MONECOR (LONDON) LIMITED

Pillar 3

2021

Dec 2022

Table of Contents

1. OVERVIEW

1.1. INTRODUCTION

The Pillar 3 disclosure is a requirement of the EU's Capital Requirements Directive ("CRD IV"), as implemented in the UK by the Financial Conduct Authority ("FCA").

The CRD IV framework consists of three Pillars that are used to regulate, supervise and improve risk management of companies in the financial services industry:

- **Pillar 1 Minimum Capital Requirements** – This ensures that Monecor (London) Limited ("OvalX", "the Company") maintains enough capital above its minimum requirement at all times. This is monitored daily.
- **Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review Process (SREP)** – This ensures that companies and supervisors actively assess the various risks that they face and that they develop systems and controls to manage and reduce those risks.
- **Pillar 3 Market Discipline** – The purpose of Pillar 3 is to promote and encourage market discipline through regulatory disclosure, which will allow market participants to assess key information on companies' capital adequacy, risk assessment and control process.

The Pillar 3 disclosure rules are contained in Articles 431 – 455 of the Capital Requirements Regulation ("CRR"). Information is disclosed by OvalX under these rules unless it does not apply or is considered by the Risk Committee as being proprietary or confidential information. In the instances where information is not being disclosed then reference is made to this fact.

1.2. FREQUENCY AND SCOPE OF DISCLOSURE

OvalX is a private limited liability company incorporated in England and Wales.

As at 31 December 2021 OvalX's parent company was NSGC AQ LLC, a company incorporated in USA. The registered address of NSGC AQ LLC is Corporation Trust Centre, 1209 Orange St, Wilmington, Delaware, United States, 19801. OvalX is the only company in the group regulated by the FCA and as such this document only discloses information pertaining to OvalX on a solo basis as is required under Part Eight of the CRR.

The Pillar 3 disclosures will be published on at least an annual basis on the Corporate Website as a supplement to OvalX's Annual Report in accordance with article 433 of the CRR.

2. RISK MANAGEMENT OWNERSHIP AND POLICIES

2.1. GOVERNANCE FRAMEWORK

The Company's governance structure is deemed appropriate for the operations of the Company. The structure is regularly reviewed and monitored, and any changes are subject to Board approval. The Risk Management Framework is set out below and provides the governance framework for the Company to manage its risks and controls.

The risk management process seeks to identify, assess, control, monitor and report risks that could materially impact the Company's ability to achieve the objectives that it has set out. Areas of responsibility are detailed below:

2.1.1. The Board

The Board, in conjunction with management, will determine the risk appetite for the Company and set the culture of risk management within the Company with particular regard to new or increasing risks.

The Board will have ultimate responsibility for risk management within the Company including major decisions affecting the Company's risk profile or exposure.

The Board will receive minutes of the Audit Committee and Risk Committee as well as agreeing and signing off the Company's ICAAP report.

2.1.2. The Risk Committee

The Risk Committee meets at least once per quarter to review risk and exposure issues. Members are appointed by the Board and the majority are required to be Non-Executive Directors.

The Committee has responsibility for oversight and advice to the Board on the current risk exposures of the Company and future risk strategy, including strategy for capital, liquidity management, and the embedding and maintenance throughout the entity of a supportive culture in relation to the management of risk, alongside established prescriptive rules and procedures.

2.1.3. Executive Committee

The Executive Committee will have day-to-day responsibility for the identification and management of risks that threaten the achievement of business objectives and will implement policies to support the process of internal control.

The Executive Committee will identify and evaluate the fundamental risks faced by the Company for incorporation in the Risk Register and for consideration by the Risk Committee.

Management is responsible for employing personnel with the appropriate skills and experience to identify, measure, monitor and control risks within the areas of their expertise. To aid them in fulfilling their risk management responsibilities, Management has established a Business Risk Committee.

