

# Pepperstone EU Limited

## Risk Management Disclosures

Disclosures in accordance with Part Six of Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 ("the Regulation")

Year ended 30 June 2021

Company: Pepperstone EU Limited  
Reg. Number: HE 398429  
CySEC License: 388/20  
Date Updated: 30 November 2021



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## 1 Introduction

According to the requirements stated in Article 46(1) of Regulation (EU) 2019/2033 of the European Parliament and of the Council of 27 November 2019 on the prudential requirements of investment firms and amending Regulations (EU) No 1093/2010, (EU) No 575/2013, (EU) No 600/2014 and (EU) No 806/2014 (the “Investment Firm Regulation” or the “IFR”), Pepperstone EU Limited (the “Company”) has an obligation to publicly disclose on their website, information relating to its Risk management policies and objectives, Governance, Own funds, Own funds requirements and Remuneration policy and practices, at least on an annual basis.

Given that the Company’s total on and off-balance sheet assets are on average less than EUR 100 million over the four-year period immediately preceding the given financial year, the Company has no obligation to disclose any information relating to Article 52 (Investment Policy) and Article 53 (Environmental, Social and Governance risks) of the IFR.

Moreover, these Disclosures must be subject to an independent verification process and the Company is responsible for submitting the verified Disclosures accompanied by the relevant Verification Report to the Cyprus Securities and Exchange Commission (“CySEC”), the latest within five months from the end of each financial year.

### **Background**

Pepperstone EU Limited is a limited liability company incorporated in Cyprus on 31 May 2019 under the Companies Law, Cap. 113. The Company is a wholly owned subsidiary of Pepperstone Group Limited (the “Parent”). The Company’s principal activity is to onboard retail and professional clients for the purpose of providing a platform for clients to buy and sell leveraged spot Foreign Exchange (“FX”) and Contract-For-Difference (“CFD”) products.

The Company is authorised and regulated by the CySEC based on a CIF license that was granted on 3 August 2020. The business was subsequently launched on 12 November 2020.



The Company's CIF license includes the following investment services:

1. Reception and Transmission of orders in relation to one or more financial instruments
2. Execution of orders on behalf of clients
3. Dealing on own account.

Furthermore, the Company's CIF license includes the below ancillary services:

1. Safekeeping and administration of financial instruments, including custodianship and related services
2. Foreign exchange services where these are connected to the provision of investment services
3. Investment research and financial analysis or other forms.

#### Frequency of Publication

The Disclosures are reviewed on an annual basis at a minimum and, where deemed necessary, more frequently. They are published in conjunction with the date of publication of the financial statements (or where no publication of financial statements is required, the Disclosures are published in conjunction with the date of submission of the audited financial statements to the CySEC). The Company's Financial Statements were prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") as adopted by the EU.

This is the first Pillar 3 publication for the Company.

#### Verification

The Company has commissioned its independent auditors Ernst & Young Cyprus Limited to verify its Disclosures.

#### **Scope of Disclosure**

Pepperstone EU Limited prepares its disclosures on a solo basis.



### **Coronavirus Outbreak**

Covid-19 has had far reaching impacts across the global economy. Whilst many companies are experiencing hardships, the Company has been largely unimpacted – this is due to continued market volatility which leads to increased business and revenue for the Company.

### **Regulatory Developments**

The capital adequacy and overall risk management requirements that applied until recently to the Company under the Capital Requirements Regulation & Directive (“CRR & CRDIV”) prudential framework, have been replaced by amended prudential rules established by the EU Regulation 2019/2033 (“Investment Firm Regulation” or “IFR”) and the EU Directive 2019/2034 (“Investment Firm Directive” or “IFD”), which became applicable on the 26<sup>th</sup> of June 2021. The new rules introduce changes in the methodologies that specific categories of EU investment firms are required to apply for calculating their exposures to risk and their Capital Adequacy ratio.

## **2 Risk Management Objectives and Policies**

### **Risk Management Framework and Structure**

The Company considers risk management as a core component of proper business management and sound corporate governance. The Company's ability to identify and address risk is central to achieving its corporate objectives and the process of risk management shall be ongoing.

The Company's Risk Management Policy sets out the high-level principles that the Company applies in order to manage its key risks. This Policy describes the Company's risk management system relating to its operations, defined as the systematic method of establishing the context, identifying, analysing, evaluating, treating, monitoring and communicating risks to minimise losses and maximise opportunities. The main risks covered are Credit risk, Market risk, Liquidity risk, Operational risk and Compliance risk.

The overall risk management framework of the Company aims to embed risk management in a practical way into business processes and it is implemented through policies, limits, operational guidelines, as well as defined procedures and controls for risk monitoring, measuring and reporting. Risk is a continuous and developing process which runs throughout the Company's strategy and the implementation of that strategy. It addresses methodically all the risks surrounding the Company's activities past, present and especially future.

