Pillar 3 Disclosure

31 December 2019

Contents

1 . OVERVIEW

1.1 Introduction

CPT Markets UK Limited ("CPT UK", "Firm", "Company") was incorporated in the United Kingdom on 25 September 2008 with registration number of 06707165, as a private limited liability company. The registered office of the company is located at 30th Floor, 40 Bank Street, Canary Wharf, London E14 5NR.

CPT UK is authorised and regulated by the Financial Conduct Authority (FCA) under FRN 606110 which permits the Company to operate as an IFPRU €730k investment firm.

During the year the Company's principle activity was to provide online trading facilities to its Retail and Elective Professional customers, via trading platforms, primarily in Contracts for Differences ('CFDs') in forex, commodities and indices on a non-advisory and execution basis only. It acts as an agent on behalf of clients but during the year, following approval by the FCA, the company obtained a licence to deal on its own account therefore being able to take on trading book exposures.

It is a wholly owned subsidiary of Allen Markets Limited (ALM) a company incorporated in the UK. ALM is wholly owned by Mr Zhijian Wang.

The EU's Capital Requirements Directive (CRD), as implemented in the United Kingdom by the FCA introduced consistent capital adequacy requirements for authorised credit institutions and investment firms, through a regulatory framework comprising the following three Pillars:

- **Pillar 1** – Sets out the minimum capital requirements for measuring a firm's credit, market and operational risk.

- **Pillar 2** – Supervisory review process, requires a firm to undertake an Internal Capital Adequacy Assessment Process (ICAAP) to establish whether its Pillar 1 capital is adequate to cover all the risks it faces and, if not, to calculate the additional capital required.

- **Pillar 3** – Disclosure requirements allowing market participants to assess key information on a particular firm's risks, capital adequacy and its risk and control processes.

The FCA's rules for implementing Pillar 3 outlines the minimum disclosure requirements. The information contained in this Pillar 3 Disclosure satisfies CPT UK's Pillar 3 requirements. However, where a particular disclosure is deemed confidential or proprietary by the CPT UK Board of Directors (the "Board"), such information can be withheld, provided the reason for the omission is stated.

Quantitative disclosures are made as at 31 December 2019

1.2 Scope and Frequency of Disclosures

The Firm’s Pillar 3 disclosures are published on an annual basis, as soon as reasonably practicable following completion of its annual financial statements. CPT UK will update its Pillar 3 disclosure more frequently than annually if material changes to its business model and/or regulation occur such would affect the calculations its regulatory capital requirement.

1.3 Solo Basis of Disclosures

The disclosures in this Pillar 3 document are made on a solo basis since CPT UK is not a parent undertaking but a subsidiary undertaking. This disclosure is at the Accounting Reference Date (ARD) which is currently 31st December 2019.

1.4 Location and Verification of Disclosures

CPT UK ’s Pillar 3 disclosures are reviewed and approved by the Board before publishing on the Firm’s website (www.cptmarkets.co.uk). This disclosure will also be attached as a document to the Financial Statement. The disclosures are not subject to external audit.

2. RISK MANAGEMENT OBJECTIVES AND POLICIES

2.1 Introduction

Risk Management is embedded throughout CPT UK , with the overall risk appetite and risk management strategy being approved by the Board and then disseminated throughout the business as appropriate.

2.2 Board of Directors

The Board’s responsibilities in relation to risk management are to set CPT UK ’s risk appetite and to ensure that it has an appropriate and effective framework in place for monitoring the ongoing processes for identifying, evaluating, managing and reporting the significant risks it faces.

The Board’s responsibilities in relation to risk management can be summarised as:

- Setting the Firm’s Risk Appetite and monitoring via regular Management Information (MI);

- Establishing, reviewing and challenging effective systems and controls for:

    - Compliance with all applicable rules and regulation

- Countering the risk of financial crime
- Ensuring business continuity
- Ensuring adequate records are maintained

• Approving policies and procedures for its business operations

• Challenging and approving the Firm's Internal Capital Adequacy Assessment Process (ICAAP)

Given the current nature, scale and complexity of its business, CPT UK 's Board does not have separate Executive Committees to deal with separate risk matters e.g. a Risk Committee, a Nominations & Remuneration Committee nor a Client Money Committee. Instead, management of risk lies with the Board.

2.3 Risk & Control Functions

The following functions provide additional assurance to the Board by compiling periodic reports and MI for the Board's consideration:

- **Finance** – The Chief Finance Officer is responsible for maintaining accurate financial records and ensuring the business operates in compliance with all applicable legislation, including the client money rules and for ensuring the Firm's regulatory and tax submissions are met.

- **Compliance** – The Compliance Oversight & Money Laundering Reporting Officer Function is responsible for ensuring that CPT UK operates in compliance with the various regulatory and anti-financial crime obligations to which it is subject. This is achieved through the undertaking of periodic gap analyses and regular compliance monitoring. Findings arising from such compliance reviews are reported to the Board, who monitor the recommended actions through to completion.