2.1.4. Business Risk Committee

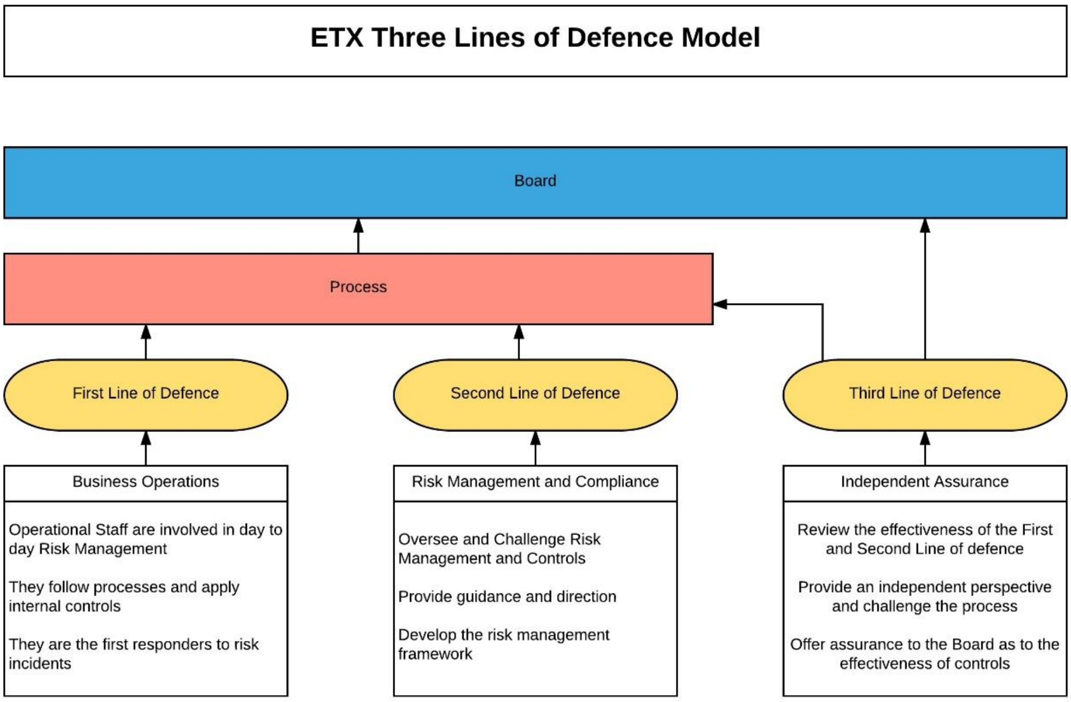
The primary oversight responsibilities of the Business Risk Committee with respect to risk are to:

- Review the development, implementation and maintenance of the Firm's overall risk management framework in line with the risk appetite and strategy set by the Board, ensuring it is in line with regulatory and corporate governance requirements;
- Ensure the successful application of any risk related Policies once they have been approved by the Risk Committee;
- Consider the entity's risk profile relative to the current and future risk appetite and identify any risk trends, concentrations or exposures that cause concern or may require policy change;
- Promote a culture of risk management throughout the business and ensure the application of the three lines of defence model.
- Identify, approve and monitor Key Risk Indicators across all departments within the Firm;
- Discuss all KRIs that have breached both amber and red limits and escalate as required to the Executive Committee.
- Review all information escalated by the Best Execution Committee with a view to resolving any best execution issues that are raised. Issues that are sufficiently severe may be escalated to the Executive Committee as required. The Committee will support the Best Execution Committee in its duty to ensure the Company takes all sufficient steps to obtain, when executing orders, the best possible results for its clients taking into account the execution factors, in line with COBS 11.2A.2 of the FCA Handbook.
- Review the Business Continuity Plan at least annually and monitor Business Continuity KRIs on a quarterly basis. Based on these reviews, the Committee will recommend BCP improvements to the Business Continuity Coordinator and escalate as required to the Executive Committee.

- Assess reports of any material breaches of non-KRI risk limits and the adequacy of the action taken in response;
- Review incidents that have been reported via the Incident log, or otherwise, in order to assess the adequacy and effectiveness of risk controls and systems;
- Identify new risks in order that they can be added to the Risk Register;
- Review the scope and nature of work undertaken by control functions covering all risk categories within the Firm's risk taxonomy.

2.2. RISK MANAGEMENT

OvalX operates a Three Lines of Defence Model to mitigate the risks it faces. The model is detailed below:



As illustrated in the diagram above the first line of defence is the Business Operations. Members of staff are responsible and accountable for risks identified in their area of the business.

The second line of defence relates to the oversight by the Risk Management and Compliance functions. They are responsible for challenging the decisions made by the risk owners and ensuring the controls put in place are operating as intended.