Risk Management refers to a coordinated set of activities and methods that is used to direct the Company and to control the many risks that can affect its ability to achieve objectives. The term "risk management" also refers to the programme that is used to manage risk. This programme includes risk management principles, a risk management framework and a risk management process of identifying, monitoring, assessing and controlling threats to the Company's capital and earnings.

Furthermore, also embedded to the core of the Company's operations is the internal capital adequacy assessment process, which serves as a valuable Risk Management tool that ensures that the Company's Risk Management framework receives the necessary attention from all the related functions and personnel of the Company.



The Board of the Company and the Senior Management ensure the appropriate design, adoption and implementation of this process, by performing their related duties and responsibilities.

### **Risk Manager**

The Board has appointed a Risk Manager to ensure that all the different types of risks assumed by the Company are in compliance with the relevant and applicable legislation and the resulting obligations for the Company, and that all the necessary procedures relating to the management of risk are in place. The Risk Manager reports to Senior Management and the Board of Directors of the Company and is responsible, as necessary, for:

- a) complying and implementing the relevant regulatory provisions relating to risk management issues;
- b) collating sufficient information from all the relevant departments of the Company, as applicable;
- c) educating and training the personnel of the Company on risk-related issues;
- d) examining the financial results of the Company;
- e) analysing the market and its trends (from a risk management perspective), as applicable;
- f) evaluating how the introduction of any potential new services or activities by the Company could affect the risk management of the Company, and provide such information to the Senior Management or the Board, as requested;
- g) examining the capital adequacy and the exposures of the Company;
- h) drafting written reports to Senior Management and to the Board including recommendations, as well as indicating in particular whether the appropriate remedial measures have been undertaken in the event of any deficiencies, at least annually;
- i) calculating, setting, reviewing, updating and monitoring client and counterparty limits, as applicable;
- j) managing the overall risks faced by the Company, with a particular focus on the Client side risks where fraud, dispute, Client identification and due diligence and funding/deposit risks are handled and monitored accordingly, in coordination with the



Anti-Money Laundering Compliance Officer (AMLCO) and the Administration/Back Office Department, as applicable;

- k) maintaining a record of all the client and counterparty risks and limits involved;
- l) recommending, providing and supervising policy description concerning information systems (including backup systems that can restore smooth operation in case of failure);
- m) with respect to Liquidity risk and Market risk:
  - defining acceptable maximum risk assumption limits per class of risk;
  - breaking down the above risk limits further where necessary, for example, per class of investment service or Financial Instrument, or Client or market, as applicable;
  - implementing stop loss-control limits, where applicable;
  - following up open positions within the approved limits;
- n) monitoring the performance and overall actions of the Dealing on Own Account Department, on a continuous basis;
- o) monitoring the performance of the portfolios that the Company shall be dealing on own account;
- p) suggesting to Senior Management to stop trading, if it is necessary due to the current market conditions and Credit risk;
- q) engaging into and fulfil his/her ICARA related duties and responsibilities; and
- r) applying the relevant provisions of the IFR requirements, as amended from time to time.

The Risk Management Function is further strengthened by the Risk Management Committee and by the following functions:

- a) Compliance
- b) Internal Audit (outsourced)
- c) Anti-Money Laundering
- d) Legal (outsourced to the Parent)
- e) Finance & Accounting (outsourced to the UK affiliated entity Pepperstone Limited).





## **Risk Management Committee**

The Board has appointed a Risk Management Committee to assist in its oversight of the Company's risk management framework, the risk appetite and the performance of the Risk Management Function.

The Committee is as best practice, (if feasible by the Board composition at the time), composed by at least 3 members of the Board who do not perform any executive function in the Company. For the reference year, the Risk Committee comprised of one non-executive director, one executive director who is also the Risk Manager, and the Compliance Officer & AMLCO of the Company. The Risk Committee has met one time during the year ended 30 June 2021.

## **Compliance Officer**

The Compliance Officer of the Company is responsible to:

- a) review on an annual basis (and when deemed necessary on an ad-hoc basis) the risk management policies and procedures and ensure that the Company is compliant with relevant rules and regulations; and
- b) report to Senior Management and the Risk Manager all instances of non-compliance for immediate action.

## **Anti- Money Laundering Compliance Officer (AMLCO)**

The AMLCO has overall responsibility for the establishment and maintenance of effective AML systems and controls. The AMLCO is also responsible for designing and implementing risk-based approach policies for money laundering and due diligence procedures for new clients. The Company (as per CySEC requirements) has appointed an alternate Compliance Officer, in case the AMLCO is absent, who should replace him temporarily and perform his duties as defined in the present Directive and the Law.



