

**Pillar 3 Disclosures 31 December 2009**

**SWISS FINANCE CORPORATION LIMITED**



## **Background**

These disclosures are made in order to comply with FSA's rules which implement in the UK the EU directives that give effect to the revised capital adequacy framework agreed by the Basel Committee on Banking Supervision in 2004 and subsequently published in comprehensive form in 2006.

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 set out the minimum capital requirements of firms to cover credit, market and operational risk.
- Pillar 2 requires the firm to assess whether additional capital should be maintained against any risks not adequately covered under Pillar 1.
- Pillar 3 specifies a set of disclosure requirements which enable market participants 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 Swiss Finance Corporation Limited ("SFC") Pillar 3 disclosure obligations.

## **Basis of Disclosure**

This document has been prepared by SFC in line with its internal policy for Pillar 3 disclosure and FSA requirements.

The effective date of these disclosures is as at 31 December 2009 and the figures are based on the last twelve months accounts, unless otherwise stated.

SFC intends to update its Pillar 3 disclosures on an annual basis shortly after completion of the annual audited Financial Statements. Additionally, a review will be conducted if there are significant changes to the business profile.

## **Location of Publication**

This report will be published on the Firm's website [www.sfc-uk.com](http://www.sfc-uk.com).

The disclosures have been reviewed by the Board but have not been subject to external audit.

## **Scope and Application of the Requirements**

The Firm is authorised and regulated by the Financial Services Authority ("FSA") to conduct investment business, with permission to hold and control client money. The firm is categorised as a Full Scope €730,000 firm by the FSA for capital purposes.

SFC is a wholly owned subsidiary of SFC Geneva Holdings SA, a company incorporated in Switzerland, which is wholly owned by Mr Degani.

## **Risk appetite and Management**

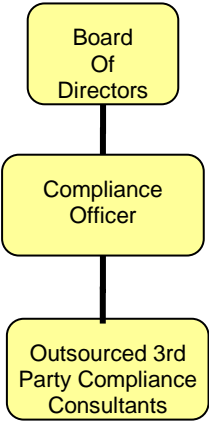
SFC's is exposed to a variety of risks, as analysed and quantified below. However, the Firm appetite for risk is regarded as low given that systems and controls in place are robust and well in place.

Key to this is the Individual Capital Adequacy Assessment Process (ICAAP) which is reviewed and documented at least annually. The document is reviewed and assessed by the board of directors with input from relevant personnel as required. The review encompasses:

- Assessment of current risks.
- Assessment of risks associated with known developments anticipated in the business.
- Review of "worst case scenario" to ensure ongoing appropriateness.

In the light of this review the current and projected capital levels are reassessed and if appropriate the ICAAP capital requirement adjusted. The conclusions of our ICAAP are that no additional Pillar 2 capital is required as our Pillar 1 capital is sufficient to meet our business needs.

The Company's risk management is focussed on the key areas of credit risk, market risk and operational risk. The following diagram shows the risk management structure of the company:



**Board of Directors**

The board of directors retains overall responsibility within the company for assessing the risks faced by the business and for determining the acceptability of these risks. It is also ultimately responsible for ensuring that an effective framework is in place to mitigate these risks. On a day to day basis this responsibility is delegated to the Managing Director and the Compliance Officer.

**Compliance Officer**

The compliance officer is responsible on a day to day basis for the ongoing management of risk. Client positions and account equity are monitored on a daily and intra-day basis. When necessary daily and intra-day margin calls are made to clients to reflect market movements affecting their positions.

**Outsourced 3<sup>rd</sup> Party Compliance Consultants**

The Board appointed Kinetic Partners to act as 3<sup>rd</sup> party compliance consultants in evaluating the effectiveness of internal controls, reasonableness of the risk appetite and ongoing monitoring of compliance and making recommendations to the Board.

**Internal Capital Adequacy**

The company's internal capital levels and future requirements are managed by the board of directors and the compliance officer. Any increase in the capital requirements of the company due to unforeseen circumstances or due to a change in the company's forecasts or business plan must be assessed and approved by the board of directors. The capital resources model is then updated by the finance department to reflect such changes.

## Capital Resources

### Pillar 1 Capital

The company's capital is currently divided into two tiers, Tier 1 and Tier 3 capital as defined by GENPRU. It does not currently have any capital falling into the Tier 2 category and we do not anticipate that this will change in the immediate future.

#### Tier 1

Our Tier 1 capital consists entirely of permanent share capital and retained earnings, less any dividends paid subsequent to the audit of the accounts for the year ended 31 December 2009.

#### Tier 3

Our Tier 3 capital consists entirely of our interim unaudited trading book results.

