of directorships which may be held by a member of the Board shall take into account individual circumstances and the nature, scale and complexity of the Company's activities. Unless representing the Republic, members of the Board of a CIF that is significant in terms of its size, internal organisation and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

- One executive directorship with two non-executive directorships;
- Four non-executive directorships.

Furthermore, directorships in organisations which do not pursue predominantly commercial objectives such as non-profit or charitable organisations shall not count for the purposes of the above guidelines. The table below discloses the number of directorships held by members of the management body in entities of the Company as at 31 December 2021.

**Table 2: Number of Directorships held**

<b>Director</b>	<b>Position</b>	<b>Executive Directorships</b>	<b>Non-Executive Directorships</b>
Tomas Gregus	Executive Director	1	0
Peter Svoren	Executive Director	1	0
Kyriaki Demetriou	Independent non-executive Director	0	1
Andreas Sheritis	Independent non-executive Director	1	1

For the purposes of the above, Executive or non-executive directorships held within the same group shall count as a single directorship.

### **2.3. Policy on Recruitment**

Recruitment into the Board combines an assessment of both technical capability and competency skills referenced against the Company`s leadership framework. Members of the Board possess sufficient knowledge, skills and experience to perform their duties. The overall composition of the Board reflects an adequately broad range of experiences to be able to understand the Company`s activities, including the main risks to ensure the sound and prudent management as well as sufficient knowledge, of the legal framework governing the operations.

### **2.4. Policy on Diversity**

The Company is committed to promote a diverse and inclusive workplace at all levels, reflective of the communities in which it does business. It approaches diversity in the broadest sense, recognizing that successful businesses flourish through embracing diversity into their business strategy, and developing talent at every level in the organisation. For this purpose, the Company takes into consideration various aspects such as broad industry experience, knowledge, independence, gender, age, cultural and educational background, for the Board appointments.

### **2.5. Policy on Information flow on risk to the management body**

Risk information flows up to the Board directly from the business departments and control functions. The Board ensures that it receives on a frequent basis, at least annually written reports regarding Internal Audit, Compliance, Money Laundering and Terrorist Financing and Risk Management issues and approves the ICARA report as shown in the table below:

**Table 3: Information flow on risk to management body**

	<b>Report Name</b>	<b>Owner of Report</b>	<b>Recipient</b>	<b>Frequency</b>
1	Risk Management Report	Risk Manager	Senior Management, Board, CySEC	Annually
2	Form 165-01	Risk Manager	Senior Management, Board, CySEC	Quarterly
3	ICARA Report	Risk Manager	Senior Management, Board	Annually
4	Pillar 3 Disclosures	Risk Manager	Senior Management, Board	Annually
5	Risk Register	Risk Manager	Senior Management, Board	Annually
6	Compliance Report	Compliance Officer	Senior Management, Board, CySEC	Annually
7	Internal Audit Report	Internal Auditor	Senior Management, Board, CySEC	Annually
8	Anti-money laundering (AMLCO) Report	Anti-money laundering officer	Senior Management, Board, CySEC	Annually
9	Audited Financial Statements	External Auditor	Senior Management, Board, CySEC	Annually
10	Form 144-14-11 'Prudential Supervision Information'	Risk Manager	Senior Management, Board, CySEC	Annually

Furthermore, the Company believes that the risk governance processes and policies are of at most importance for its effective and efficient operation. The processes are reviewed and updated on an annual basis or when deemed necessary.

### 3. OWN FUNDS

Own Funds (also referred to as capital resources) is the type and level of regulatory capital that must be held to enable the Company to absorb losses.

During the year under review, the primary objective of the CIF with respect to capital management was to ensure that it complied with the imposed capital requirements with respect to its own funds that shall be at all times at least the highest of the following.

- Initial minimum requirement;
- Fixed Overheads Requirements and;
- K-Factors Requirement.

The Company throughout the year under review managed its capital structure and made adjustments to it in light of the changes in the economic and business conditions and the risk characteristics of its activities.

#### 3.1. Tier 1 & Tier 2 Regulatory Capital

Institutions shall disclose information relating to their own funds. Furthermore, institutions shall disclose a description of the main features of the Common Equity Tier 1 (CET1) and Additional Tier 1 (AT1) instruments and Tier 2 (T2) instruments issued by the institution.

The Company's regulatory capital comprises CET1 capital. The composition of the capital base and capital ratios of the Company and its subsidiary are shown in the following table:

**Table 4: Composition of the capital base and capital ratios**

	<b>APME FX Trading Europe Ltd</b>
	<b>€000</b>
<b>CET1 capital before regulatory adjustments</b>	
Capital instruments and the related share premium accounts	150
Retained earnings	(1,198)
Other Reserves	1,315
<b>CET1 capital: regulatory adjustments</b>	
Intangible assets	-
Additional deductions of CET1 Capital in relation to ICF*	(68)

<b>CET1 capital</b>	<b>199</b>
AT1 capital	-
<b>T1 = CET1 + AT1</b>	<b>199</b>
Tier 2 capital	-
<b>Total capital (TC = T1 + T2)</b>	<b>199</b>

\* According to the Circular C334, CIFs should deduct the additional Cash Buffer of 3 per thousand of the eligible funds and financial instruments of their clients as at the previous year calculated according to paragraph 11(6) of the Directive DI87-07 (operation of the ICF).