- **Internal Audit** – Due to the nature, scale and complexity of its business, the Company does not have a dedicated Internal Audit function and has delegated much of the task of monitoring the appropriateness and effectiveness of the Firm's systems and controls to the Compliance function.

2.4 Risk Management Framework & Key Risk Indicators

As outlined in CPT UK 's Annual Report, the Firm's strategic objectives are:

- Growing the customer base in established markets
- Strengthening and expanding geographical reach into new regions

In addition to setting objectives, the Board has also a Risk Management Framework which both defines and articulates the level and types of risk the Board is willing to tolerate in order to achieve its strategic objectives. To monitor whether a particular risk is approaching or has exceeded its tolerance levels, the Board has put in place a number of Key Risk Indicators

(KRIs). These KRIs are reviewed by the Board as part of their Management Information and serve as early warning indicators that mitigating measures may need to be taken.

The risk management framework is regularly updated and is reviewed at least annually by the Board with particular focus on those risks rated as 'High'. The Risk Management Framework is used to identify the risks to be considered in the Internal Capital Adequacy Assessment Process (ICAAP).

2.5 Principal Risks to CPT UK

The key financial risks arising from the Firm's business activities, from which the KRIs derive, are identified as:

- Market risk
- Capital Risk
- Liquidity Risk
- Operational risk
- Credit & counterparty risk
- Business Risk

The risks within each area are analysed, mitigating factors assessed and relevant controls identified. The risks within each category are rated according to their potential impact and probability assigned a risk rating. Action is taken by the Board to manage key risks, as appropriate, to safeguard CPT UK and its clients. The firm has assessed these risks in its ICAAP and has set out appropriate actions to manage them.

For further information on CPT UK 's principal risks, see Section 4 of this Pillar 3 disclosure and the Firm's Annual Report and Financial Statements, available at Companies House

3. CAPITAL RESOURCES

The Company's capital resource requirement is calculated according to the FCA rules that apply to an IFPRU €730k firm. The financial data represents the Company's capital resources and risk exposure disclosed in the Company's 2019 Financial Statements.

3.1 Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to meet regulatory capital requirements at all times.

The Company's capital management objectives are primarily met by managing the business risks that the Company faces on a regular basis.

There have been no changes to the Company's approach to capital management during the year.

3.2 Tier 1 Capital

Relating to the Company's own capital resources, Tier 1 Capital comprises equity share capital and reserves.

Capital and reserves	£
Called-up share capital	2,300,000
Reserves & Retained earnings	(1,598,000)
Total equity	**702,000**

3.3 Tier 2 Capital

The Company does not have Tier 2 Capital.

3.4 Internal Capital Adequacy Assessment Process (ICAAP)

CPT UK undertakes an internal assessment of its capital requirements via the ICAAP on at least an annual basis, which is challenged and approved by the Board.

The ICAAP assesses the level of capital and liquidity required to adequately support all relevant current and future risks faced by the Firm.

The Capital Resource Requirement is based upon the higher of the minimum capital requirement of €730k or the Variable Capital Requirement VCR which comprises of the sum of the operational risk plus market risk plus credit risk. As at 31 December 2019 the higher figure was €730k.

Capital Resource Requirement	£
Tier 1 Capital Resource	702,000
Minimum Capital Requirement €730K	618,644
Surplus of Capital Resource	**83,356**

4. PRINCIPAL RISKS

The principal activities of the Company outlined in Section 1.2 of this disclosure give rise to financial risks in the ordinary course of business. Previously summarised in Section 2.5, the primary financial risks arising from the Company's business activities are identified and detailed below, in addition to the measures taken to mitigate such risks.

4.1 Market Risk

Market risk is the risk that the value of a financial instrument will change due to adverse moves in market factors. Other potential exposures are non-trading book exposures to foreign currency assets and liabilities on the balance sheet. The Company mostly hedges all of its positions back-to-back with liquidity providers and, in doing so, ensures that it is not exposed to any market risk. However, where it holds propriety positions then the company is exposed to market risk. The Company sets limits on the amount of its exposure and if these limits are exceeded hedging is carried out to bring the exposure back within defined limits. However, it can still have exposure to residual un-hedged or un-matched positions. The firm follows the Standardised Approach to Market Risk.