The third line of defence is an independent review of the risks that are identified, assessed, and approved by the first two lines of defence. It seeks to add assurance to stakeholders, particularly the Board, that OvalX has adequate internal controls and processes in managing risk. The Board is primarily responsible for the third line of defence and relies on Internal Audit provided by a third-party Accountancy Firm as well as external audit.

3. CAPITAL RESOURCES

Regulatory Capital Resources

	Dec-21 £'000	Dec-20 £'000
Shareholders Equity as per audited financial statements	18,612	17,408
Common equity tier 1 capital	**18,612**	**17,408**
Less Intangible Assets	(4,061)	(1,702)
Less : Deferred Tax Asset	(4,215)	(1,385)
Total Common Equity Tier 1 Capital after deductions	**10,336**	**14,321**
Tier 2 Capital	-	-
Total Regulatory Capital / Own Funds	10,336	14,321
Total Capital Resources	**10,336**	**14,321**
Operational Risk Capital Requirement	2,667	2,977
Market Risk Capital Requirement	1,066	2,866
Credit Risk Capital Requirement	2,154	2,132
Total Pillar 1 Capital Resource Requirement	**5,888**	**7,975**
Total Risk Exposure	**92,322**	**194,907**
Surplus CR over CRR	4,448	6,346
Total Capital Ratio (%)	11.20%	7.35%

OvalX has adopted the standardised approach for credit risk (CRR Articles 111 – 141), mark to market method for counterparty risk (CRR Article 274) and the basic indicator approach for Operational Risk (CRR Article 315). These requirements are added to the Market Risk Capital Requirement (CRR Articles 325-377) to calculate the Basel III Pillar 1 minimum requirement under the CRD.

3.1. CAPITAL MANAGEMENT

For regulatory purposes, all OvalX's business in the UK is subject to supervision by the FCA.

The objective of the Company's capital management is to ensure that it can meet all its regulatory requirements while at the same time seeking to maximise returns to shareholders. The Company has complied with all externally imposed capital requirements throughout the year.

The Company's capital management assessment is set out in the 2021 ICAAP (the ICAAP has been replaced with the ICARA from 1st Jan 2022 under IFPR). The capital requirements assessment is performed in two parts: the assessment of risks to determine the Pillar 1 and Pillar 2A requirements to satisfy the overall financial adequacy rule and the determination of the appropriate PRA Buffer to ensure that the Company can meet the overall financial adequacy rule in the future. This includes projections to determine future liquidity and capital requirements in a range of stressed scenarios.

3.2. COMMON EQUITY TIER 1 CAPITAL

Common Equity Tier 1 Capital comprises share capital, other audited reserves and retained earnings. The Company has no "innovative Tier 1" instruments.

A deduction is made from Common Equity Tier 1 capital in respect of intangible assets and deferred tax assets. Intangible assets are comprised principally of capitalised software development costs.

3.3. TIER 2 CAPITAL

The Company does not have Tier 2 Capital.

3.4. INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS

OvalX undertakes an internal assessment of capital requirements via the ICAAP at least annually. The Company conducts its ICAAP in accordance with the Prudential Regulation Authority Rulebook. A key purpose of the review is to ensure that the Board has a clear understanding of the Company's risks, how the risks are mitigated and how much capital is required. The Board review and approve the ICAAP before it is finalised.

The ICAAP documents the controls that are appropriate for the levels and types of risk the Company faces. The Company identifies the principal risk types arising from the services it provides and financial instruments in which it trades, including market risk, credit risk, operational risk and liquidity risk.

The ICAAP is reviewed periodically by the FCA, who set the Individual Capital Guidance ("ICG") capital requirements for the Company as part of its Supervisory Review and Evaluation Process ("SREP"). The ICG gives guidance on the amount and quality of capital resources that the FCA believes the Company should hold under the overall financial adequacy rule. In accordance with the FCA rules, a public disclosure of the ICG is not undertaken.

4. PRINCIPAL RISKS

The Board is responsible for overseeing and managing the principal risks of the business. OvalX seeks to mitigate risk through the application of limits and controls and regular monitoring of their operation.

