



## **CRD Pillar 3 – 2019**

### **1. Overview**

These disclosures are made in accordance with the rules of the Financial Conduct Authority which implement in the UK the EU directives regarding the revised capital adequacy framework agreed by the Basel Committee on Banking Supervision. It is this application of the Capital Requirement Directive and Basel II that requires Avalon Capital Partners Limited (“Avalon”) to make these disclosures.

The FCA framework now consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm’s credit, market and operational risk;
- Pillar 2 requires the firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FSA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The Financial Conduct Authority, in BIPRU 11, outlines the minimum disclosure requirements. The information below satisfies Avalon’s Pillar 3 requirement.

### **2. Frequency of Disclosure and Means of Disclosure**

Avalon will report their Pillar 3 disclosure annually or upon material change.

These disclosures are based on the company's position as at the 31<sup>st</sup> July 2019. The Pillar 2 (ICAAP) capital requirements are excluded from this summary but are reviewed annually or upon material change. These disclosures have been reviewed by the Directors. These disclosures are not subject to an audit except to the extent where they are equivalent to disclosures made under accounting requirements.

### **3. Regulated Structure**

Avalon is authorised and regulated by the FCA and as such is subject to minimum capital requirements, based on the fact that it is a limited licence firm. Avalon is not subject to consolidated reporting requirements.

### **4. Risk Management**

The Directors determine the firm's business strategy and risk appetite along with designing and implementing a risk management framework that recognises the risks that the business faces. They also determine how those risks may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Directors meet on a regular basis and discuss current projections for profitability and regulatory capital management, business planning and risk management.

The Directors manage the Firm’s risks 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 company is small with an operational infrastructure appropriate to its size. It carries no market risk, other than foreign exchange risk on its accounts receivable in foreign currency, and a limited amount of credit risk.



The ICAAP has identified the most significant risk types to which Avalon Capital Partners Limited to be as follows:

### **Operational Risk**

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people activities, systems or external events.

Avalon is exposed to operational risk in several facets of its role as an intermediary in financial markets, such as:

- Employees (both broking and support staff) undertaking their roles correctly and behaving appropriately;
- Multiple IT platforms (including broking, middle office and support platforms);
- The accurate execution of many processes including those required to execute trades; and
- The continued availability of various third-party market infrastructure providers (such as clearing and settlement institutions).

### **Market Risk**

This is the risk that external factors - such as a reduction in trading volumes - will result in an unexpected loss of income.

There is a risk that the economic demand for trading reduces because of a weakening economic environment. These risks are mitigated by a large, diversified and loyal client base and an ability to trade in multiple products and markets. Staff are paid performance bonuses allowing reduced overheads in periods of reduced activity.

Avalon is subject to further market risk due to foreign exchange risk on trade debtors in non-GBP currencies. The Directors review these risks as part of its financial control process and manages the risk accordingly.

### **Credit Risk**

This is the risk that clients and counterparties fail to meet their financial and commercial obligations.

There is a risk that Avalon Capital Partners Limited's clients and counterparties fail to accept a trade for whatever reason. The mitigation is that the trades are given up and settled promptly, ensuring minimal exposure to financial markets. Avalon does not have a trading book and does not take any proprietary positions. Avalon does not hold any client money.

## **5. Capital adequacy in compliance with BIPRU 3, 4 6, 7 & 10 (BIPRU 11.5.4)**

Avalon Capital Partners Limited have forecasts in place to ensure that they will continue to meet they regulatory capital requirement an ongoing basis.



Avalon Capital Partners Limited is a BIPRU 50k firm and, as such, is required to calculate a Fixed Overhead requirement in accordance with GENPRU 2.1.53R.

<b>Capital items</b>	<b>£'000</b>
Core tier 1 capital less deductions	848
Tier 2 capital	-
Tier 3 capital	-
<b>Total capital resources, net of deductions</b>	<b>100</b>

The following shows Avalon's capital requirement and capital adequacy at 31 July 2018:

	<b>£'000</b>
Credit risk	158
Market risk	26
1 Sum of credit risk and market risk	184
2 Fixed overhead requirement	289
Pillar 1 capital requirement (higher of 1 and 2)	289
Total capital resources	848
<b>Surplus capital resources</b>	<b>558</b>

## Remuneration

BIPRU 11.5.18 requires that a firm makes a disclosure of details regarding its remuneration policy.

Under the FCA's Remuneration Code, the Firm has determined that it is a Level 3 firm, which allows it not to apply many of the technical requirements of the Code and proportionately apply the Code's rules and principles in establishing its Remuneration Policy.

## Decision making Process for Remuneration Policy

Given the relatively small size of the business, remuneration for all employees is set by the Directors. The Firm's Remuneration Policy takes full account of the Firm's strategic objectives. Its objective is to recognize and reward excellent performance of employees to help drive the sustainable growth of Avalon.

## Code Staff Criteria

The FCA defines Remuneration Code Staff ("Code Staff") in SYSC 19C.3.4 R as senior management, risk takers, staff engaged in control functions and any employee receiving total remuneration that takes them into the same remuneration bracket as those detailed above, whose professional activities have a material impact on the firm's risk profile.

Based on the profile of Avalon it has been decided to exclude from Code Staff salespeople who earn based on a set formula of commission generated. The Directors will consider the need to add any new joiners to the list of Remuneration Code Staff during the year.