

VARIANSE

ELECTRONIC TRADING. **ELEVATED**

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1 Introduction

Firms are required under the Senior Management Arrangements, Systems and Controls (SYSC) manual of the Financial Conduct Authority Handbook to have in place robust governance arrangements and effective procedures which allow it to identify, manage, monitor and report the risks it is or might be exposed to.

VDX Limited (“VDX”, “the firm”) is authorised and regulated by the Financial Conduct Authority and this document sets out how the firm complies with its obligations to identify, manage and mitigate risks.

2 Overview

The Capital Requirements Directive and Regulations (CRDIV/CRR) of the European Union created a regulatory capital framework across Europe governing how much capital financial services firms must retain. The rules are generally set out under three pillars:

- Pillar 1 sets out the minimum capital resource requirement firms are required to maintain to meet credit, counterparty credit, CVA, market, and operational risks for limited license firms.
- Pillar 2 requires firms to assess firm-specific risks not covered by Pillar 1 and, where necessary, maintain additional capital.
- Pillar 3 requires firms to disclose information regarding their risk assessment process and capital resources with the aim to encourage market discipline by allowing market participants to assess key information on risk exposure and the risk assessment process.

2.1 Frequency and location of disclosure

Future disclosures will be issued on an annual basis once they have been reviewed and approved by the Board. The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the financial statements.

The report and all future ones will be published on our firm’s website.

3 Governance Arrangements

3.1 The Management Body

The Board is responsible for the firm’s risk management governance structure and how the firm’s risk exposure must be managed in line with the firm’s overall business objectives and within its stated risk appetite. This includes the governance of the process for identifying, assessing, measuring, controlling, monitoring, and reporting the significant risks faced by the firm.

The Board is ultimately responsible for ensuring that the firm maintains sufficient capital and liquidity resources to meet its regulatory capital and liquidity requirements and to support its growth and strategic objectives. Risk management is embedded throughout the business, with the overall risk appetite and risk management strategy approved by the Board propagated down throughout the business as appropriate.

The firm has reviewed the number of directorships held by members of the Board and has assessed the number of directorships held and are satisfied that the arrangements are such that the management body is able to commit sufficient time and resources to perform their obligations in the firm. The number of directorships held is monitored on an ongoing basis.

4 Capital Adequacy and ICAAP

The firm's overall approach to assessing the adequacy of its internal capital is documented in the Internal Capital Adequacy Assessment Process ("ICAAP").

The ICAAP process includes an assessment of all material risks faced by the firm and the controls in place to identify, manage and mitigate these risks. The risks identified are stress-tested against various scenarios to determine the level of capital that needs to be held.

Where risks can be mitigated by capital, the firm has adopted methods specified in the Capital Requirements Directive and Regulations (CRDIV/CRR) for Pillar 1. Where the Board considers that the Pillar 1 calculations do not adequately reflect the risk, additional capital has been considered for add-on under Pillar 2.

Whilst the ICAAP is formally reviewed by the Board once a year, Senior Management review risks and the required capital more frequently and will particularly do so when there is a planned change impacting risks and capital or when changes are expected in the business environment potentially impacting the ability to generate income.

4.1 Capital Resources

The firm is an IFPRU firm because it operates as a limited license matched principal broker that holds client money.

An IFPRU firm must maintain at all times capital resources equal to or in excess of the base requirement (€125k). The Pillar 1 capital requirement for an IFPRU firm is the higher of:

1. Base Capital Requirement OR
2. Credit Risk + Market Risk + Counterparty Credit Risk + CVA Risk Capital Requirements OR
3. Fixed Overhead Requirement

The firm must maintain at all times capital resources equal to or in excess of the Pillar 1 requirement. The firm underwent a variation of permissions to become a limited license matched principal broker in Q3 2019 and reported Corep as at 30th September 2019. As at the end of this period, the firm complied fully with all capital requirements and operated well within regulatory requirements.

The Board are therefore comfortable that the firm is, and has been throughout the financial year, adequately capitalised for Pillar 1 purposes. The Board are comfortable that this will ensure prudent capitalisation and cover for market downturns and other risks that may materialise in the short to medium term.