### **Internal Auditor**

The Internal Auditor of the Company is responsible to periodically:

- a) assess the existing risk management policies, procedures and arrangements, identify possible deficiencies and propose related improvements; and
- b) report on the level of compliance of the Company with its Risk Management policies and procedures and recommend related improvements.

### **Legal Function**

The Company outsources the Legal function to other Group entities and additionally retains local external legal counsel in all jurisdictions where it has a business presence (including Cyprus), to ensure that local regulatory obligations and legal issues are appropriately identified and managed.

### **Head of Finance & Accounting Department**

The Company retains a qualified and experienced person as the Head of Finance & Accounting Department. The Head of the Finance & Accounting Department shall also be responsible for supervising the rest of the staff in the said department, in addition to the below:

- a) Capital Adequacy Planning & Monitoring;
- b) Regulatory Compliance regarding Financial Information;
- c) Monthly, Quarterly & Annual Financial Statements; and
- d) Monitoring and supervising the reconciliation of the Client Financial Information, handling system balances to any table entries used and to the corresponding General Ledger Account balances.

### **Risk to Client (RtC)**

The Company calculates Risk-to-Client ("RtC") capital requirements in accordance with Article 16 of the IFR, based on the following formula:



RtC capital requirements = K-Assets Under Management (K-AUM) + K-Client Money Held (K-CMH) + K-Assets Safeguarded and Administered (K-ASA) +K-Client Orders Handled (K-COH).

The Company is only subject to K-CMH. RtC K-Factor definitions and applicability to the Company are detailed below:

- K-AUM captures the risk of harm to clients from an incorrect discretionary management of client portfolios or poor execution and provides reassurance and client benefits in terms of the continuity of service of ongoing portfolio management and investment advice. The Company is not subject to K-AUM since it does not provide discretionary portfolio management for its clients or non-discretionary arrangements constituting investment advice of an ongoing nature.
- K-ASA captures the risk of safeguarding and administering client assets and ensures that investment firms hold capital in proportion to such balances, regardless of whether they are on their own Balance Sheet or in third-party accounts. The Company is not subject to K-ASA since it does not provide safeguarding and administration for clients' financial instruments other than CFDs (Note: custodianship of clients' CFDs is provided and is considered to be captured under K-CMH due to the intrinsic nature of the CFDs).
- K-COH captures the potential risk to clients of an investment firm which executes orders (in the name of the client, and not in the name of the investment firm itself), for example as part of execution-only services to clients or when an investment firm is part of a chain for client orders. The Company is not subject to K-COH since it does not execute orders in the name of the client, on an agency basis (i.e. all client orders are executed on a principal basis).

### **Client Money Held (CMH)**

CMH means the amount of client money that the Company holds, taking into account the legal arrangements in relation to asset segregation and irrespective of the national accounting regime applicable to client money held by the Company. CMH captures the risk of potential for harm where an investment firm holds the money of its clients, taking into account whether they are on its own Balance Sheet or in third-party accounts and



arrangements under applicable national law provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the Company.

The Company implements a number of policies and procedures in order to properly safeguard and minimise the risk of loss of any clients' money held under custody.

Specifically, according to these policies and procedures the Company shall, on receiving any Client funds, promptly place those funds into one or more accounts opened with any of the following:

- a) central bank
- b) credit institution
- c) bank authorized in a third country
- d) qualifying money market fund.

In the event that the Company decides not to deposit Client funds with a central bank, it shall exercise all due skill, care and diligence in the selection, appointment and periodic review of the credit institution, bank or money market fund where the funds are placed and the arrangements for the holding of those funds. The Company shall take into account the expertise and market reputation of such institutions or money market funds with a view to ensuring the protection of Clients' rights, as well as any legal or regulatory requirements or market practices related to the holding of Client funds that could adversely affect Clients' rights.

The Head of Safekeeping Department, who is also the Head of Finance, shall be responsible for implementing the provisions arising from the above by:

- opening separate accounts for Clients and the Company.
- performing due diligence over the operational adequacy of the third parties so as to ensure that separate accounts are maintained for holding Client assets and Company assets through the review of (indicatively):
  - i. the terms of business
  - ii. expertise
  - iii. credit ratings



- iv. reputation
- v. references
- vi. availability of authorization/specialized licenses, granted by the supervisory authority of the country of origin of the third party for the provision of services
- vii. availability of suitable staff members employed by the third party, in this respect
- viii. availability of information on shareholders, financial position and top managers of the third party
- ix. ability of third party to maintain segregation of assets between Clients and the Company.

Further to the above, the Head of Safekeeping & Finance, shall be responsible for ensuring that the Company does not mix its Own funds with its Clients' funds. In this respect, the account(s) containing Client funds should be labelled as "Clients' Account".

For the year ended 30 June 2021, all Client funds were kept into EEA credit institutions.

### **Risk to Market (RtM)**

The Company calculates Risk-to-Market ("RtM") capital requirements in accordance with Article 21 of the IFR.