4.2 Operational Risk

Operational risk is the risk of financial loss due to inadequate or failed internal process and systems. It can also arise from human error, or external events over which the Company has no influence. As such, operational risk spans a wide and diverse range of potential risks including loss of staff, IT system failures, loss of data, telecommunication failures, loss of power supply, failure or disruption of critical business process, disaster occurrences, natural or otherwise. As operational risk can never be fully eliminated CPT UK manage operational risk through robust systems, controls, policies and procedures.

a) **Processes -** CPT UK has documented policies and procedures for all its key operating processes, which are performed in line with all applicable regulatory requirements. Periodically, consultants will be hired to provide assurance for the methodology utilised and the soundness of the controls applied.

b) **People** - Although CPT UK is committed to upholding the highest ethical standards, complying with all regulatory obligations and acting in the best interest of its customers, it is still exposed to risks arising from human error, potential conflicts of interest and, in extreme cases, from fraudulent activity in just the same way as any other company.

Some of the measures employed by CPT UK to mitigate its exposure to operational risk caused by its people include:

- Payments and handling of client money is assigned to specific individuals, with authorisation limits and sign-off protocols in place;
- Our staffing levels also provide a level of contingency cover in all critical business areas.

- Application of a rigorous recruitment process, including background checks by an independent third party, to verify the fitness of candidates.

c) **Systems** – Due to the nature of the service offered by CPT UK , it is highly dependent on electronic platforms. The Company, recognising the potential impact of system unavailability has created system backups which are kept at geographically diverse locations. The system has a comprehensive Disaster Recovery Programme in place and testing takes place periodically throughout the year.

4.3 Capital Risk

The Company manages its capital resources on the basis of regulatory capital requirements (Pillar 1) and its own assessment of capital required to support all material risks throughout the business (Pillar 2). Further information on the Company's capital resources is detailed in Section 3.

4.4 Liquidity Risk

Liquidity risk is the risk that the Company will be unable to make the required payments on its obligations as and when they fall due, or can secure resources to do so at excessive costs. The Company's liquidity risk will increase as the level of cash held on deposit with banks and financial institutions decreases relative to its obligations.

The Company, at all times, holds such funds or makes arrangements to have access to such funds, enabling it to meet all of its obligations in a timely manner.

4.5 Credit and Counterparty Risk

Credit Risk is the risk that a firm's clients fail to pay monies owed to them. CPT UK does not offer loans or extend credit to its customers

Counterparty credit risk is the risk of a financial loss to the Company arising from a counterparty's failure to pay or otherwise meet a financial obligation. The risk includes loss of principal, disruption to cash flows and increased collection costs.

CPT UK employs the Simplified Standardised Approach to calculate its credit risk exposure amounts.

CPT UK 's counterparty credit risk primarily stems from two main sources: its customers and the banks/financial institutions/Liquidity providers it deposits funds with:

a) **Customers**

The Company operates a margin system whereby customers are required to deposit funds prior to trading that will be used as collateral against possible losses arising from their CFD transactions. This reduces the credit risk exposure to CPT UK arising from acting as principal to the trades of its customers. Should a client's equity fall below the maintenance margin required to keep their positions open, the client's positions will be liquidated systematically until the account balance equals/exceeds the required maintenance margin.

As CPT UK does not operate a Dealing Desk and its customers execute their own transactions, it is not possible for wrong-way trades being placed by CPT UK on the instruction of its customers. The Company is therefore not exposed to "wrong-way" risk.

b) Banks/Financial institutions/Liquidity Providers

The Company holds accounts with several banks and financial institutions to facilitate the collection and payment of funds from/to its customers and other counterparties. An account with a bank or a financial institution will only be opened after suitable checks have been made to assess the counterparty default risk level of that entity.

The company follows a counterparty default risk rating process that assesses (on at least an annual basis) whether the firms to whom the Company is exposed are of an acceptable risk. Indicatively, as at December 2019, 100% of the Company's cash and cash equivalents were held at institutions and banks with "safe" determinations.

4.6 Business Risk

By its nature a brokerage firm has a higher degree of business risk than some other types of businesses characterised by intense completion, rapid technological change and a continually evolving regulatory framework. CPT UK's main strategy for managing and mitigating these risks is through active management of clients and counterparty relationships and by keeping abreast of all relevant and regulatory reforms affecting the operation of the CFD markets.

5. REMUNERATION DISCLOSURE

The Company is required to make a disclosure of details regarding its remuneration policy.

5.1 Decision Making Process

Due to the nature, scale and complexity of its business, CPT UK has not formally appointed a Remuneration Committee. Instead, decisions concerning Code and executive staff remuneration are taken by the CPT UK Board.

5.2 Link between pay and performance

CPT UK 's remuneration policy promotes staff retention and loyalty. Code and executive staff remuneration is reviewed on an annual basis. It is based upon individual, financial and non-financial criteria and overall firm performance. Individual performance is also reviewed over an extended period to ensure the long term objective of the staff and the firm are not in conflict. The overall level of remuneration is set in the form of base salary and a bonus. The resources available for bonuses are directly linked to the performance and overall cost base of the firm.

6. FURTHER INFORMATION

Should you require any further information, please contact:

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