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## CRD PILLAR 3

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PERIOD : 2019

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### 1. Overview

The Basel II Accord has been implemented in the European Union through the Capital Requirements Directive (“CRD”). The CRD consists of three “pillars”:

- Pillar 1 the minimum capital requirements of firms to cover credit, market and operational risk;
- Pillar 2 the requirements for firms and regulators to assess the need to hold Additional capital to cover risks not covered under Pillar 1; and
- Pillar 3 a set of disclosure requirements which enable market participant’s to assess information on firms’ risks, capital and risk management procedures.

The Financial Services Authority has set out its minimum disclosure requirements in its handbook under BIPRU 11. The information set out below represents the Louis Capital Markets UK LLP Pillar 3 disclosures.

### 2. Frequency of disclosure

It is the intention of the group to update its Pillar 3 disclosures on an annual basis, unless circumstances warrant update on a more frequent basis.

### 3. Regulated Structure

Louis Capital Markets UK LLP (LCM) is authorised and regulated by the FSA and as such is subject to minimum capital requirements, based on the fact that it is a limited licence firm. LCM is not subject to consolidated reporting with other entities

The ultimate parent entity and controlling party is LCM Interest Holding LLC, a Delaware Limited Company having its principal place of business at 853 Broadway, Floor 5 New York, NY 10003.

### 4. Risk management

The managing partners of the company determine the business strategy and risk appetite together with the design and implementation of a risk management framework. LCM has a Risk Committee, consisting of the senior management responsible for risk in their areas, to consider the identification and management of the risks that the company faces. LCM principally manages its risks by maintaining appropriate documented procedures with the aim of operating a defined and transparent risk management framework. Additionally as new risks arise, these are dealt with appropriately at the time.

Risk appetite is the degree of risk that senior management are willing to accept without applying further resources and capital to mitigate the risk. Risks are assessed in terms of the probability of the risk occurring after having taken into account any risk mitigation together with the impact. Reasonable steps are taken by LCM to reduce the probability of any risk crystallizing. Furthermore, additional capital resources will be maintained for risks which LCM does not wish to bear.

## **5. Compliance with BIPRU 3, 4, 6, 7 and 10 (BIPRU 11.5.4)**

The company is small with a simple operational infrastructure. It carries no market risk, other than a small foreign exchange risk, no commodity position risk and a small credit risk. LCM follows the standardised approach for the assessment of both market risk and credit risk, using a simplified approach to calculate risk weights for credit risk exposures.

For Credit risk the major exposure of LCM to this area of risk arises primarily from settlement activities and is addressed under Pillar 1 and 2 within the Counterparty Credit Risk ('CCR') capital requirement. The exposure of LCM to credit risk other than CCR relates principally to debtors due from clients.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal and financial crime risks, but does not include strategic, reputational and business risks. In assessing operational risk under Pillar 2, consideration was given to each of the areas where risk arises, which comprise financial crime, control failures in the settlement function, potential for regulatory sanctions and the risk arising from inadequate business continuity planning. The likelihood of a risk crystallising was assessed, taking into account the group's past experience. A potential loss value was then calculated, which is considered to represent an adequate amount to be held as Pillar 2 capital. LCM does ensure that it is adequately insured against any major operational risk.

LCM is exempt from the operational risk requirement at Pillar 1 and is not required to calculate an operational risk capital charge. As mentioned above, LCM is a limited licence firm and as such its minimum capital requirement is the greatest of:

- The base capital requirement of €730,000;
- The sum of its market and credit risk requirements; and
- LCM's fixed overhead requirement.

It is LCM's experience that, as market and credit risks are not considered material for the company; the fixed overhead requirement is the greatest and therefore establishes the minimum capital requirement of £4,522,000.

The approach of the business to assessing the adequacy of its internal capital to support current and future activities is contained in the Internal Capital Adequacy Assessment Process. The fixed overhead requirement under Pillar 1 is deemed by the company to be sufficient capital to meet its current needs. All known risks, including operational risks, have been assessed and appropriate stress tests and scenario analyses have been undertaken to help determine any additional capital required under Pillar 2. No additional capital is currently required for Pillar 2.

## 6. Capital resources

The main features of LCM's capital resources for regulatory purposes are as follows:

Capital Item	£
Tier 1 capital less innovative tier 1 capital	4,879,000

Since the capital resources requirement of LCM is its fixed overhead requirement and not the total of the credit risk and market risk requirements, disclosures relating to credit, dilution and market risk are considered to be immaterial in assessing the risk exposures assessment processes of the business.

LCM does not have a trading book. LCM does not undertake securitisation. LCM does not hold any equities in its non-trading book, other than those considered immaterial or confidential. LCM does not hold client money.

Signed as a true and correct record,



Frederic Vitalis

09/07/2019

Date



Chief Financial Officer

09/07/2019

Date