The RtM K-factor requirement for the trading book positions of an investment firm dealing on own account, whether for itself or on behalf of a client shall be either the K-Net Position Risk (K-NPR) calculated in accordance with Article 22 of the IFR or the K-Clearing Margin Given (K-CMG) calculated in accordance with Article 23 of the IFR. The RtM K-factor requirement applies to all Trading Book positions, which include in particular positions in debt instruments, equity instruments, collective investment undertakings (CIUs), foreign exchange and gold, and commodities (including emission allowances). Furthermore, for the purposes of calculating RtM K-Factor requirement an investment firm shall include positions other than trading book positions where those give rise to Foreign Exchange risk or Commodity risk.

For the purposes of calculating RtM the Company has elected to apply K-NPR instead of K-CMG, since K-CMG applies in the case where the execution and settlement of



transactions of an investment firm dealing on own account take place under the responsibility of a clearing member or a qualifying central counterparty, which is not relevant for the Company.

For the purpose of calculating K-NPR the Company applies the Standardised Approach set out in Chapters 2, 3 and 4 of Title IV of Part Three of Regulation (EU) No 575/2013.

The Company incurs Market risk from its Trading Book transactions in FX, equity and commodity CFDs, as well as from exchange rate fluctuations on all its Banking Book assets and liabilities held in foreign currencies. The Company monitors its exposure on a day-to-day basis and performs hedging as deemed necessary. The Company also regularly analyses its currency groups by netting each currency's cash balances with the respective client liabilities. If the net position of a currency group is in deficit, funds from a currency group that is in surplus may be converted and transferred to bring the deficit currency group into surplus.

The Company's Market risk arising from its Trading Book is insignificant as all the Market risk is borne by the Parent.

### **Risk to Firm (Rtf)**

The Company calculates Risk-to-Firm ("RtF") capital requirements in accordance with Article 24 of the IFR, based on the following formula:

RtF capital requirements = K-Trading Counterparty Default (K-TCD) + K-Daily Trading Flow (K-DTF) + K-Concentration (K-CON).

In accordance with point (35) of Article 4(1) of the IFR, "Trading Counterparty Default" or "TCD" means "the exposures in the Trading Book of an investment firm in instruments and transactions referred to in Article 25 giving rise to the risk of Trading Counterparty Default." For the Company, TCD risk arises from its trading activities in Over-The-Counter ("OTC") CFD derivative contracts, either when acting as Principal for the purposes of executing its



clients' transactions, or when performing hedging trades with its parent company, Pepperstone Group Limited, in Australia.

Furthermore, "Daily Trading Flow" or "DTF" is defined by point (33) of IFR Article 4(1) as "the daily value of transactions that an investment firm enters through Dealing on Own Account or the Execution of orders on behalf of clients in its own name, excluding the value of orders that an investment firm handles for clients through the Reception and Transmission of client orders and through the Execution of orders on behalf of clients which are already taken into account in the scope of client orders handled." Pepperstone EU Limited is subject to DTF risk as a result of its Trading Book activity, performed for its own account both through the transactions of clients that it executes on a Principal basis, as well as through the hedging trades performed with the Parent.

The Company strives to manage, control and minimize Rtf risks by implementing the following measures:

- Client margins are monitored on a daily basis so that minimum risk exposure occurs. Moreover, as at 30 June 2021 the Company held all cash with a top tier UK and EEA (Ireland)-based bank after undertaking an initial assessment of the credit rating of the bank. In August 2021 the Company switched to the Ireland arm of that bank, in view of the Brexit developments. Assessments are made on an on-going basis.
- Under the new ESMA rules, the following restrictions have been introduced in respect of retail clients:
  - Leverage limits on the opening of a position between 30:1 and 2:1, which vary according to the volatility of the underlying asset:
    - 30:1 for major currency pairs;
    - 20:1 for non-major currency pairs, gold and major equity indices;
    - 10:1 for commodities other than gold and non-major equity indices;
    - 5:1 for individual equities and any underlying not otherwise mentioned;
    - 2:1 for cryptocurrencies.
  - A margin close-out rule on a per account basis.
  - A negative balance protection on a per account basis.
  - A prohibition on benefits incentivising trading; and



- A standardised risk warning.
- Any negative balances are being guaranteed by the Parent company. This mitigates the Firm's TCD risk in relation to its clients.
- The Company enters into OTC financial derivatives contracts with its clients only if such contracts are supported by sufficient margin collateral. The Company is required to apply margin requirements as a minimum to support the clients' investments and any other trading activities performed through the Company. Any open positions held by the clients in OTC derivatives will be included with 100% of their prevailing mark-to-market values (i.e. including the unrealized profit or loss related to each such position), in support of the clients' margin collateral requirements at any time.
- The Company monitors and controls on an ongoing basis the clients' Net Free Equity and related margin requirements, where Net Free Equity for a client is the sum of the below:
  - The value-dated cash balance of the client's trading accounts,
  - plus (or minus) any unrealised profits (or losses) from the client's open contracts,
  - minus any margin required for financing the client's open positions.
- The Company assesses the Concentration risk on a continuous basis by actively monitoring its open positions with its clients and with its hedging counterparty and Parent entity, Pepperstone Group Limited. As at 30 June 2021, the Company had no significant concentration of Trading Counterparty Default risk (Counterparty Credit risk under the CRR framework) to any single counterparty, or of Issuer risk to issuers of equities underlying its own positions in equity CFDs.