The Company operates in a fast evolving, regulated environment where customer satisfaction in all aspects of service delivery is key to success. Risk is defined as a measure of the uncertainty involved in achieving an objective. At OvalX, objectives include delivering services to clients in a compliant manner. T

The principal risk areas identified by the directors are summarised below:

4.1. CREDIT RISK

Credit risk arises if a counterparty, whether a financial institution or a customer, fails to meet or defaults on their contractual obligations, resulting in a financial loss to the Company. Whilst financial counterparty credit risk is inherent in the Company's business model, the Company seeks to mitigate the associated risks.

4.1.1. Institutional Counterparty Credit Risk

Institutional Counterparty Credit Risk is the risk that a bank or broker counterparty fails to meet or defaults on their obligations under agreed terms and conditions.

Institutional credit risk management is carried out by both the Risk and Finance teams and governed by the Company's risk committees.

Risk mitigation:

- Following an onboarding procedure for institutional counterparties that includes due diligence from the Risk team;
- Monitoring concentration levels with each counterparty and reporting these internally, daily, in accordance with the Company's Credit Risk Policy; and
- Monitoring credit ratings and related metrics for all counterparties to ensure they continue to meet minimum rating requirements as defined by the Company's Credit Risk Policy.
- Counterparty credit risk for institutions is further monitored daily using the mark to market calculation method for exposures on open bank and broker positions.

4.1.2. Client Counterparty Credit Risk

Client credit risk is the risk of a client being unable or refusing to fulfil their obligations in accordance with their terms and conditions.

Risk Mitigation:

- The Company actively seeks to minimise its client credit risk and will close exposures in timely fashion. Real-time revaluations of all of the Company's client portfolios are undertaken, to determine each client's net exposure to the Company. Accounts which have insufficient margin available to maintain the open positions are either required to provide additional funds or will have their positions reduced, thus overtrading is prevented at the outset; and
- Initial margin percentages are reviewed daily and adjusted based on market volatility, market liquidity and relevant news.

Despite the mitigations in place, there is a residual risk that the Company could incur significant losses relating to clients with debit balances.

The bad debt provision is detailed below:

Group	2021 £'000	2020 £'000
Brought forward provision	**1,424**	875
Gross charge for the year	**112**	481
Trade receivables written off	**(157)**	68
Carried forward provision	**1,379**	1,424

4.1.3. Credit Exposures

The tables below are analysis of the Company's credit risk exposures as at 31 December 2021.

Credit Exposures by Regulatory Asset Class

Regulatory Exposure Asset Class	Credit Exposures as at 31 December 2021 £'000	Risk Weighted Exposures as at 31 December 2021 £'000
Equity	3,321	3,321
Corporates	112,461	24,031
Institutions	27,194	5,439
Retail	9,878	9,878
Other	885	885
Total	**153,740**	**43,554**

Geographic Analysis of Credit Exposures

Regulatory Exposure Asset Class	UK & IR £'000	Europe £'000	Asia Pacific £'000	Rest of World £'000	Total £'000
Equity	3,321	-	-	-	3,321
Corporates	59,847	18,142	34,120	352	112,461
Institutions	27,192	2	-	-	27,194
Retail	9,851	17	2	8	9,878
Other	885	-	-	-	885
Total	**101,096**	**18,161**	**34,122**	**360**	**153,740**

Note that client money held in client bank accounts compliant with the Client Money requirements does not form any part of the above credit exposure in line with the CRD IV requirements.

4.2. LIQUIDITY RISK

Liquidity risk is defined by the Company as the risk that there is insufficient liquidity available to meet the Company's liabilities as they fall due.

Retail client money is segregated and kept in trust with approved credit institutions in client money accounts, in accordance with the FCA rules on Clients Assets. These funds are not included in the Company's liquidity calculations.

Liquidity risk management is carried out by the Finance and Risk teams and governed by the Company's risk committees. The Company utilises liquidity controls and stress testing to identify potential liquidity risk during both normal and stressed conditions.

Risk mitigation:

- The Company actively manages its liquidity by employing liquidity controls that maintain adequate liquid assets and monitor cash absorption;
- A formal, Board-approved Recovery Plan and Contingency Funding Plan is in place that can provide sufficient liquidity in a liquidity stress scenario to ensure continued operation of key services.

