Nau Securities Limited
(the “Firm”)
PILLAR 3 AND REMUNERATION DISCLOSURE

The Capital Requirements Directive (‘CRD’) (Directive 2013/36/EU) and the Capital Requirements Regulation (“CRR”) (Regulation (EU) No 575/2013) of the European Union establish the regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the CRD has been implemented by the Financial Conduct Authority (‘FCA’) in its rules through the Prudential Sourcebook for Investment Firms (“IFPRU”).

The CRD consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital amount that meets the firm’s credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital , processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The CRR set out the provisions for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations under Part Eight of the CRR (articles 431-455).

The Pillar 3 disclosure document has been prepared by the Firm and is verified by the senior management. Unless otherwise stated, all figures are as at the 31 December 2019 financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the firm.

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

Scope and application of the requirements

The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as an ‘IFPRU Limited Licence Firm’, by the FCA for capital purposes.

It is licensed as an investment management firm and as such has no trading book exposures. The Firm's primary business activity is to act as a broker.

Governance arrangements, the management body and competence

The Firm is governed by its directors ("Principals") who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the Firm's governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces.

The Principals also determine how the risk that the business faces may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Principals meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The Principals manage the Firm's risks business through a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Firm considers that appropriate policies are in place to ensure the fitness and properness of all staff, including the members of the senior management body. All members of the Senior Management Team are experienced industry professionals and any senior appointments are subject to the approval of the management body with due consideration to the reputation, fitness and experience of the candidate as well as the long term strategic goals targets of the business.

All members of the Senior Management Team are full time / and or have disclosed any outside business interests.

Initial and ongoing assessments of the competence of staff are conducted, and all UK based members of the senior management team and other FCA certified staff are required to attest to their ongoing compliance with the fitness and properness obligations of the FCA senior management and certification regime.

Risk management

The Principals have identified that business, operational, market and credit risks are the main areas of risk to which the Firm is exposed. Annually the Principals formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Principals identify material risks they consider the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate.

Business Risks

Specific risks applicable to the Firm come under the headings of business, operational, credit and market risks.

Business risk

The Firm's revenues are reliant on the Firm's ability to generate commission income from executed trades. To a large degree, the income of the Firm will cover operating costs.

Operational risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage. These relate to systems failure, failure of a third party provider, key man, potential for serious regulatory breaches, market abuse, dealing errors, IT security breach, money laundering, breach of regulatory rules, fraud and theft. Appropriate polices are in place to mitigate against these risks, and the firm has no significant history of operational failures which have resulted in unidentified costs being incurred. The Firm uses external auditors to sign off on accounts and carry out annual audits of procedures, external IT providers and advisors to advise on IT security.

Credit risk

The Firm is exposed to credit risk in respect of its income billed but not received and cash held on deposit. The Firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions.

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. The Firm uses the standardised approach detailed in IFPRU 4.2 of the FCA Handbook when calculating risk weighted exposures.

For each of the exposures, as detailed below, the Firm references credit rating assessments issued by External Credit Assessment Institutions ("ECAI"). The following ECAIs are used:

- Fitch Ratings;
- Moody's;
- Standard & Poors;

Ratings are used in conjunction with the credit quality step map issued by the Bank of England to ascertain an appropriate weighting for each exposure.

These exposures comprise:

Exposure class	Gross exposure	Risk weighted exposure
Institutions	£257,447	£51,489
Corporates	£1,030,687	£1,030,687
Individual	£65,266	£65,266

Market risk

The Firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP.

No specific strategies are adopted in order to mitigate the risk of currency fluctuations.

Market risk summary

The firm has the following foreign currency exposures.

Market risk exposure	Net exposure
USD	£880,311
EUR	£74,913

The own funds requirements for the trading and non-trading book business is 8% of the sum of the exposures £76,418 multiplied by the 12.5 adjustment is £955,224.

Liquidity risk

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario.

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions. The firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds and support it receives from the parent company. Additionally, it has historically been the case that all fee debtors are settled promptly, thus ensuring further liquidity resources are available to the firm on a timely basis. The cash position of the firm is monitored by the Senior Management on a regular basis.