### Capital Resources summary

A summary of the Company's total capital is shown below:

	<b>2009</b>
	£'000
<u>Tier 1 Capital</u>	
Permanent Share Capital	2,500
Profit and Loss Account Reserve	2,180
<b>Total Tier 1 Capital After Deductions</b>	<b>4,680</b>
<u>Tier 3 Capital</u>	
Net Interim Trading Book	-
<b>Total Tier 3 Capital</b>	<b>-</b>
<b>Total Capital Resources</b>	<b>4,680</b>

### Market Risk

Market risk is the risk of loss arising from adverse movements in the level or volatility of the exchange rate in which the company and its clients hold positions. The company considers market risk to consist of credit, financial and liquidity risk.

Credit risk refers to the risk of financial loss due to the default of a counterparty to pay money owed to the company.

Financial and liquidity risk refers to the risk of suffering financial loss or loss of permission to operate due to improper financial reporting, poor management of revenues, costs and liquidity, and/or due to financial crime.

### Foreign Currency PRR

The company's foreign currency PRR arises primarily from its US Dollar exposures as its income is predominantly in US dollars and overheads are predominantly sterling based. The company has a long position in US dollars and a short position in sterling.

The foreign exchange position risk requirement is calculated as follows:

- Calculate the net open position in each currency
- Convert each net position into base currency equivalent (sterling) at current spot rates
- Calculate the totals for all short and all long net positions

- Select the larger of the two totals (short or long), and
- Multiply by 8 % to produce the foreign currency PRR under Pillar 1

The company's foreign currency PRR at 31 December 2009 was £12 (£'000).

## **Pillar 2**

The company considers that its foreign exchange risk is adequately covered by its Pillar 1 capital requirement.

## **Credit risk**

SFC defines credit risk as the risk of financial loss resulting from the failure of a counterparty or Customer to honour its obligations to the company as its falls due.

The company's credit risk requirement consists of its credit risk and counterparty risk capital components

The credit risk capital component is arrived at by taking our non trading book debtors, applying risk weightings to these exposures and then calculating 8% of the total risk weighted exposures.

The counterparty risk capital component takes 8% of the company's total risk weighted exposure amounts and unsettled transactions in the trading book.

SFC makes margin calls and occasionally holds collateral in order to mitigate its exposure to counterparty risk in the trading book. Margin calls comprise both initial and variation margins and take account of any minimum call facility or credit line which may apply to the account.

Our credit risk capital component at 31 December 2009 was £63 (£'000) and our counterparty risk capital component was £281 (£'000)

## **Pillar 2**

The company considers that its counterparty risk is adequately covered by its Pillar 1 charge.

## **Impairment and past due items**

Items are considered to be past due where a counterparty has failed to make a payment due to the company on a timely basis and in accordance with their contract terms.

Debts due are deemed to be impaired if there is objective evidence that an impairment loss has incurred upon which an appropriate provision is made against the debt.

Trading book debtors are reviewed on a daily basis by the finance department. Non payment of margin calls by customers is reported to the managing director immediately. Under the company's standard terms and conditions SFC reserves the right to close out any positions held on a client's behalf in order to settle any overdue amounts.

Non trading book debtors are reviewed by the directors and the finance department on a monthly basis at the monthly management accounts meeting. Ad hoc interim reviews are carried out if and when they are deemed necessary.

## **Operational Risk**

Operational risk is the inherent risk to the business of financial loss or loss of reputation arising from failures in the internal processes, systems and controls of the company. This includes errors, omissions, disasters and deliberate acts such as fraud.

## **Management of operational risk Systems and internal processes**

Customer limits and positions are monitored on a daily and intra-day basis by the risk managers and the managing director to prevent unacceptable exposure to market movement.

Systems for recording trades are such that disputes and errors are identified, and where possible resolved, before the start of the next business day. There is a daily reconciliation of trades on client and broker accounts and all errors must be reported immediately to the managing director. All trades are confirmed to clients daily.

All IT systems are monitored daily with maintenance carried out daily, weekly, monthly and ad hoc where needed. All servers are backed up overnight and the data stored off site. The network has Firewall protection.

Employee access to all areas of the network is password protected.

SFC has a disaster recovery site in place which the company could operate out of in the event of a disaster occurring in London, thus ensuring business continuity at all times. All senior management and staff are aware of the procedures to follow should such an event occur.

## **Calculation of operational risk**

SFC has used the basic indicator approach to calculate its operational risk capital requirement. This is calculated as follows:

- Take the average of the firm's net interest income and the firm's net non-interest income for the last three financial years.
- Calculate 15% of the total three year average figure to give the operational risk capital requirement.

Based on this approach the company's operational risk requirement at 31 December 2009 was £556 (£'000).

## **Pillar 2**

The company believes that the operational risk charge is an accurate indicator of the risks faced and is sufficient to mitigate its risks.

## **Satisfaction of capital requirements**

Since SFC's ICAAP (Pillar 2) process has not identified capital to be held over and above the Pillar 1 requirement, the capital resources detailed above are considered adequate. No additional capital injections are considered necessary and SFC expects to continue to be profitable