The Board constantly monitors the performance of the firm and capital adequacy is regularly assessed by them. The firm will also monitor risks throughout the year and decide if additional capital should be held against them. Additional risks that supplement the Pillar 1 requirements are detailed below and, where necessary, additional capital will be provided.

5 Management of Risk Framework

5.1 Risk Profile

VDX Limited has identified the following core risk categories: operational, market, credit and counterparty credit (including CVA risk), liquidity, strategic, and financial crime.

VDX Limited's profile of these risks is continually evolving and is generally driven by:

- Changes to the market in which we operate;
- VDX's strategies and business objectives and;
- VDX's business/operating models

VDX Limited will seek to generate positive returns through carefully considered risk taking and robust risk management. As such, the effective management and control of both the upside of risk taking and its potential downside is a fundamental core competency of the firm.

5.2 Risk Appetite

The Board is responsible for setting the firm’s risk appetite and defining the type and level of risk that the firm is willing to accept in pursuit of its business objectives.

5.3 Risk Assessment Framework

The Board is responsible for approving the Risk Assessment Framework, which is used to ensure that the firm has a comprehensive understanding of its risk profile, including both existing and emerging risks facing the firm, and to enable it to assess the adequacy of its risk management in the context of the firm’s risk appetite.

Principal Risks	Appetite	Key Drivers	Mitigation
Strategic Risk			
The risk that arises from decisions that fail to reflect the full business operating environment and the impact of failing to adequately identify changes to the business model	The firm will remain competitive by identifying opportunities and assessing the risks, rewards and costs associated with them before proceeding	Regulatory landscape impacting the business Commercial/market conditions Internal business/operating model	Due diligence is carried out prior to any new business opportunity and a full assessment of the potential and actual risks taken into account Revenue forecasts conducted frequently
Credit and Counterparty Credit Risk			
The risk of financial loss due to the failure of a counterparty (including Bank’s where firm cash balances are held) to meet their obligations to settle outstanding amounts	The firm will only engage in activities where customers have adequate collateral deposited The firm will only bank with regulated credit institutions that are very highly rated (Moody A3 or Standard & Poor/Fitch A-)	Market conditions Counterparty credit worthiness	The firm uses the standardised method of calculating Credit Risk Regular monitoring of credit exposures
Market Risk			
Risk of losses in on and off-balance sheet positions arising from adverse movements in market prices	The firm does not engage in proprietary trading and does not actively seek market exposure. The firm acts on a matched principle basis only	Volume and complexity of trading Market movements	Regular monitoring of CFD positions Monitoring of foreign exchange risk
Liquidity Risk			

Principal Risks	Appetite	Key Drivers	Mitigation
The risk that the Firm does not have sufficient liquid resources or is unable to deploy such resources to meet its actual or potential obligations in a timely manner as they fall due	The firm will have sufficient and accessible financial resources as to meet any financial obligations as they fall due. The firm has always held significantly more than its minimum requirement	Intraday liquidity requirements and gaps Margin calls Market liquidity	Daily review of cash position of the firm Contingency funding arrangements in place
Operational Risk			
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events	The firm will actively identify and manage the risk of its people, processes or systems failing. Operational risk is inherent in any business however the firm will take steps to prevent such risks from increasing operating costs	External threats System disruptions on trading platform	Business Continuity Plan documented and updated
Financial Crime Risk			
The risk that the firm fails to prevent its involvement in or use by other parties to commit financial crime	The firm has no appetite for any breaches or lapses occurring that result in financial crime taking place	KYC failures Sanctions and PEP failures	Financial crime and AML procedures maintained

6 Remuneration Policy

VDX Limited’s Remuneration Policy complies with the Remuneration Code in relation to its size, nature, scope and complexity of our activities.

The Policy is aligned to the firms’ business strategy, objectives, values and long-term interests in respect of performance and effective risk management in line with the firm’s risk appetite.

A copy of the firm’s Remuneration Policy is available on request.