

IS Prime Limited Pillar 3 Disclosure

For the period ending 30 June 2021

Last updated December 2021

This document has been based on the audited financial statements for the 15 months ending 30 June 2021, following the year-end change from 31 March to 30 June. Income statement data has therefore been scaled linearly from 15 to 12 months.

1. Overview

Introduction and scope

This document sets out the Pillar 3 disclosures of IS Prime Limited ('IS Prime' or the 'Firm') as at 30 June 2021.

IS Prime is subject to the rules set out in the FCA's Prudential Sourcebook for Investment Firms ('IFPRU'). The prudential framework consists of three pillars:

- **Pillar 1** sets **minimum capital requirements** that firms must meet for Credit, Market and Operational risk. This considers: base capital resources requirements; Credit Risk and Market Risk capital requirements; and the fixed overhead requirement.
- **Pillar 2** requires that firms undertake an internal assessment of their capital adequacy, considering all risks to which the firm is exposed and determine whether additional capital should be held to cover risks not adequately covered by Pillar 1 requirements. This is achieved primarily through the **Internal Capital Adequacy Assessment Process ('ICAAP')** and, if relevant, the FCA's Supervisory Review and Evaluation Process ('SREP').
- **Pillar 3** complements Pillars 1 and 2 and improves **market discipline** by requiring firms to disclose information on their capital resources and requirements, risk exposures and their Risk Management Framework. The detailed Pillar 3 disclosure requirements are set out in **BIPRU 11.3.3 R**.

Frequency

IS Prime makes Pillar 3 disclosures annually or more frequently in the event of any material change to the Firm's risk profile and capital position. The disclosures will be as at the Accounting Reference Date ('ARD').

Verification, Media and Location

The information contained in this document has not been audited by the Firm's external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgment on the Firm.

Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, the Firm shall disclose such and explain the grounds why it has not been disclosed.

Firm Background

IS Prime Limited is incorporated in England (company registration: 9112124) and acts a €125K IFPRU Limited Licence Firm that is authorised and regulated by the FCA (#629586) as a Matched Principal Broker and a MiFID Investment Firm. The Firm is permitted to hold Client Money (FIN: 629 586).

IS Prime provides its institutional client base with execution and clearing brokerage services in spot FX (including

precious metals), aggregating prices from Tier1 liquidity providers. IS Prime does not take market risk, in accordance with its regulatory status as a Matched Principal Broker. Clients have access to real-time reporting of positions, margin, equity and profit & loss through IS Prime's proprietary technology. The Firm also operates an agency FX business which accounts for a relatively small proportion of the overall revenues; its business strategy involves providing aggregated liquidity in spot FX through a Central Clearing Account (CCA) arrangement via a Riskless Principal Model acting as a matching facilitator to its institutional clients.

2. Risk Management Framework & Governance

The IS Prime Board (the 'Board') is the Governing Body of the Firm and oversees the running of its business and brokerage operations. The Board meets on a quarterly basis. The Firm's Directors consist of the three Managing Directors, one Commercial Director and the Head of Finance.

The Board is responsible for the Firm's Risk Management Framework and is accountable for the oversight of the risk management process.

The Board is also responsible for setting the Firm's risk appetite and for overseeing its risk profile (including capital and liquidity adequacy) against that appetite.

In pursuing its strategy, IS Prime has to accept, tolerate or be exposed to a certain level of risk. It is also necessary, however, for the Firm to ensure that the amount of risk taken is within acceptable boundaries and that these are commensurate with its financial strength and consistent with its strategy. The Board approves the Firm's risk appetite, which sets out how much and the types of risk that are appropriate for the Firm to take in pursuing its strategy and objectives.

In addition, the Board ensures that the Firm has implemented an effective, ongoing process to identify, monitor and measure the Firm's risks. The Board implements and maintains a robust governance structure and apportionment of responsibilities and control environment so that risks are actively managed to a level that is consistent with the Firm's risk appetite. The Board is responsible for ensuring that the Firm has adequate capital and liquidity.