4.2.1. Primary Liquidity Risks

The Company has identified the potential for liquidity risks in the following areas:

- Increase in broker margin requirements; brokers can choose to increase margin requirements at any time. This risk is mitigated by using multiple brokers per asset class;
- Counterparty failure; this risk is mitigated by monitoring the creditworthiness of the Company's counterparties.

For more information see pages 27-28 of the financial statements of OvalX Capital's 2021 Annual Report.

4.3. MARKET RISK

This risk arises where positions are not fully hedged. The Company maintains a number of hedging lines with financial institutions (Prime Brokers) to execute these hedges and ensures that it does not become overly reliant on one Prime Broker. The Company operates a model where not all retail client's positions are hedged, and the Company takes on principal exposure. The Board has set risk limits for each of the main asset classes in which it transacts and sub risk limits for the underlying instruments in that class. The Company's risk management systems allow monitoring of its exposures in real time to enable the Company to hedge as agreed risk limits are breached. These limits are regularly reviewed by the Company.

Risk mitigation:

- The Board's risk appetite, which sets the tolerance for market risk in each of the main asset classes in which the Company transacts and also in relation to elements of its structural risk; detailed risk limits are in place to ensure that the risk appetite is not exceeded;
- Transactional risk management systems which allow monitoring of exposure to all instruments' market risk in real time enabling the Company to hedge as the Board's agreed risk limits are breached;
- The monitoring and hedging of client activity in broad groups or asset classes: FX, Equities, Indices, Commodities and Bonds/Interest rates. A detailed substructure of limits is maintained for each asset class.

The Company's Market Risk Capital Requirements are illustrated below:

Own Funds Requirement by Asset Class:

Asset Class	2021 £'000	2020 £'000
Equities	301	1,336
Commodities	210	660
Foreigh Exchange	294	474
Interest	50	8
Total	855	2,479

4.4. OPERATIONAL RISK

Operational risk is the risk of loss or negative impact to the Company resulting from failed internal processes, people and systems or from external factors such as changes in regulation or failures in key suppliers. The Company accepts that its operational risk cannot be eliminated completely but ensures there are systems and controls in place to limit its likelihood and impact.

The Company has adopted the Basic Indicator approach to operational risk calculation.

The Company has put in place risk mitigation measures to control exposure within Board approved risk appetite levels.

4.4.1. Systems Risk

- This risk arises from the Company's reliance on systems to deliver its customer service. The Company continues to evaluate the robustness and functionality of third-party software and, where appropriate, bring the services in house. For example, the Company's maintains a proprietary trading platform and continues to develop the infrastructure and functionality around this platform. The Company is aware that cyber-attacks continue to become increasingly more sophisticated and continues to invest in preventative measures.

4.4.2. Internal Control Risk

This risk arises from the potential for gaps or weaknesses in any system of internal controls to permit error or fraud to occur and cause consequential losses for the Company. The Company mitigates this risk in general by ensuring that Policies and Procedures are comprehensive and clearly documented and that adherence is periodically tested. The Risk team operate a formal RCSA (Risk and Control Self-Assessment) process whereby 1st Line teams identify and take ownership of the risks and controls relevant to their team.

The Company has engaged an external accounting firm to carry out internal audit control reviews in key areas such as governance, client assets, dealing and information technology.

4.4.3. Compliance Risk

This risk arises if the Company does not comply with the range of regulations and its licence obligations. The Company is exposed to law and regulation changes in several areas, including tax treatment, stamp duty, leverage limits, betting duty, reporting and disclosure requirements, short selling restrictions and financial promotion rules. The Company continues to make significant investment in compliance and legal resources to address these risks. The Company believes that its in-house professional teams and external advisors ensure that the Company addresses these regulatory issues before they can crystallise risk to the Company.

5. REMUNERATION POLICY

The disclosure requirements set out in Article 450 of the CRR is related to companies that are deemed to be significant by the FCA. A defined list of requirements on determining a company as significant can be found under the Prudential Sourcebook for Investment Companies (IFPRU) section 1.2.3R.

As OvalX does not meet the above requirements for being a significant company, it is not required to disclose details relating to its remuneration policy.

6. FURTHER INFORMATION

Should you have any queries, please contact:

Daniel Gladding (Daniel.Gladding@Ovalmoney.com)

Chief Risk Officer

OvalX Capital

26 Finsbury Square

London

EC2A 1DS