## **3 Governance arrangements**

### **3.1 Board of Directors**

For the year ended 30 June 2021 the Board consisted of 7 members, of which 2 were Independent Non-Executive Directors, 1 was Non-Executive Director (indirect shareholder) and 4 were Executive Directors.

### **3.2 Diversity Policy**

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

The members of the Board of Directors shall at all times be of appropriately good repute and possess sufficient knowledge, skills and experience to perform their duties.

The ultimate objective is to have a Board that offers a broad range of perspectives that are directly relevant to the business and organizational needs. The Company ensures that a broad set of qualities and competences exists when recruiting members to its Board.

The overall composition of the Company's Board shall reflect an adequately broad range of experiences and knowledge in domain areas of the Company's business such as investment banking and finance, human resources, legal, risk management, etc.

### **3.3 Number of directorships held by members of the Board**

The table below provides the number of directorships each member of the management body of the Company currently holds at the same time in other entities (including the directorship held in the Company). Directorships in organizations which do not pursue predominantly commercial objectives, such as non-profit-making or charitable organizations, are not taken into account for the purposes of the below.



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<b>Name of Director</b>	<b>Position within the Company</b>	<b>Directorships – Executive</b>	<b>Directorships – Non-Executive</b>
Victoras Zachariades	Executive	1	-
Savvakis (Zack) Ioannou	Executive	1	-
Robert Bowen	Executive	1	-
Panayiotis Theodorou	Executive	1	-
Nikolas Xenofontos	Non-Executive	3	1
Andreas Koumenides	Non-Executive	-	2
Tamas Szabo	Non-Executive	3	1

*Note: The information in this table is based only on representations made by the directors of the Company.*

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## 4 Board Approved Risk Statement

The Risk Appetite Statement (“RAS”) is an expression of the level of risk the Company is willing and able to accept in pursuit of its strategic objectives. The RAS gives clear accountability and clarity of those risks that are encompassed within the Risk Management Framework (“RMF”) that are consistent with the pursuit of the Company’s profitability and other strategic objectives.

The risk capacity of the Company is influenced by the following strategic boundary conditions:

- maintain a sustainable risk profile;
- maintain risk appetite that is consistent with the Company’s business and franchise;
- ensure that the business is prudently funded and capitalised at all times and is resilient at times of stress;
- maintain a stable threshold of profit generation consistent with the Company’s strategic plans;
- comply with all regulatory requirements both prudential, conduct of business and any other relevant codes; and
- maintain the trust and goodwill of clients, regulators and other stakeholders.

The Board accepts that in its pursuit of its strategic and business goals, the Company will be exposed to risk. Some risks will be consciously taken in the pursuit of profit. Other risks will be an indirect consequence of profit-taking activities. Accordingly, it is important that the Company’s overall risk-taking activities are undertaken within acceptable limits and tolerances in order for the potential impact of such risks on the earnings and capital ratios of the Company to be managed. It is accepted that the risk profile of the Company will vary and at times may be exposed to a higher level of risk, particularly at times when market or environmental conditions may be volatile.

The Company’s risk appetite is directly linked to its business strategy, funding capacity and capital planning. The Company’s “Risk Capacity” is the maximum level of risk that the Company can assume given its financial resources, earnings profile and obligations to stakeholders. The Company’s Risk Capacity is a maximum measure and it is not intended



to be reached, therefore there is a designated buffer between the risk appetite and the Company's Risk Capacity.

While the risk appetite is a high-level statement that broadly considers the levels of risk management deems acceptable, the Risk Tolerances are narrower and set the acceptable level of variation around specific objectives. The Company's Risk Tolerance is assessed by undertaking stress testing. Senior Management within the Company conducts monitoring of the application of the risk appetite to ensure that the aggregate risk profile of the Company (this includes all the material risks as defined within the Company's RMF) remains within the prescribed limits and tolerances as determined by the Board.

