GC Exchange Limited

MIFIDPRU Disclosures

Introduction

The MIDIFPRU disclosures summarise the assessment of harms and the processes in place to reduce the harm, specifically with respect to own funds requirement, concentration risk and liquidity. The assessment has been mainly prepared by the Finance and Compliance departments of GCEX, discussed and approved by the Board of Directors.

Risk Management objectives and policies

The day-to-day risk management of GCEX's business typically involves identifying risks through a framework of policy and procedures taking account of relevant laws, standards, principles and rules, including the FCA's requirements, with the aim of operating a defined and transparent risk management framework. Risk management is not a standalone topic. Risk exists in all areas of the Firm's business including, but not limited to operations, finance, IT and compliance. As such, risk management is an underlying and inherent consideration in all the policies, procedures and internal processes that GCEX has established, implemented and maintains.

The Board of Directors of GCEX has a relatively low risk appetite. GCEX does not conduct any proprietary trading and hedges all client exposures in order to reduce the market risk to a minimum level. GCEX seeks to differentiate itself through:

- Superior technology;
- Turn-key solution for regulated brokers and institutions;
- Access to deep institutional grade liquidity pools

The Firm understands the risks it is exposed to and having taken action, where possible, to mitigate the risks and made appropriate capital allocations is prepared to accept these risks. The Firm has ensured that it has sufficient capital and liquidity. The progress of the Firm and the overall risk appetite will be reviewed, at least, on a half yearly basis.

The risk appetite is reflected in the firm's governance, controls and activities. There is an experienced management team of proven ability to ensure that the business remains tightly controlled within the standards that the firm aspires to. A capital requirements plan is an integral part of the risk appetite which ensures compliance with regulatory requirements and maintenance of strong capital and liquidity position.

The most material capital adequacy risks for the Company are outlined below, along with mitigating actions:

- Risk in the trading book: the firm does not run any systematic market risk, although the trading activity generates some minor residual market risk which is monitored and covered manually. This risk is controlled by the Operations department by using a real time exposure monitor.
- Credit and counterparty risk with clients: a conservative approach is adopted to client credit risk. Clients are required to maintain adequate margin at all times, otherwise GCEX will auto-close their positions. GCEX aim to close positions before the client becomes a debtor. This risk is controlled by the Operations department who can adjust the margin levels and monitors the Net Open Positions.
- Credit and counterparty risk with liquidity providers: we are offering margin products to our customers and in turn are hedging on a margined basis with our liquidity providers. There is a risk that we may be required to pay margin to our liquidity providers in greater amount, or more quickly, than we can collect it from our clients. This risk is monitored real time by the Operations department.

Governance arrangements

A firm's Senior Management are those who effectively direct the business of the firm. Prime responsibility for the general management of the firm lies with Senior Management. On a day-to-day basis, the activities of the firm are overseen by the appointed directors.

The Board of Directors is the main governance body composed by one executive director and 2 non executive directors. The firm does not have a Risk Committee as it is not required by rulebook. The management is undertaken by the Senior Management who have been approved by the FCA and are sufficiently experienced and of good repute. Senior management are involved in the formulation and implementation of the policies and sign off all policies. They play a part in the decision-making process on all significant decisions and are involved in the strategy and general direction of the firm, including how these strategies are implemented.

The Board ensures regulatory compliance through a comprehensive and pro-active compliance strategy, by appointing a Compliance Officer. The board has also appointed an MLRO (Anti Money Laundering Reporting Officer) responsible to act as the focal point within the firm for the oversight of all the activity relating to anti-money laundering. The board has also appointed a CFO responsible for accounting and finance function, monitoring and planning the capital adequacy and liquidity. The CTO is responsible for maintaining the company's software and hardware including internal and external systems and protect them from vulnerabilities. The board has also appointed a COO who is responsible for customer support, managing the relationships with liquidity providers, facilitation of payments and reconciliation processes.

Diversity Policy

The company has an inclusive culture which is gender diverse. The Company is committed to promoting equal opportunities in employment and ensuring all are treated with dignity whilst at work. The Company is committed to ensuring that all staff and any job applicants will receive equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, nationality, ethnic or national origin, religion or belief, sex or sexual orientation.

We do not expect any member of staff to engage in any behaviour which is discriminatory or harassing. This applies in the workplace, outside the workplace (when dealing with customers, suppliers or other work-related contacts or when wearing a work uniform), and on work-related trips or events including social events. We want to provide a working environment free from harassment, bullying and intimidation and therefore the Company will take allegations of the same very seriously and will investigate as appropriate to address any issues in accordance with our Disciplinary Policy with serious conduct capable of resulting in dismissal.

Own Funds

The composition of own funds is shown in the table below.