### 3.2. Main features of Common Equity Tier 1, Additional Tier 1, and Tier 2 instruments

In order to meet the requirements for disclosure of the main features of these instruments, the Company discloses the capital instruments' main features as outlined below:

**Table 5: Main features of capital instruments**

<b>Capital Instruments Main Feature</b>	<b>Common Equity Tier 1</b>
Issuer	APME FX Trading Europe Ltd
<b>Regulatory Treatment</b>	
Eligible at Solo/(sub-) consolidated/solo	Solo
Instrument type	Common Equity
Amount recognized in regulatory capital	€150k
Nominal amount of instrument	€150k
Issue Price	€1
Accounting classification	Shareholders' Equity
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	N/A
<b>Coupons / dividends</b>	
Fixed or floating dividend/coupon	Floating



Coupon rate and any related index	N/A
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### 3.3. Balance Sheet Reconciliation

The following table provides a reconciliation of own funds between the balance sheet, as presented in the Management Accounts of the Company, and the financial position of the Company prepared for regulatory purposes.

**Table 6: Balance Sheet Reconciliation**

Equity	APME FX Trading Europe Ltd (Solo)
	€000
Share Capital	150
Retained earnings	(1,198)
Other reserves	1,315
<b>Total Equity</b>	<b>267</b>
<b>Regulatory Deductions</b>	
Intangible Assets	(-)
Additional deductions of CET1 Capital	(68)
<b>Total Own funds</b>	<b>199</b>

#### **4. INTERNAL CAPITAL ADEQUACY AND RISK ASSESSMENT PROCESS**

Pursuant to Chapter 2 and Paragraph 18 of the Law, the Company should establish sound, effective and comprehensive arrangements, strategies and processes to assess and maintain on an ongoing basis the amounts, types and distribution of internal capital and liquid assets that they consider adequate to cover the nature and level of risks which they may pose to others and to which the investment firms themselves are or might be exposed. These arrangements, strategies and processes shall be appropriate and proportionate to the nature, scale and complexity of the activities of the Company and they shall be subject to regular internal review.

ICARA includes a Liquidity Adequacy Assessment and Contingent Funding Plan. Internal Liquidity Adequacy Assessment Process (ILAAP) and all its components, including risk elaboration on liquidity risks that are applicable to the firm and a Liquidity stress testing will be included within ICARA. In light of the above, the new ICARA report will present the main business background aspects and developments of the Company, summary of the Company's business economic environment, the Company's financial summary for the previous and upcoming years, the business and strategic goals, organisational structure and the risk management framework, the overall assessment of the material risks as well as a forward looking capital and liquidity planning.

The Company recognises the importance of the ICARA and appreciates that it enables the firm to justify its business strategy and risk assessments in such a way to be more diligent in the inclusion of risk factors in the business design process and also to hold less capital than the gross risks to which it is exposed. It is also acknowledged that the ICARA Report is a reasonably intense process, requiring information from many different departments and committees of the company and also it requires senior management time at the design phase, during the risk and financial data collection phase and for the sign-off phase. Therefore, the Board is committed to continuously update the ICARA at least annually to reflect the latest strategic plans and updates.

Following the implementation of the new prudential regulatory framework, the Company should replace its existing ICAAP with the new ICARA by establishing new assessments with respect to the liquidity adequacy of the Company, designing new financial projections and stress tests to reflect the new K-Factors requirement and drafting a new report which reflects all provisions under the new regulation. The new methodologies of K-Factors and Liquidity Stress tests will be incorporated into the new ICARA process, as well as the updated risk register which will focus on a harm-pose approach identifying different potential risk events that may affect the Company's overall capital adequacy position. The risk manager informed the Board that the ICARA report preparation has been already initiated and the capital planning is designed. It is expected that the new ICARA report will be available for review by the board in the third quarter of 2022.

## 5. OWN FUNDS REQUIREMENTS

The CIF as a Class 2 investment firm group shall at all times have own funds at least the highest of the following:

- Initial minimum requirement;
- Fixed Overheads Requirements and;
- K-Factors Requirement.

### 5.1. Initial Capital Requirement

As per the Title III of the Law, the initial capital of a CIF which is authorised to provide any of the investment services or perform any of the investment activities listed in points (3) and (6) of Part I of Annex I to the Investment Services and Activities and Regulated Markets Law, shall be €750k while for a CIF which is authorised to provide any of the investment activities listed in points (1), (2), (4), (5) and (7) and which is not permitted to hold client money or securities belonging to its clients, the initial capital shall be €75k.

For all other CIFs, the initial capital shall be €150k.

Therefore, since the CIF is not authorised to provide the investment service of dealing on own account but it is permitted to hold clients money, the CIF's initial capital requirement is €150k.

### 5.2. Fixed Overheads requirement

The fixed overheads requirement is calculated in accordance with the provision of Article 13 of IFR. Specifically, the fixed overheads requirement shall amount to at least one quarter of the fixed overheads of the preceding year (or business plan where the audited financial statements are not available). Investment firms shall use figures resulting from the applicable accounting framework.

Further to the above and in accordance with RTS issued by EBA, the following variable expenses can be excluded from the calculation of the fixed overheads.