The Company is prudently capitalised and operates with appropriate level of capital resources. The aim is to maintain at all times a buffer of not less than 30% over and above the prevailing level of financial resource requirement calculated on a regular basis. The following high level, primary, metrics should be maintained for each of the aforementioned risk types and strategic indicators:

- As previously stated, the RAS consolidates the key tolerances encompassing capital, liquidity and profit with which it aims to operate.
- Maintain a stable policy of profit generation and retention on an annual basis. In order to continue a conservative management approach, the Company will monitor all risks which will impact earnings materially in a 12-month period.

The Senior Management of the Company is committed to maintaining sufficient liquidity to meet obligations as they fall due, or as needed in the event of an operational and regulatory orderly wind down. The Company's Liquidity risk management framework is designed to ensure that it has sufficient liquid funds to meet its foreseeable liabilities as they fall due. An increase in expenses would occur only if coupled with an identified increase in the Company's cash income, or sufficient excess liquid capital to support any forecasted negative cash flow. Such an increase would only arise as a result of formal business planning.

The liquidity of the Company's assets in relation to its Fixed Overhead Requirement is monitored through the quarterly financial reporting process.

## 5 Capital Management and Preservation

The Company's eligible Own Funds at year-end comprised entirely of Common Equity Tier 1 Capital. As at 30 of June 2021, the Company's eligible Own Funds consisted of the following:

Ref	Template EU IF CC1 - Composition of Regulatory Own Funds	€'000
		30 June 2021
<b>1</b>	<b>Own Funds</b>	<b>3.012</b>
<b>2</b>	<b>Tier 1 Capital</b>	<b>3.012</b>
<b>3</b>	<b>Common Equity Tier 1 Capital</b>	<b>3.012</b>
4	Fully paid up capital instruments	875
6	Retained Earnings	2.139
<b>12</b>	<b>(-)Total Deductions from Common Equity Tier 1</b>	<b>(2)</b>
26	(-) Other deductions (Additional Valuation Adjustment)	(2)
<b>28</b>	<b>Additional Tier 1 Capital</b>	-
<b>40</b>	<b>Tier 2 Capital</b>	-

The Company's Capital Adequacy Ratio as at 30 June 2021 was 401,58% which was above the IFR regulatory threshold of 100% for Total Capital Requirements.

The primary objective of the Company's capital management is to ensure that it has sufficient capital to enable it to effectively fund its operations on a going concern basis and maximise shareholder value by taking advantage of growth opportunities. The Company does not leverage through the use of debt finance in order to generate returns on equity. The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust its capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

The following table presents the reconciliation of Regulatory Own Funds to Balance Sheet in the audited Financial Statements of the Company, for the year ended 30<sup>th</sup> of June 2021:

Template EU IF CC2	a Balance Sheet as in audited Financial Statements	c Cross reference to EU IF CC1
<b>Assets - Breakdown by asset classes according to the Balance Sheet in the audited Financial Statements (€'000)</b>	<b>As at 30 June 2021</b>	
Cash and cash equivalents	9.585	
Trade and other receivables	2.503	
Prepayments	4	
Equipment	46	
Right of use assets	395	
<b>Total assets</b>	<b>12.533</b>	
<b>Liabilities - Breakdown by liability classes according to the Balance Sheet in the audited Financial Statements</b>		
Trade and other payables	8.681	
Current tax payable	313	
Provisions	121	
Lease liabilities	404	
<b>Total liabilities</b>	<b>9.519</b>	
<b>Shareholders' Equity</b>		
Share capital	875	Ref 4
Retained earnings	2.139	Ref 6
<b>Total shareholders' equity</b>	<b>3.014</b>	
Additional Valuation Adjustment	(2)	Ref 26
<b>Own Funds</b>	<b>3.012</b>	<b>Ref 1</b>

Note 1: The Company meets the requirements set out in Part Six of the IFR on an individual basis.

Note 2: Column C above, indicates those Balance Sheet components that contribute to the calculation of the Company's regulatory Own Funds, by linking them with the relevant Own Funds components in the first column of the previous table titled "Template EU IF CC1".

## **6 Capital Requirements**

### **6.1 Own Funds Requirements**

The Company's policy is to monitor Own fund requirements at least on a quarterly basis. The Company complies with Article 11 of the IFR stating that the Company shall at all times have Own Funds in accordance with Article 9 of the IFR, which amounts to at least the highest of the following:

- a) Its fixed overheads requirement calculated in accordance with Article 13 of the IFR;
- b) its permanent minimum capital requirement in accordance with Article 14 the IFR ; or
- c) its K-factor requirement calculated in accordance with Article 15 the IFR.

### **6.2 Fixed Overheads Requirements**

The Company's policy is to monitor Fixed Overheads Requirements at least on a quarterly basis. The Company complies with Article 12 of the IFR stating that the Company shall hold Own Funds of at least one quarter of the fixed overhead expenses of the preceding year. The Fixed Overheads Requirement as at 30 June 2021 amounted to Euro 703 thousand.