Composition of regulatory own funds			
	Item	Amount (GBP thousands)	Source based on reference of the balance sheet in the audited financial statements
1	OWN FUNDS	6,936	Total Capital and reserves
2	TIER 1 CAPITAL	6,936	Total Capital and reserves
3	COMMON EQUITY TIER 1 CAPITAL	6,936	Total Capital and reserves
4	Fully paid up capital instruments	5,000	Called up share capital (13)
5	Share premium	0	
6	Retained earnings	1,936	Profit and loss account (14)
7	Accumulated other comprehensive income	0	
8	Other reserves	0	

9	Adjustments to CET1 due to prudential filters	0	
10	Other funds	0	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	0	
19	CET1: Other capital elements, deductions and adjustments	0	
20	ADDITIONAL TIER 1 CAPITAL	0	
21	Fully paid up, directly issued capital instruments	0	
22	Share premium	0	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	
24	Additional Tier 1: Other capital elements, deductions and adjustments	0	
25	TIER 2 CAPITAL	0	
26	Fully paid up, directly issued capital instruments	0	
27	Share premium	0	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	0	
29	Tier 2: Other capital elements, deductions and adjustments	0	

The above is reconciled with the capital recorded in the firm’s audited balance sheet.

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements		
		Balance sheet as in published/audited financial statements
		As at period end
Assets - *Breakdown by asset classes according to the balance sheet in the audited financial statements*		
1	Tangible assets	5
2	Investments	100
3	Debtors: amounts falling due within one year	1,595
4	Cash at bank and in hand	25,413
xxx	**Total Assets**	27,113
Liabilities - *Breakdown by liability classes according to the balance sheet in the audited financial statements*		
1	Creditors: amounts falling due within one year	20,176
2	Provisions for liabilities	1
xxx	**Total Liabilities**	20,177
Shareholders' Equity		
1	Called up share capital	5,000
2	Profit and loss account	1,936
xxx	**Total Shareholders' equity**	6.936
Own funds: main features of own instruments issued by the firm		
Instrument type: fully paid share capital *Amount recognized in regulatory capital* (GBP thousands, as of most recent reporting date) *Nominal amount of instrument*		

Own Funds Requirements

The ‘own funds requirement’ as of 31.12.2022 is displayed in the table below. The Company has a permanent minimum capital requirement of £750,000. The K-factors calculation take into account operational trading risk (DTF), Market Risk (NPR), Counterparty (TCD) and Concentration Risk (CON). The Own Funds Threshold requirement of £1,342,000 includes the own funds requirement (OFR) plus the additional funds requirement from the ICARA process.

The Own Funds surplus as of 31.12.22 was £5,594,000.

		OWN FUNDS REQUIREMENT	31.12.22 GBP thousands
	PMR	Permanent Minimum Capital Requirement	750
	KFR	Total K-factors requirement	969
		DTF (Daily Trading Floor)	51
		NPR (Net Position Risk)	889
		TCD (Counterparty Risk)	28
		CON (Concentration Risk)	-
	Fixed Overhead Requirement		411
OFR	**Own Funds Requirements**		**969**
ICARA	Additional Own Funds Requirement		727
		For ongoing operations	373
		For wind down	727

OFAR	**Own Funds Threshold Requirement**	**1,342**
	Own Funds Wind-down trigger	411
CAPITAL CONDITIONS		
	CET1 - Surplus	5,594
	Tier 1 - Surplus	5,594
	Own Funds - Surplus	5,594

Remuneration

The Company has established a remuneration policy, which its purpose is to set out the remuneration practices of the Company taking into consideration the salaries and benefits of the employees, in accordance with the provisions of MIFIDPRU Remuneration Code – Remuneration Policy on remuneration policies and practices, where these comply with specific principles depending on specific criteria. The remuneration policy is in line with the business strategy, objectives, values and long-term interests of the Company. The Board of Directors discusses remuneration policy matters at least annually.

The firm remuneration structure comprises the following elements:

1. Fixed: basic salary and taxable benefits (pension contribution)
2. Variable: sales commissions, discretionary bonus and employee share option plan (ESOP).

The Company ensures that fixed and variable components of the total remuneration are appropriately balanced in order to meet the objectives of the remuneration policy. There will be a requirement for an appropriate balance between fixed and variable remuneration at all times, with variable remuneration to take account of criteria reflecting compliance with applicable regulations, fair treatment of customers and the quality of customer service (and not solely or predominantly on quantitative commercial criteria).

The CFO along with the Board of Directors should ensure that the variable remuneration to be paid does not affect the ability of the firm to meet all capital requirements of MIFIDPRU rules and sustain a sound capital base. Where remuneration for senior management is linked to trading profits, the firm will consider factors such as customer satisfaction, level of complaints, and compliance monitoring findings.

The Firm must identify its Material Risk Takers at least on an annual basis at the time of updating the policy based on a proposal from the Executive Management to the Board of Directors.