The Board is assisted in its consideration and management of risk by a number of committees. The key committee for this purpose are the ISAM Compliance and Risk Committee and the ISAM Capital Markets Investment Management Committee.

Senior Management is accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm. The Board places strong emphasis on the embedding of a culture of strong governance and risk management and expects senior management and all employees to uphold this culture and bring genuine accountability and challenge through all aspects of the Firm's business.

The Risk Management and Compliance functions act as the second line of defence, providing independent monitoring of the Firm's risks and independent challenge to the first-line business managers, who are the primary owners of the risks faced by the Firm. Ownership of each risk is assigned in the Firm's risk register. The Head of Risk Management reports directly to the Firm's Managing Directors; the Chief Compliance Officer reports into the General Counsel - Head of Legal and Compliance, who in turn reports directly to the Firm's Managing Directors.

3. Principal Risks

The most significant risks faced by the Firm are identified in the annual ICAAP process and through a Risk and Control Self-Assessment ('RCSA') process. The RCSA is carried out at least annually with significant input from the first line business. The risks are documented in a Risk Register, which is maintained by the Risk function.

The most significant risks are summarised below.

Credit Risk

Credit Risk is the risk of loss to the Firm resulting from a failure of a counterparty, customer or debtor of the Firm failing to meet its financial obligations to the Firm when they fall due. The Firm is exposed to Credit Risk on various types of *balance sheet* exposures, such as bank deposits, intercompany balances and other debtors.

Separately, there are credit risks that arise from the Firm's exposure to its brokerage clients and prime broker(s). Significant human and technological resources have been allocated to mitigate this risk and continue to be allocated on an ongoing basis (including but by no means limited to, pre-trade risk checks and real-time risk monitoring, overseen by a 24h coverage desk).

Concentration Risk

Concentration Risk is the risk of loss from exposure to sectoral, geographic, liability and asset concentrations. The Firm faces some concentration risk around its client base, banks (corporate and client deposits), prime brokerage and third party technology and their service providers. These are an accepted and inherent part of the business model and are managed, monitored and mitigated in accordance with the Firm's risk appetite.

Strategic/Business Risk

Strategic/Business Risk is the risk of loss to the Firm arising from changes in its business, including the risk that the Firm may not be able to execute its business plan and its desired strategy.

The Firm depends on the continued demand for its execution and clearing services from its institutional clients and its ability to operate its business model on commercially competitive terms. A broad range of metrics around Strategic/Business Risk is monitored by the Head of Finance and Risk team, although it may be unavoidable that client volumes and hence the Firm's revenues may fall in low volatility market environments.

Market Risk

Market Risk is the risk of loss from fluctuations in values of, or income from, assets or in interest or exchange rates.

The Firm does not maintain a trading book and Market Risk arises only on its non-sterling assets and liabilities and can be hedged relatively easily if the risk exceeds the Firm's appetite.

Operational Risk

Operational Risk is the risk that the Firm could sustain losses through inadequate or failed internal processes, people, systems and external events.

This includes the risk of losses resulting from a cyber-attack that breached the Firm's defences against such attacks. As a technology-dependent firm, the operational resilience of the technology infrastructure is critical to the business model. It also includes the risk of losses from legal claims or from breaches of regulations. The Firm mitigates operational risks through design and implementation of strong processes and effective internal controls. Operational Risk is inherent in the business and these internal control systems are designed to manage risks to the level of the Board's risk appetite rather than eliminate the possibility of all losses due to Operational Risk.

Reputational Risk

Reputational Risk is the risk of loss resulting from damage to the Firm's reputation that could lead to negative publicity, costly litigation, a decline in the investor base or the exit of key staff members and therefore directly or indirectly to a loss of revenue.