### **6.3 Permanent Minimum Capital Requirement**

The Company's policy is to monitor on a continuous basis its Own Funds and ensure that they remain above the Permanent Minimum Capital Requirement of Euro 750 thousand, which corresponds to the initial capital that applies to the Company, in accordance with Article 9 of the IFD.

### **6.4 K-Factor Requirements**

The Company's policy is to monitor K-Factor Requirements at least on a quarterly basis. The table below presents the K-Factor requirements as at 30 June 2021:

<b>K-Factor Requirements</b>		<b>€'000</b>
<b>Risk-to Client (RtC)</b>	<b>K-AUM</b>	-
	<b>K-CMH</b>	19
	<b>K-ASA</b>	-
	<b>K-COH</b>	-
<b>Risk-to Market (RtM)</b>	<b>K-NPR</b>	84
	<b>K-CMG</b>	-
<b>Risk-to Firm (RtF)</b>	<b>K-TCD</b>	337
	<b>K-DTF</b>	18
	<b>K-CON</b>	-
<b>Total K-Factor Requirement</b>		<b>458</b>

## 6.5 Liquidity risk

### Definition

Liquidity risk arises from the possibility that the Company might encounter difficulty in settling its debts or otherwise meeting its obligations relating to financial liabilities. The Company manages this risk through the following mechanisms:

- preparing forecast cash flow analysis in relation to its operational, investing and financial activities, monitored on a quarterly basis; and
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses by preparing a 12- month cash flow forecast.

The Company maintains liquidity levels which are at least one third of the fixed overhead requirement as per the requirements of Article 43 of the IFR.



## 7 Remuneration Disclosures

The Company, due to its size, nature of business and scale of its operations, is not obliged to set up a Remuneration Committee and instead the responsibilities of the Remuneration Committee are performed by the Board of Directors. The design of remuneration policies and practices are approved by the people who effectively direct the business of the Company (i.e. the Board of Directors and its Senior Management), after taking advice from the Compliance Function and implemented by the relevant functions to promote effective corporate governance. The people who effectively direct the business should be 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 remuneration policy is designed in a way that it:

- Promotes a sound and effective risk management and does not encourage risk-taking that exceeds the level of tolerated risk of the Company.
- Is in line with the business strategy, objectives, values and long-term interests of the Company and its clients.
- Discourages conflict of interests in order to prevent employees or associates of the Company to act against the interests of any of the Company's clients or the Company itself.

Remuneration consists of all forms of payments and/or benefits provided directly or indirectly to employees or to Company's associates. All employees and associates of the Company are covered by the principles of the Remuneration Policy.

The Remuneration Policy is established pursuant to:

- Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments markets (MiFID II).
- Cyprus Law L. 87(I)/2017 which provides for the provision of investment services, the exercise of investment activities, the operation of regulated markets and other related matters (Sections 10(1)(c)(iii), 17(3)(a), 24, 25(10) and 28(2) in particular).

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- The European Securities and Markets Authority (ESMA) Guidelines on Policies and Remuneration Practices (ESMA/2013/606).
  - CySEC Directive DI144-2014-14, (Paragraphs 5, 20, 21 and 22 in particular).
  - CySEC Guidelines GD-IF-07: Guidelines on remuneration policies and practices (reissued as Circular C031).
  - CySEC Circular C138 of 2016 with Subject: “Remuneration policies and practices”.
  - CySEC Circular C145 of 2016 with Subject: “Clarifications for Circular C138 – Remuneration policies and practices”.

The Company ensures that any remuneration or similar incentive arrangement provided abides by the following basic principles:

- Remuneration or similar incentives shall not be solely or predominantly based on quantitative commercial criteria and shall take fully into account appropriate qualitative criteria reflecting compliance with the applicable regulations, the fair treatment of clients and the quality of services provided to clients.
- Remuneration or similar incentives encourage responsible business conduct, as well as avoiding conflict of interests in the relationships with clients, i.e. clients’ interests are not impaired by the remuneration practices adopted by the Company.
- Under no circumstances will the Company make any variable remuneration awards that would impact upon its capital base, either from the need to retain required regulatory capital or where the Company has identified the need to build its capital base.
- The Company does not remunerate or assess the performance of its staff in a way that conflicts with its duty to act in the best interests of its clients. In particular, the Company shall not make any arrangement by way of remuneration, sales targets or otherwise that could provide an incentive to its staff to act against the best interest of its clients.
- The method of determining the remuneration of the relevant persons involved in control functions (the Compliance, AML, Risk Management and Internal Audit functions) does not compromise their objectivity. Persons engaged in control functions should be independent from the business units they oversee, have appropriate authority and be compensated in accordance with the achievement of the objectives linked to their functions, independent of the performance of the business areas they control.