No.	Details
1.	Staff bonuses and other remuneration, to the extent that they depend on the net profit of the investment firm in the respective year
2.	Employees', directors' and partners' shares in profits
3	Other appropriations of profits and other variable remuneration, to the extent that they are fully discretionary

4.	Shared commission and fees payable which are directly related to commission and fees receivable, which are included within total revenue, and where the payment of the commission and fees payable is contingent on the actual receipt of the commission and fees receivable
5.	Fees to tied agents
6.	Non-recurring expenses from non-ordinary activities
7.	Fees, brokerage and other charges paid to central counterparties, exchanges and other trading venues and intermediate brokers for the purposes of executing, registering or clearing transactions, only where they are directly passed on and charged to customers
8.	Interest paid to customers on client money, where there is no obligation of any kind to pay such interest;
9.	Expenditures from taxes where they fall due in relation to the annual profits of the investment firm
10.	Losses from trading on own account in financial instruments
11.	Payments related to contract-based profit and loss transfer agreements according to which the investment firm is obliged to transfer, following the preparation of its annual financial statements, its annual result to the parent undertaking
12.	Payments into a fund for general banking risk in accordance with Article 26(1)(f) of the CRR
13.	Expenses related to items that have already been deducted from own funds in accordance with Article 36(1) of the CRR

Further to the above, the Company's fixed overheads requirement based on the latest audited financial statements is €304k as per the tables below:

<b>Item</b>	<b>Amount €'000</b>
Total Expenses	331
Total Deductions (Variable Expenses)	(1)
<b>Annual Fixed Overheads</b>	<b>329</b>
<b>Fixed Overhead Requirement</b>	<b>82</b>

### 5.3. K-Factors Requirement

For Class 2 Investment firms, the K-factors will replace the current credit risk, market risk and operational risk approach in order to calibrate the capital needed to meet the risks of the investment firm.

Capital requirement from applying K-factors formula (pursuant to Article 15 of the IFR) is the sum of Risk to Customer ('RtC'), Risk to Market ('RtM') and Risk to Firm ('RtF') as described in the table below:

Risk to Client (RtC)	Risk to Market (RtM)	Risk to Firm (RtF)
<b>Sum of</b> <ul style="list-style-type: none"> <li>• K-AUM: Assets Under Management</li> <li>• K-ASA: Client Assets Safeguarded and Administered</li> <li>• K-CMH: Client Money Held</li> <li>• K-COH: Client Orders Handled</li> </ul>	<b>Higher of:</b> <ul style="list-style-type: none"> <li>• K-NPR: Net Position Risk (calculated in accordance to CRR) or</li> <li>• K-CMG: Clearing Member Guarantee</li> </ul>	<b>Sum of:</b> <ul style="list-style-type: none"> <li>• K-TCD: Trading Counterparty Default</li> <li>• K-CON: Concentration risk based on large exposures</li> <li>• K-DTF: Operational risks from Daily Trading Flow</li> </ul>

Further to the above and since the Company is Class 2 IF which is not authorized to provide the investment service of Dealing on Own Account, the RtM (except from on-balance sheet FX exposures) and RtF proxies are not applicable for the Company.

#### K-AUM – Assets Under Management

AUM is the value of assets an IF manages for its clients under both discretionary portfolio management and non-discretionary arrangements constituting investment advice of an ongoing nature. It is calculated as the rolling average of the monthly AUM, measured on the last business day of each of the previous 15 months. The following formulas describes the calculation of the capital requirement for K-AUM:

- $AUM = \text{average of the 12 months (excluding 3 recent months)}$
- $K-AUM = AUM * 0.02\%$

The table below shows the Total AUM value as an arithmetic mean for the 4th quarter of 2021 in accordance with the Article 17(1) of IFR:

	Amount		
	December 2021	November 2021	October 2021

	€'000	€'000	€'000
<b>Total AUM (average amounts)</b>	-	-	-
Of which: AUM - Discretionary portfolio management	-	-	-
Of which: AUM formally delegated to another entity	-	-	-
AUM - Ongoing non-discretionary advice	-	-	-

### **K-ASA: Assets Safeguarded and Administered**

ASA means the value of assets that an investment firm safeguards and administers for clients – ensures that investment firms hold capital in proportion to such balances, regardless of whether they are on its own balance sheet or in third-party accounts. It is calculated as the rolling average of the daily total value of assets under safekeeping and administration, measured at the end of each business day for the previous 9 months. The following formulas describes the calculation of the capital requirement for K-ASA:

- ASA = average of the 6 months (excluding 3 recent months)
- K-ASA = ASA\*0.04%

The table below shows the Total ASA values as an arithmetic mean for the 4th quarter of 2021 in accordance with the Article 19(1) of IFR:

	Amount		
	December 2021 €'000	November 2021 €'000	October 2021 €'000
<b>Total ASA (average amounts)</b>	1,886	1,256	658
<i>Of which: Fair value of financial instruments (Level 2)</i>	-	-	-
<i>Of which: Fair value of financial instruments (Level 3)</i>	-	-	-
<i>Of which: assets formally delegated to another financial entity</i>	1,886	1,256	658
<i>Of which: assets of another financial entity that has formally delegated to the investment firm</i>	-	-	-

### **K-CMH: Client Money Held**

This is the amount of client money that an investment firm holds or controls. Excludes client money that is deposited on a (custodian) bank account in the name of the client itself, where

the investment firm has access to these client funds via a third-party mandate (on segregated or nonsegregated basis). The following formulas describes the calculation of the capital requirement for K-CMH:

CMH = average of the 6 months

➤ For segregate accounts:  $K\text{-CMH} = \text{CMH} * 0.4\%$

➤ For non- segregate accounts:  $K\text{-CMH} = \text{CMH} * 0.5\%$

The table below shows the Total CMH values in segregated accounts and non-segregated accounts for the 4th quarter of 2021 in accordance with the Article 18(1) of IFR:

	Amount		
	December 2021 €'000	November 2021 €'000	October 2021 €'000
CMH - Segregated (average amounts)	1,843	1,222	624
CMH - Non-segregated (average amounts)	-	-	-

### **K-COH: Client Orders Handled**

COH captures the potential risk to clients of an investment firm which executes its orders (in the name of the client). This is the value of orders that an investment firm handles for clients, through the reception and transmission of client orders and execution of orders on behalf of clients. The following formulas describes the calculation of the capital requirement for K-COH:

COH shall be the rolling average of the value of the total client orders handled, measured throughout each business day for the previous 6 months.

$\text{COH} = \text{sum of } [\text{ABS}(\text{Buys}) + \text{Abs}(\text{Sells})] \text{ for both cash trades and derivatives}$

➤ For Cash Trades - The value is the amount paid or received on each trade

- COH = average of the 3 months

-  $K\text{-COH} = \text{COH} * 0.1\%$

➤ For Derivative Trades - The value is the notional amount of the contract

- COH = average of the 3 months

-  $K\text{-COH} = \text{COH} * 0.01\%$

The table below shows the arithmetic mean amount of COH in cash trades and derivatives for the 4th quarter of 2021, in accordance with the Article 20(1) of IFR:

	Amount
--	--------

	<b>December 2021 €'000</b>	<b>November 2021 €'000</b>	<b>October 2021 €'000</b>
<b>COH - Cash trades (average amounts)</b>	-	-	-
Of which: Execution of client orders	-	-	-
Of which: Reception and transmission of client orders	-	-	-
<b>COH - Derivative (average amounts)</b>	19,967	11,357	5,211
Of which: Execution of client orders	19,967	11,357	5,211
Of which: Reception and transmission of client orders	-	-	-

### 5.3.1. Risk to Market

Risk to market proxy captures the risk that an CIF can pose to market access. The K-factor for RtM is based on the rules for market risk, for position in financial instruments in foreign exchange and in commodities in accordance with the CRR. Since the Company is not authorized for the Dealing on Own Account investment service, its K-NPR capital requirements are limited to the on-balance sheet FX exposures.

A Class 2 investment firm must calculate its K-NPR requirement by reference to trading book positions and positions other than trading book positions where the positions give rise to foreign exchange risk or commodity risk. The K-NPR requirement is calculated in accordance with Title IV of Part Three of the CRR.

The Company is exposed to market risk resulting from exposure to FX Risk originating from its banking book positions.

On 31 December 2021, the K-NPR capital requirements amounted to €0k.

Foreign exchange risk is the effect that unanticipated exchange rate changes have on the Company.

In the ordinary course of business, the Company is exposed to foreign exchange risk, which is monitored through various control mechanisms.

The foreign exchange risk in the Company is effectively managed by setting and controlling foreign exchange risk limits, such as through the establishment of maximum value of exposure to a particular currency pair as well as through the utilization of sensitivity analysis.

The Company's foreign exchange risk capital requirement is €0k for both accounts emanating from a net foreign exchange exposure of €0k based on the latest relevant calculations of the Company's capital requirements, on 31st of December 2021.



The Company continues to regularly monitor the impact of exchange rate risks and if deemed necessary corrective actions will be taken to minimize the effect.

### 5.3.2. K-Factors Requirements Results

Item	Factor amount €'000	K-factor requirement €'000
<b>TOTAL K-FACTOR REQUIREMENT</b>		<b>10</b>
<b>Risk to client</b>		<b>10</b>
Assets under management	0	0
Client money held - Segregated	1,843	7
Client money held - Non - segregated	0	0
Assets safeguarded and administered	1,886	1
Client orders handled - Cash trades	0	0
Client orders handled - Derivatives Trades	19,967	2
<b>Risk to market</b>		-
K-Net positions risk requirement		-

### 5.4. Own Funds Composition & Capital Ratios

According to the provision 9 of the IFR, Investment firms shall have own funds consisting of the sum of their Common Equity Tier 1 capital, Additional Tier 1 capital and Tier 2 capital, and shall meet all the following conditions at all times:

$$\frac{\text{Common Equity Tier 1 Capital}}{D} \geq 56\%$$

$$\frac{\text{Common Equity Tier 1 Capital} + \text{Additional Tier 1 Capital}}{D} \geq 75\%$$

$$\frac{\text{Common Equity Tier 1 Capital} + \text{Additional Tier 1 Capital} + \text{Tier 2 Capital}}{D} \geq 100\%$$

where D is the Company's total capital requirement calculated in accordance with Article 11.