The Firm's reputation with clients (as a trusted broker and holder of their money) and with employees as a trusted employer is a key asset of the Firm. Serious damage to the Firm's reputation would have a material adverse impact on its business. Reputational Risk is, however, a second order risk which would most likely occur as a consequence of the crystallisation of another principal risk, e.g. a significant Operational Risk event.

Group Risk

Group Risk is the risk that the financial position of the Firm may be adversely affected by its relationships (financial or non-financial) with other entities in the Group or by risks which may affect the financial position of the whole Group (e.g. reputational contagion).

The Firm is part of a wider Group and some of the risks highlighted above arise or may arise through its relationships with other companies in the Group. For example, damage to the Firm's reputation could result from the contagion effects of an event which initially occurred at another subsidiary of ISAM Capital Markets or ISAM Funds (UK) Limited. These have been considered under Strategic/Business and Credit Risk.

Regulatory Risk

Regulatory Risk is defined here as the risk that a change in laws and regulations will negatively impact the Firm in terms of restriction of business activities. Risks around failures to adhere to regulations are covered under Operational Risk.

The Firm operates in an ever-changing regulatory environment and obtains legal opinion on the activities it carries out in order to ensure appropriate regulatory licenses are obtained in relevant jurisdictions. However, it is possible that changes take place which materially affect the ability to execute the current business model due to changes in regulation, leading to a reduction in revenue.

Liquidity Risks

Liquidity Risk is the risk that the firm, although solvent, either does not have sufficient available resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The Firm is also exposed to Liquidity Risk. This risk is considered very low given the cash generative nature of the business and the senior management's conservative approach to Liquidity Risk management, given its low risk appetite for Liquidity Risk.

4. Capital Adequacy

Sufficient capital is held by the Firm to ensure it maintains an adequate buffer over the higher of the Pillar 1 and the Pillar 2 capital requirements. In addition, the capital requirement must be sufficient to cover the cost of an orderly wind down.

Capital Resources

The table below summarises the capital resources of the Firm for regulatory purposes at 30 June 2021.

IS Prime Limited (£'000)	30 June 2021
Called Up Share Capital	280
Capital Contribution Reserve	7,421
Retained Earnings (Audited)	11,074
Common Equity Tier 1 Capital (CET1)	18,776
Tier 2 Capital	-
Tier 3 Capital	-
Own Funds	18,776

Capital Requirements

As an IFPRU firm, the regulatory capital requirement is calculated as the highest of the Pillar 1 and Pillar 2 capital requirements and the cost to close the Firm in the event of an orderly wind-down of its business. The Pillar 2 requirements at 30 June 2021 are higher than both the Pillar 1 and wind-down requirements. The Pillar 2 requirement, therefore, determines the regulatory capital requirement of the Firm at 30 June 2021. The regulatory capital position is summarised in the table below.

For information, the Pillar 1 capital requirement is calculated as the highest of:

- the Base Capital Resources Requirement;
- the sum of the Credit and Market Risk Capital Requirements; and
- the Fixed Overhead Requirement. This is equal to 25% of the Firm's relevant fixed expenditure calculated in accordance with GENPRU 2.1.54 R.

Capital Requirement (£'000)	Pillar 1
A. Fixed Overhead Requirement (FOR)	2,735
B. Credit Risk Requirement	637
C. Market Risk Requirement	1,181
D. Base Capital Resources (€125k)	107
Higher of [A], [B+C], [D] and [E]	2,735
Pillar 1 Capital Requirement	2,735

IS Prime Limited (£'000)	30 June 2021
Own Funds	18,776
Pillar 1 Capital Requirement	2,735
Pillar 2 Capital Requirement	8,692
<i>Going Concern Capital Requirement</i>	8,692
Wind-Down Requirement	4,619
Regulatory Capital Requirement	8,692
Capital Surplus	10,084
Solvency Ratio	216%

Credit Risk

Credit Risk is the risk of loss to the Firm resulting from a failure of a counterparty, customer or debtor of the Firm failing to meet its financial obligations to the Firm when they fall due. The Firm is exposed to Credit Risk mainly in respect of bank deposits and intercompany debtors from other Group companies.