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- A balance between fixed and variable components of remuneration is maintained at all times, so that the remuneration structure does not favour the interests of the Company or its relevant persons against the interests of any client. The fixed component represents a sufficiently high proportion of the total remuneration to allow the operation of a fully flexible policy, on variable remuneration components, including the possibility to pay no variable remuneration component. The variable remuneration for any given year is capped at 100% of fixed remuneration.
  - The remuneration of the Executive Directors ensures the Company's continued ability to attract and retain the most qualified Executive Board members and a good basis for succession planning.

**The remuneration components are:**Fixed remuneration

Fixed remuneration is determined on the basis of the role of the individual employee, including responsibilities and job complexity, performance and local market conditions. Furthermore, fixed remuneration takes into consideration each individual's "work" characteristics, including:

- Skills and competencies required to generate results
- Relevant professional experience and organisational responsibility as set out in an employee's job description as part of the terms of employment
- Contribution to the team and the Company as a whole, and
- The value and contribution of the individual in the context of the external market.

Variable remuneration

If the Company decides to proceed with the variable elements of remuneration, then the Company must set the appropriate ratios between the fixed and the variable component of the total remuneration and the following principle shall apply:

- The variable component shall not exceed 100% of the fixed component of the total remuneration for each individual.

The factors considered for variable remuneration include:

- The staff member's performance of the duties and responsibilities specified in the relevant job description;

- Performance indicators, objectives and targets, developed for each department;
- Overall financial performance of the Company;
- The staff member's contribution to the work of his/her department;
- The staff member's punctuality and efficiency;
- The overall behaviour, morals and credibility of the staff member.

### Deferral Policy and Payout in Instruments Policy

The Company does not have a Deferral Policy nor does it maintain a Payout in Instruments Policy. In the event of a Deferred payment or Payout in Instruments, these will be payable in accordance with the applicable employment laws at the time.

### Aggregate Remuneration

During the year ended 30 June 2021, the remuneration structure offered by the Company to management and staff comprised of a fixed salary cash component and non-cash benefits. The Company also paid bonus in the form of cash to reward outstanding employee performance during the year. Information on the aggregate remuneration to Senior Management and other staff whose actions had a material impact on the Company's risk profile as at 30 June 2021, is provided in the following table:

30 June 2021				
Position/Role	No. of Beneficiaries	Fixed Remuneration €'000	Variable Remuneration €'000	Aggregate Remuneration €'000
Senior Management (incl. Executive & Non-Executive Directors)	8	235	35	270
Other Staff	1	39	2	42
<b>Total</b>	<b>9</b>	<b>274</b>	<b>37</b>	<b>312</b>

*Note: The number of beneficiaries under the "Senior Management" category above includes three persons that are not being remunerated by the Company but by another group entity.*

During the year ended 30 June 2021, the Company did not pay or award any deferred remuneration or severance payments. In addition, all the variable remuneration paid within the year was in the form of cash.



Furthermore, the Company benefits from the derogation laid down in Article 32(4) of the IFD since:

- a) The value of its on and off-balance sheet assets is on average equal to or less than EUR 100 million over the four-year period immediately preceding the given financial year; and
- b) During the year ended on 30 June 2021, there was no individual employed by the Company whose annual variable remuneration exceeded EUR 50.000 and represented more than one fourth of that individual's total annual remuneration.

The aforementioned derogation applies to all staff members disclosed in the table above.

## Annex I

### Template EU CCA: Own funds: Main features of Own Funds instruments issued by the Company

N/N	Template EU IF CCA: Main features of Own Funds instruments issued by the Company	a
1	Issuer	Pepperstone EU Limited
2	Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	N/A
3	Public or private placement	Private
4	Governing law(s) of the instrument	Cyprus
5	Instrument type (types to be specified by each jurisdiction)	Common ordinary shares
6	Amount recognised in regulatory capital (Currency in million, as of most recent reporting date)	€ 0,875 mln
7	Nominal amount of instrument	€ 0,875 mln
8	Issue price	€ 1 per share
9	Redemption price	N/A
10	Accounting classification	Share capital
11	Original date of issuance	31 May 2019
12	Perpetual or dated	Perpetual
13	Original maturity date	N/A
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	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20	Fully discretionary, partially discretionary or mandatory (in terms of timing)	N/A
21	Fully discretionary, partially discretionary or mandatory (in terms of amount)	N/A
22	Existence of step up or other incentive to redeem	N/A
23	Non-cumulative or cumulative	N/A
24	Convertible or non-convertible	N/A



25	If convertible, conversion trigger(s)	N/A
26	If convertible, fully or partially	N/A
27	If convertible, conversion rate	N/A
28	If convertible, mandatory or optional conversion	N/A
29	If convertible, specify instrument type convertible into	N/A
30	If convertible, specify issuer of instrument it converts into	N/A
31	Write-down features	N/A
32	If write-down, write-down trigger(s)	N/A
33	If write-down, full or partial	N/A



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