The Company's own funds, its own funds requirements and capital ratios on 31 December 2021, were as follows:

OWN FUNDS COMPOSITION	31/12/2021
	€'000
<b>Own Funds</b>	
Share Capital	150
Retained earnings	(1,198)

Other reserves	1,315
Intangible assets	(-)
Additional deductions in relation to ICF	(68)
<b>Common Equity Tier 1 Capital (CET1)</b>	<b>199</b>
Additional Tier 1 Capital (AT1)	-
<b>Tier 1 Capital (T1=CET1+AT1)</b>	<b>199</b>
Tier 2 Capital (T2)	-
<b>Total Capital (TC=T1+T2)</b>	<b>199</b>
<b>OWN FUNDS REQUIREMENT</b>	<b>€'000</b>
Initial Capital	150
Fixed Overheads Requirement	82
K-Factors Requirement	10
<b>Own Funds Requirement</b>	<b>150</b>
<b>CAPITAL RATIOS</b>	
<b>CET 1 Ratio</b>	<b>132.44%</b>
Surplus(+)/Deficit(-) of CET 1 Capital	115
<b>Tier 1 Ratio</b>	<b>132.44%</b>
Surplus(+)/Deficit(-) of Tier 1 Capital	86
<b>Own Funds Ratio</b>	<b>132.44%</b>
Surplus(+)/Deficit(-) of Total capital	49

As per the above results, the Company as at 31 December 2021 maintains adequate own funds to cover its capital requirements.

### 5.5. Reporting requirements

As a Class 2 investment firm, the Company shall report to the regulator all the following information on a quarterly and yearly basis respectively:

- Level and composition of own funds
- Own funds requirements
- Own funds requirement calculations
- The level of activity in respect of the conditions set out in Article 12(1), including the balance sheet and revenue breakdown by investment service and applicable K-factor
- Concentration risk (Large exposures)
- Liquidity requirements.

The above information shall be reported to CySEC using the Form165-01 “Reporting for Class 2” on a quarterly basis. The Senior Management as well as the Risk Manager monitored such reporting and have policies and procedures in place to help meet the specific regulatory requirements. This is achieved through the preparation of accounts to monitor the financial and capital position of the Company. During the year under review, the Company’s own funds never dropped below its own funds requirement and the Company fulfilled its obligations by successfully submitting, on a quarterly basis, the Capital Adequacy Reports.

## **5.6. Concentration risk requirements**

The concentration risk arising from exposures to each counterparty, including central counterparties, groups of connected counterparties, and counterparties in the same economic sector, geographic region or from the same activity or commodity, the application of credit risk mitigation techniques, and including in particular risks associated with large indirect credit exposures such as a single collateral issuer, must be addressed and controlled including by means of written policies and procedures.

Exposure means any asset or off-balance sheet item without applying the risk weights or degrees of risk. Large Exposure means the exposures in the trading book/banking book of an investment firm to a client or a group of connected clients, the value of which exceeds the predetermined limits set. The CIFs that are categorized as Class 2 Ifs, should continue to monitor and control their concentration risk in regards to their trading book exposures to a client or a group of connected clients in accordance with Part four of IFR.

In particular, CIFs shall monitor and control their concentration risk so as not to exceed the following limits as per Article 37 of IFR.

The Company shall monitor the Large Exposure limits:

- a) For Institutions – Min {up to 100% of eligible capital, Max (25% of eligible capital, €150m)}
- b) For Non-institution - 25% of eligible capital

Where any trading book exposure exceeds the limits mentioned above, a CIF shall calculate additional capital requirement as part of the K-CON requirement.

Moreover, harm can arise from more than just a concentrated trading book exposure to a client. To mitigate the potential for harm that can arise from different types of concentrated exposures or relationships, the Company should monitor and control all their sources of concentration risk, including:

- exposures in a trading book
- assets (for example, trade debts) not recorded in a trading book
- off-balance sheet items
- the location of client money

- the location of client assets
- the location of its own cash deposits
- the sources of its earnings

However, there are no limits on the banking book exposures of an Investment Firm.

Further to the above with respect to the concentration risk, the Company shall report to CySEC on a quarterly basis the level of concentration risk with respect to the credit institutions, investment firms and other entities where client money are held and where client securities are deposited while it shall report the level of concentration risk with respect to the credit institutions where its own cash is deposited as per Article 54(2) of IFR. Moreover, the Company shall report the top five clients from which the largest amounts of the Company's earnings are derived as well as the top five, if available, largest trading book exposures and largest exposures not recorded in the trading book.

The Company maintains proper accounting controls in order to identify, monitor and control all exposures including clients' balances and the value of the assets held as financial instruments under pledge. The concentration risk will be further assessed in the context of ICARA.

## 5.7. Liquidity requirements

As a Class 2 investment firm, the Company is required to hold an amount of liquid assets equivalent to at least one third of the fixed overheads requirement. The purpose is to ensure that the investment firms have an adequate stock of unencumbered high-quality liquid assets that can be converted easily and immediately in private markets in cash to meet their liquidity needs for a 30-calendar day liquidity stress scenario.

The IFR specifies the instruments that are eligible to be qualified as liquid assets to be included in the calculation of the said ratio:

- Coins and banknotes
- Claims on ECB or other Central Banks
- High Quality Covered Bonds
- Shares or units in CIUs

In this respect and as per the Company's latest audited financial statements, the Company has the following liquid assets which is well above the 1/3 of the total fixed overheads requirement:

Item	€'000
Liquid Assets	171
<b>Total</b>	<b>171</b>

Requirement (1/3 of Fixed Overheads Requirement)	27
<b>Surplus</b>	<b>144</b>

Further to the above, the Company maintains adequate liquid assets to cover the one third fixed overheads requirement on both a solo and consolidated level. However, the Company should monitor the above in order to ensure compliance at all times.

