



## CRD PILLAR 3

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**PERIOD** : 2019

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### 1. OVERVIEW

These Pillar 3 disclosures are prepared in accordance with the Capital Requirements Regulation and Capital Requirements Directive IV (collectively known as 'CRD IV'), under a capital adequacy framework consisting of three 'Pillars'

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|----------|---|
| 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 rules provide that an entity may omit one or more of the required disclosures if it believes that the information is immaterial. A disclosure is deemed to be material if the omission or misstatement of that information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where a disclosure is considered to be immaterial, this has been stated. 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 an IFPRU limited licence firm. LCM is not subject to consolidated reporting with other entities and these disclosures have been prepared on a solo basis.

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. GOVERNANCE

- 4.1.1. The Board
- 4.1.2. Membership – All Executive Partners are members of the board

- 4.2. Information flow on risk to the Board

The board meets regularly with the board and at least once per month in order to assess risk.

The Board has adopted a risk management governance structure comprising board members and senior management to provide review, challenge and oversight of the firm's risks.

## **5. RISK MANAGEMENT**

### 5.1.1. Adequacy of risk management arrangements

The Board is responsible for the effectiveness of LCM's risk management arrangements and has implemented an appropriate governance and risk management structure. This is designed to determine what risks Louis Capital Markets UK LLP is willing to take and to manage those risks appropriately.

The Board considers that it has in place adequate risk management arrangements with regard to Louis Capital Markets UK LLP risk tolerance and strategy.]

### **Risk management framework**

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 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.

### 5.2. Strategies and policies to manage key risks

LCM is exposed to a number of risks, some of which are industry wide and some are idiosyncratic to LCM.

## **6. OWN FUNDS**

Within LCM, the only element of own funds held is Common Equity Tier 1 capital ('CET 1'). This is the highest form of capital and consists solely of eligible LLP member's capital.

### 6.1. Reconciliation of own funds to audited financial statements

Own funds agree to the audited statutory financial statements as at 31 December 2019

### 6.2. Capital instruments

A Capital Instruments' Main Features Template as required by Article 437(1)(b) of Regulation (EU) 575/2013 can be found at Appendix I

## **7. CAPITAL REQUIREMENTS**

LCM is required to hold own funds in excess of 8% of its total risk exposure amount ('TREA'). As a 'limited licence firm', the TREA is the higher of 12.5 times the fixed overhead requirement ('FOR'), or the sum of credit risk requirement plus 12.5 times the market risk requirement.

### 7.7.1. Pillar 1 capital requirements

### 7.7.2. Operational risk

As LCM is categorised as a 'limited licence' firm, it is not required to calculate an operational risk requirement under Pillar 1. However, operational risk is included within the Pillar 2 assessment.

### 7.7.3. Credit risk

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.

#### 7.7.4. Market risk

The only market risk applicable to LCM is foreign exchange risk. The own funds requirement is in respect of foreign exchange risk.

#### 7.8. Approach to assessing adequacy of internal capital

The ICAAP consists of a number of steps, which are conducted at least annually:

- The adequacy of risks covered by Pillar 1 (credit risk and market risk) is assessed and a decision made as to whether additional capital is required
- Risks not covered by Pillar 1 (operational, liquidity, business and others) are reviewed and assessed with additional capital put aside if required
- The sum of the risk assessments is then compared to the costs of winding down
- Finally, stress testing is conducted over a three year period using a minimum of [three] scenarios and the potential impact on various metrics is assessed

Where the Pillar 2 assessment is higher than the Pillar 1 requirement, the firm holds additional capital.

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.

### **8. INTEREST RATE RISK ON NON-TRADING BOOK POSITIONS**

LCM has not entered into fixed rate contracts, liabilities or off-balance sheet positions. Cash deposits are on overnight terms and no fixed rate liabilities exist. Additionally, LCM does not hedge interest rate risk. LCM is not exposed to interest rate risk in the non-trading book.

## Appendix I

### Capital instruments main features

1	Issuer	
2	Unique identifier	Private placement
3	Governing laws	English law
	<i>Regulatory treatment</i>	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-) consolidated/ solo & (sub-)consolidated	Solo
7	Instrument type (types to be specified for each jurisdiction)	Eligible LLP Members' Capital
8	Amount recognised in regulatory capital (£m as of most recent reporting date)	
9	Nominal amount of instrument	
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Members' Other Interests
11	Original date of issuance	
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	N/A
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend/coupon	Floating
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write down, description of write-up mechanism	N/A
	Position in subordination hierarchy in liquidation	
35	(specify instrument type immediately senior to instrument)	N/A
36	Non-compliant transitioned features	N/A
37	If yes, specify non-compliant features	N/A