The Firm has adopted the Standardised approach and the Simplified method of calculating risk weights for calculating its Pillar 1 Credit Risk capital requirements.

A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount. There were no past due or impaired items as at 30 June 2021.

Details of the calculation are shown in the table below.

Credit and Counterparty Risk (£'000)	Exposure Value	Risk Weight	Risk Weighted Exposure	Own Funds Requirement (8%)
Governments & Central Banks	104	0%	-	-
Cash in Hand	-	0%	-	-
Institutions - Cash or Cash Equivalents	21,658	20%	4,332	347
Institutions - Long Term (>1 Year)	-	50%	-	-
Corporates / Debtors	73	100%	73	6
Corporates / Debtors (Unrated)	262	100%	262	21
Cayman SPV Debtor (ISFE21) IFPRU 4.2.10	807	150%	1,210	97
Other Items	1,327	100%	1,327	106
Fixed Assets	763	100%	763	61
Total	24,993		7,966	637

Market Risk

Market Risk is the risk of loss from fluctuations in values of, or income from, assets or in interest or exchange rates. The Firm does not maintain a trading book and Market Risk arises only on its non-GBP assets and liabilities.

Details of the Pillar 1 Market Risk capital requirements calculation are shown in the table below.

Market Risk Requirement (£'000)	Exposure
USD Cash Balances	16,378
USD Debtors	998
Less USD Denominated Liabilities	(2,612)
Net USD Balance Sheet Exposure	14,765
Market Risk Requirement (8%)	1,181

ICAAP and Pillar 2 Capital Requirements

The ICAAP is the means by which the Firm makes its own assessment of the amount of capital (Pillar 2 requirement) that is required to support the current and future risks in its business. The ICAAP document is prepared on an annual basis or more frequently if there is a material change to the risk profile of the business. The document is prepared by the Risk function with significant input from senior management and is approved by the Board.

The key Pillar 2 capital numbers are shown in the table below.

IS Prime Limited (£'000)	30 June 2021	
Own Funds	18,776	<i>Common Equity Tier 1 Capital (CET1)</i>
Pillar 2 Capital Requirement	8,692	
Capital Surplus	10,084	
Solvency Ratio	216%	

The Firm uses the following approaches in its own assessment of the amount of capital required:

- the **Pillar 2 Operational Risk** capital requirement is based on scenario analysis supported by internal expert judgement and external and internal loss data;
- the **Pillar 2 Market Risk** capital requirement is based on an assessment of the impact of the 99.5 percentile of historical GBP-USD exchange rate moves, over a 1 year rolling window using daily data from 2005 onwards;
- the **Pillar 2 Credit Risk** capital requirement is based on an assessment of the probability of default of each Credit Risk exposure, taking into account the duration of that exposure;
- the **Pillar 2 Business Risk** capital requirement is based on stress scenarios of the Firm's profit and loss account over a 3-year horizon and taking into account extreme but plausible stress circumstances.

5. Remuneration

The Firm's Board is responsible for the design and implementation of the Firm's remuneration policy. The Firm's Material Risk Taskers ('MRTs') comprise the senior management and certain other individuals whose actions have a material impact on the risk profile of the Firm.

Remuneration is made up of fixed pay (i.e., salary and benefits) and variable pay (i.e., bonus). Variable remuneration is designed to reflect each individual's performance with respect to their objectives and the performance of the Firm as a whole, over a 12-month period.

MRT Remuneration ¹

Number of MRTs ²	11
Fixed Remuneration	£2,118k
Variable Remuneration Awarded	£2,562k
Total Remuneration	£4,680k

¹ Figures have been scaled linearly from 15 to 12 months owing to the change of the year end.

² Not all of the MRT are being paid by the company, some are being paid or partly paid by its affiliate ISAM Funds (UK) Limited