## 6. OTHER RISKS

### 6.1. Operational Risk

Operational risk is the risk of loss arising from fraud, unauthorized activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organization and covers a wide range of issues. The following list presents some event-type categories, included in operational risk, with some examples for each category:

#### Internal Fraud

- misappropriation of assets;
- tax evasion;
- intentional mismarking of positions;
- bribery.

#### External Fraud

- theft of information;
- hacking damage;
- third-party theft;
- forgery.

#### Employment Practices and Workplace Safety

- discrimination;
- workers compensation;
- employee health;
- safety.

#### Clients, Products, & Business Practice

- market manipulation;
- antitrust;
- improper trade;
- product defects;
- fiduciary breaches;
- account churning.

#### Damage to physical assets

- damage to physical assets from a natural disaster, e.g. earthquake.

#### Business Disruption & Systems Failures

- utility disruptions;
- software failures;
- hardware failures.

#### Execution, Delivery, & Process Management

- data entry errors;
- accounting errors;
- failed mandatory reporting;
- negligent loss of Client assets.

The Company manages operational risk through a control-based environment in which processes are documented and transactions are reconciled and monitored. This is supported by continuous monitoring of operational risk incidents to ensure that past failures are not repeated.

Furthermore, the Company has in place policies and processes whose implementation assists with the evaluation and management of any exposures to operational risk.

The Company has implemented an operational risk management framework designed to ensure that operational risks are assessed, mitigated and reported in a consistent manner consisting of, inter alia, the following components:

- Maintaining a four-eye structure and implementing board oversight over the strategic decisions made by the heads of departments;
- A Disaster Recovery Plan has been designed in order to be used in the event of a force majeure affecting the Company's internal systems and databases; and
- Maintenance of Risk Registers in the Context of the ICAAP;
- A Business Continuity Plan has been implemented which helps protect all of the Company's information databases including data, records and facilities.
- The majority of actions occurring in the Company's systems are automated and therefore it is less likely that a human error will occur;
- Review of risks and controls as part of the Internal Audit function;
- Regular review and updating of the Company's policies;

Following the outbreak of COVID-19 in Cyprus, the Firm has taken the required measures to ensure that its employees have access to its technology infrastructures necessary for the completion of their tasks and that additional systems for critical functions are.

## **6.2. Interest Rate Risk**

Interest rate risk is the risk that the value of financial instruments (including currencies) will fluctuate due to changes in the market interest rates. The CIF is exposed to interest rate risk in relation to its bank deposits and from the interest charged on the derivative financial instruments that remain open overnight.

The CIF monitors interest rate fluctuations and based on the fluctuations of the relevant rates, the necessary hedging activities will be undertaken, as and where applicable.

## **6.3. Reputation Risk**

Reputation risk is the current or prospective risk to earnings and capital arising from an adverse perception of the image of the Company on the part of customers, counterparties, shareholders, investors or regulators. Reputation risk could be triggered by poor performance, the loss of one or more of the Company's key directors, the loss of large customers, poor customer service, fraud or theft, customer claims, legal action and regulatory fines.

The Company has transparent policies and procedures in place when dealing with possible customer complaints in order to provide the best possible assistance and service under such circumstances. The possibility of having to deal with customer claims is very low as the Company provides high quality services to customers.

#### **6.4. Strategic Risk**

Strategic Risk could occur as a result of adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The Company's exposure to strategic risk is moderate as policies and procedures to minimize this type of risk are implemented in the overall strategy.

#### **6.5. Business Risk**

Business Risk includes the current or prospective risk to earnings and capital arising from changes in the business environment including the effects of deterioration in economic conditions. Research on economic and market forecasts are conducted with a view to minimize the Company's exposure to business risk. These are analysed and taken into consideration when implementing the Company's strategy.

#### **6.6. Regulatory Risk**

Regulatory risk is the risk the Company faces by not complying with relevant Laws and Directives issued by its supervisory body. If materialized, regulatory risk could trigger the effects of reputation and strategic risk. The Company has documented procedures and policies based on the requirements of relevant Laws and Directives issued by the Commission; these can be found in the Procedures Manual. Compliance with these procedures and policies are further assessed and reviewed by the Internal Auditors and suggestions for improvement are implemented by management. The Internal Auditors evaluate and test the effectiveness of the Company's control framework at least annually. Therefore, the risk of non-compliance is very low.

#### **6.7. Legal and Compliance Risk**

Legal & Compliance risks arise from violations of, or non-conformance with, the Law, Directives and Circulars issued thereof, regulations, prescribed practices, internal policies, and procedures, or ethical standards. This risk exposes the CIF mainly to financial losses due to imposed fines from the Regulators. Compliance incidents may also lead to diminished reputation, reduced the CIF's value, limited business opportunities, reduced expansion potential, and possible inability to enforce contracts.