Other

In addition to the above risks, the Firm' considers the cost of an orderly wind-down and the Fixed Overheads Requirement ("FOR"). The FOR is based on annual expenses net of variable costs deducted, which include cost of sales, bonuses, entertainment costs and other non-recurring expenditure. The Firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year. This is monitored by the senior management on a monthly basis.

Regulatory capital

The Firm is a limited company and its capital arrangements are established in its Articles.

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

	31 December 2019 £
Share capital	361
Share premium	858,605
Retained earnings	168,419
Other reserves	34
Common Equity Tier 1 capital	**1,027,419**
Deductions	-
Tier 1 capital	**1,027,419**
Own funds	**1,027,419**
Core Tier 1,Common Equity Tier 1 and Total Capital Ratio	29.81%

Our Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from fees receivable and cash held at bank. The Firm follows the standardised approach to market risk and credit risk.

Limited Licence - The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

As discussed above the Firm is a Limited Licence Firm and as such its Total Risk Exposure amount (TREA) is determined by reference to the higher of:

- The sum of the risk weighted exposures relating to market & credit risk; and
- 12.5 multiplied by the fixed overheads requirement ('FOR').

The FOR is calculated, in accordance with the EBA regulatory technical standards, based on the firm's previous years audited expenditure. The firm has adopted the standardised approach to credit and market risk and the above figures have been produced on that basis. The firm is not subject to an operational risk requirement.

It is the Firm's experience that the Fixed Overhead Requirement x 12.5 establishes its Total Risk Exposure.

Capital requirement

The Firm's Total Risk Exposure has been determined by reference to the Fixed Overheads Requirement ('FOR') and calculated in accordance with Article 95 and the EBA regulatory technical standards. As at 31st December the FOR is £275,729 and therefore TREA stands at £3,447k. The FOR exceeds the total of the credit and market risk capital requirements it faces and also exceeds its base capital requirement of €50,000.

The Own Funds of the Firm are £1,027k, made up of Ordinary Share Capital plus retained earnings. This compares to a base requirement of £43k (being the GBP equivalent of €50k) which leaves a surplus of £984k. The second requirement is the Firm's Total Capital Ratio is greater than 8%. As the Firm only has Common Equity Tier 1 Capital the Common Equity Tier 1 capital ratio and Tier 1 Capital

Ratio requirements will automatically be satisfied if the Total Capital Ratio requirement is satisfied. The Firms Total Capital Ratio is 29.81% giving a surplus of 21.81%.

Remuneration disclosure

The Firm is authorised and regulated by the Financial Conduct Authority as an IFPRU Limited Licence Firm is subject to FCA Rules on remuneration (‘the RemCode’).

The RemCode covers an individual’s total remuneration, fixed and variable. The Firm incentivises staff through a combination of the two.

Our policy is designed to ensure that we comply with the RemCode and our compensation arrangements:

1. are consistent with and promote sound and effective risk management;
2. do not encourage excessive risk taking;
3. include measures to avoid conflicts of interest;
4. are in line with the Firm's business strategy, objectives, values and long-term interests.

Proportionality

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA has sought to apply proportionality in the first instance by categorising firms into three levels. The Firm falls within the FCA's proportionality level three and as such this disclosure is made in line with the requirements set out therein.

Application of the requirements

We are required to disclose certain information on at least an annual basis regarding our Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the Firm. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

We may omit certain disclosures where we believe that the information is regarded confidential. Information is considered to be confidential where there are obligations binding us to confidentiality with our counterparties.

As such, the Firm’s RemCode complies with the following:

- The Firm’s policy has been agreed by the Senior Management in line with the Remuneration principles laid down by the FCA.
- Due to the size, nature and complexity of the Firm, we are not required to appoint an independent remuneration committee.
- The Firm’s policy is reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.
- The Firm’s ability to pay bonus is based on the performance of the Firm overall and derived after appropriate profit has been calculated.
- Individuals are rewarded based on their contribution to the overall strategy of the business.
    a. Investment Generation
    b. Investment Trading

   c. Sales & Marketing
   d. Operations
- Other factors such as performance, reliability, effectiveness of controls, business development and contribution to the business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the Firm.