The probability of such risks occurring is relatively low due to the detailed internal procedures and policies implemented by the Company and regular reviews by the Internal Auditors. The structure of the Company is such to promote clear coordination of duties and the management consists of individuals of suitable professional experience, ethos and integrity, who have



accepted responsibility for setting and achieving the Company`s strategic targets and goals. In addition, the Board meets at least annually to discuss such issues and any suggestions to enhance compliance are implemented by management.

## **6.8. IT Risk**

IT risk could occur as a result of inadequate information technology and processing or arise from an inadequate IT strategy and policy or inadequate use of the Company`s information technology. Specifically, policies have been implemented regarding back-up procedures, software maintenance, hardware maintenance, use of the internet and anti-virus procedures. Materialization of this risk has been minimized to the lowest possible level.

## **6.9. Conduct Risk**

Conduct risk is defined as the risk of an action, by an individual, financial institution or the industry as a whole, which leads to customer detriment or, undermines market integrity. This can bring sanctions and negative publicity. Moreover, EBA has defined conduct risk as the current or prospective risk of losses to an institution arising from inappropriate supply of financial services including cases of wilful or negligent misconduct. Consequently, conduct risk arises from failures of designated liquidity providers located in third countries associated with the Company.

Additionally, the Company is exposed to negative balances with its Liquidity Providers, in case of fast-paced volatile market, where the LP cannot close a position at the Company`s stop out limit. Therefore, the Company may be exposed to conduct risk arising from inadequate agreements with the Liquidity Providers and/or with the third parties that hold client`s funds.

As part of risk management policy and tools, the Company has procedures in place to diversify its liquidity providers and monitor their financial position on an on-going basis. The financial soundness of the liquidity providers is being monitored and the Company is ready to switch to alternative LPs, if necessary. Furthermore, the receivable/payable amounts with the LPs are monitored on a regular basis. In particular, the Company examines its existing procedures and arrangements with respect to the products offered and services provided.

## **7. REMUNERATION POLICY**

The Company has established a Remuneration policy on remuneration policies and practices, where these comply with specific principles in a way and to the extent that is appropriate to the Company's size, internal organization and the nature, scope and complexity of its activities. Furthermore, the Company's remuneration strategy is designed to reward and motivate the people who are committed to maintaining a long-term career with the Company and performing their role in the interests of the Company.

The design of the Policy is approved by the people who effectively direct the business of the Company, after taking advice from the compliance function, and implemented by appropriate functions to promote effective corporate governance. The people who effectively direct the business are responsible for the implementation of remuneration policies and practices and for preventing and dealing with any relevant risks, that remuneration policies and practices can create. The Board discusses remuneration policy matters at least annually.

Furthermore, the Policy also benefits from the full support of senior management or, where appropriate, the supervisory function, so that necessary steps can be taken to ensure that relevant persons effectively comply with the conflicts of interest and conduct of business policies and procedures.

Moreover, the Policy adopts and maintains measures enabling them to effectively identify where the relevant person fails to act in the best interest of the client and to take remedial action.

Finally, the Company's remuneration policy aims to:

- a) Determine the Financial remuneration (i.e., share, options, cancellations of loans to relevant persons at dismissal, pension contributions, remuneration by third parties e.g., through carried interest models, wage increases), and
- b) Determine non-financial Remuneration (i.e., career progression, health insurance, discounts or special allowances for car or mobile phones, generous expense accounts, seminars in exotic destinations), and
- c) Determine the assessment of the employees, and
- d) Provide for sufficient motives so as for the Relevant Persons to achieve the business targets, deliver an appropriate link between reward and performance whilst at the same time become a comprehensive, consistent and effective risk management tool that prevents excessive risk taking and/or mis selling practices in light of financial incentives schemes, which could lead to compliance risks for the Company in the long run.

### **7.1. Remuneration System**

The Company's remuneration system and policy is concerned with practices of the Company for those categories of staff whose professional activities have a material impact on its risk profile, i.e., the Senior Management and members of the Board; the said practices are

established to ensure that the rewards for the executive management are linked to the Company's performance, to provide an incentive to achieve the key business aims and deliver an appropriate link between reward and performance whilst ensuring base salary levels are not set at artificially low levels. The Company uses remuneration as a significant method of attracting and retaining key employees whose talent can contribute to the Company's short- and long-term success.

The remuneration mechanisms employed are well known management and human resources tools that take into account the following factors in order to determine the remuneration of each staff member:

- a) The financial viability of the Company,
- b) The general financial situation and the state in which the Company operates,
- c) Each employee's personal objectives (such as personal development, compliance with the Company's systems and controls, compliance with regulatory requirements, commitment and work ethics) performance evaluation and the rating received based on their annual performance in relation to the objectives set up at the beginning of the period,
- d) Each employee's professional conduct with clients (such as acting in the best interest of the Client, fair treatment of clients and inducing client satisfaction), as applicable.

The remuneration system takes into account the highly competitive sector in which the Company operates, and the considerable amount of resources the Company invests in each member of the staff. The remuneration includes all forms of benefits provided by the Company to its staff and can be Financial or non-financial remuneration.

It is noted that the Company has taken into account its size, internal organisation and the nature, the scope and the complexity of its activities and it does not deem necessary the establishment of a specific remuneration committee. Decisions on these matters are taken on a Board level while the remuneration policy is periodically reviewed.

The remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, accountability, and responsibility needed for a staff member to perform each position/role. The remuneration is also set in comparison with standard market practices employed by the other market participants/ competitors. Furthermore, the employee's personal goals and performance evaluation in relation to the objectives set up at the beginning of the period and the employee's professional conduct with clients are taken into account in order to determine the remuneration.

The total remuneration of staff currently consists of a fixed and a variable component. Fixed Remuneration varies for different positions/roles depending on each position's actual functional requirements, and it is set at levels which reflect the educational level, experience, risk, accountability, and responsibility needed for an employee to perform each position/role. The Policy is also set in comparison with standard market practices employed by the other

market participants/competitors. The Company's fixed Remuneration is approved by the Senior Management for all the relevant employees, and it is reviewed by the Company at least annually and according to the relevant legislation without affecting the other terms of employment. Benefits provided to the Company's Relevant Persons, such as private health insurance, are not employee performance-related and are considered part of the fixed Remuneration.

Moreover, the Company's has in place a 'variable Remuneration scheme' whereby the Relevant Persons may receive variable Remuneration in addition to their monthly fixed. Variable Remuneration is only paid via the Company's payroll system via wire transfers. Moreover, the Company does not award, pay or provide guaranteed variable Remuneration.

Furthermore, no remuneration is payable under deferral arrangements (with vested or unvested portions). Finally, the Company did not pay any non-cash remuneration for the year under review, since it does not have non-cash instrument, such as shares or other equivalent non-cash instrument, in place.

The Company recognizes that its remuneration system has some features that increases the mis-selling risk. Therefore, the Company applies effective mitigation controls for each part of the remuneration system.

## **7.2. Link between the pay and performance**

The Company recognises the responsibility that the Staff has in driving its future success and delivering value for the Company and that remuneration is a key component in motivating and compensating its employees. Furthermore, the overall remuneration policy incorporates an annual variable incentive compensation reflecting individual performance and overall performance.

The individual performance is assessed during the annual appraisal process, which establishes objectives for all staff covering both financial and non-financial factors, specific behavioural competencies including compliance and risk management behaviours with regards to the Company's procedures.

The Company shall ensure that where remuneration is linked with performance, the total amount of Remuneration is based on a combination of the performance assessment of:

- a) the individual (quantitative as well as qualitative criteria-except those who perform their duties on Control Functions where only qualitative criteria apply- are taken into account; annual performance evaluation and performance rating are taken into account),
- b) the business unit concerned, and
- c) the overall results of the Company and as long as conflicts of interest are mitigated, as described in this Policy.

The performance appraisal on medium and short-term is being performed as follows:

1. Objectives are set in the beginning of each year (depending on the department appraisal process) defining what the Company functions, departments and individuals are expected to achieve during the year and semi-annually.
2. Performance checks and feedbacks: managers provide support and feedback to the concerned staff annually and semi-annually, during formal or informal performance reviews; the aim is to assist the staff to develop their skills and competencies.
3. Annual performance review takes place annually. The annual performance review also determines the level of the annual (one-off) variable Remuneration to be awarded to the employees. The variable elements of the Remuneration depend on the annual performance evaluation of each employee, the fulfilment of their annual performance related targets and the annual financial performance of the Company.

### 7.3. Remuneration of Senior Management Personnel and Directors

The remuneration policy is intended to ensure that the business will attract and retain the most qualified Senior Management Personnel and Directors. As stated above, in the criteria used for determining the remuneration of the directors are segregated into quantitative and the qualitative criteria. The quantitative remuneration criteria mostly rely on numeric and financial data such as the business's performance and the individual performance evaluation and ratings of each member of the staff whose professional activities affect the risk profile of the firm.

In addition to the quantitative criteria, the Company has put in place qualitative criteria which include compliance with regulatory requirements and internal procedures, fair treatment of clients and client satisfaction. Moreover, the remuneration of the non-executive directors is fixed, and it is set at a level that is market aligned and reflects the qualification and competencies required based on the business's size and complexity, the responsibilities and the time that the non-executive directors are expected to consume. The remuneration of the senior management personnel of the Company, including Board are shown in the following tables:

**Table 7: Remuneration analysis split by Senior Management and key management personnel**

	<b>Senior Management</b>	<b>Key Management personnel</b>	<b>Non-Executive Directors</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Fixed reward</b>	48	99	12
<b>Variable reward</b>	3	3	0
<b>Total</b>	<b>51</b>	<b>102</b>	<b>12</b>

<b>Number of beneficiaries</b>	2	4	2
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Companies are required to disclose the number of natural persons that are remunerated €1mln or more per financial year, in pay brackets of €1mln, including their job responsibilities, the business area involved and the main elements of salary, bonus, long-term award and pension contribution. Nevertheless, currently there are no natural persons at the Company that are remunerated €1mln or more per financial year and as such the above disclosure is not applicable. No sign-on payments have been awarded during 2020, while no severance payments were paid during the year. Furthermore, aggregate remuneration analysed by business area is presented below:

**Table 8: Aggregate remuneration analysis by business area**

<b>Business Area</b>	<b>Aggregate remuneration €000</b>
Control Functions*	<b>78</b>
Brokerage Department	<b>36</b>
Back-office Department	<b>20</b>
Support/Sales Unit	-
Portfolio Management Department	<b>19</b>
<b>Total</b>	<b>153</b>

\*Control functions include the Executive Directors and Compliance Function.