

Magna Capital Limited Pillar 3 Disclosure and Policy

Introduction

Regulatory Context

The Pillar 3 disclosure of Magna Capital Limited ("the Firm") is set out below as required by the FCA's "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU) specifically [BIPRU 11.3.3 R](#). This is a requirement which stems from the UK's CRDIII implementing Regulations which represented the European Union's application of the Basel Capital Accord. The Firm is no longer formally subject to CRD but remain subject to the UK's implementation Regulations of CRD prior to CRDIV. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Firm will be making Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date ("ARD").

Media and Location

The disclosure will be published on our website.

Verification

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 judgement 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, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD, to which the Firm remains subject as a consequence of the UK CRDIII implementing Regulations, have three pillars; Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process through which the Firm and Regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements.

The regulatory aim of the disclosure is to improve market discipline.

The Firm is a MiFID Investment Firm. The Firm's main activity is that of a matched principle broker in the fixed income markets. The Firm does not hold client money or assets. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk relates to balance sheet items, credit risk is considered low. The Firm is subject to counterparty risk on failed legs of matched trades. Based on the Firm's trading history this is considered low risk. The Firm holds all cash balances with banks assigned high credit ratings.

As Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to foreign currency exchange rate risk and hence to any assets held on the Firm's Balance Sheet denominated in a foreign currency. As a matched principle broker we are not routinely subject to position risk as there should be no un-matched positions on our trading book. The Firm's Reporting Currency is GBP and all foreign currency assets are converted into GBP where possible on a regular basis.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a MiFID Investment Firm. The Firm's activities give it the prudential categorisation of a 'BIPRU Firm'.

The following entities are covered by the ICAAP:

- Magna Capital Limited

The Firm is a Solo regulated entity with a Non-EEA parent.

The Firm is a BIPRU Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#))

BIPRU 11.5.1

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Board has the daily management and oversight responsibility. Mr. Yuval Hatuka is the sole Director.

The Board is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, it decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. 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.

Risk Framework

Risk within the Firm is managed by use of the following:

BIPRU 11.5.4

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the Overall Pillar 2 Rule

BIPRU 3 (Credit Risk)

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach ([BIPRU 3.4](#)) and the Simplified method of calculating risk weights ([BIPRU 3.5](#)).

Credit Risk calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£89
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		£89

(Figures shown in thousands)

	Rule	Exposure	Risk Weight	Risk weighted exposure amount
National Government Bodies	BIPRU 3.4.2	£0	0%	£0
Banks etc. long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc. short-term	BIPRU 3.4.39	£2,172	20%	£434
Exposure to Corporates/Debtors	BIPRU 3.4.52	£340	100%	£340
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£1	100%	£1
Accrued fees	BIPRU 3.4.130	£342	100%	£342
Total		£2,855		£1,117
Credit Risk Capital Component	8% of risk weighted exposure			£89

(Figures shown in thousands)

BIPRU 4 (Advanced Credit Risk Approach)

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 7 (Market Risk)

The Firm has potential trading book exposure only if it should it fail to properly match a trade ([BIPRU 7.4](#), [7.5](#)). This area is considered low risk.

Overall Pillar 2 Rule

The Firm has adopted the "Pillar 1 plus" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment is reviewed by the Board and amended where necessary, on a quarterly basis or when a material change to the business occurs. The Board reviews and endorses the risk management objective at least annually or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

BIPRU 11.5.8

Disclosure: Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from items held on its balance sheet. It holds all cash balances with Banks assigned high credit ratings. Consequently risk of past due or impaired exposures is minimal. 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.

BIPRU 11.5.12**Disclosure:** Market Risk

The Firm has exposures in its non-trading book by way of cash in non GBP currencies. Any trading book exposures only arise from unmatched positions. As at the year-end there were no trading book positions ([BIPRU 7.4](#) & [7.5](#)). Any investments on the firm's balance sheet are non-trading book and subject to credit risk requirements not market risk requirements.

Market Risk calculation

	Rule	Position	Risk Weight	PRR
Interest rate position risk requirement	BIPRU 7.2	£0	8%	£0
Equity position risk requirement	BIPRU 7.3	£0	8%	£0
Commodity position risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency position risk requirement	BIPRU 7.5	£1,065	8%	£85
Option position risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking position risk requirement	BIPRU 7.7	£0	32%	£0
Total		£1,065		£85

(Figures shown in thousands)

BIPRU 11.5.2**Disclosure:** Scope of application of directive requirements

The Firm is subject to the disclosures under the UK CRDIII Implementing Regulations. However, it is not a member of a UK Consolidation Group and consequently, does not report on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3**Disclosure:** Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)). Tier 1 Capital comprises of Share Capital and Audited Reserves.

Tier 1 Capital	£100
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£2,444
Tier 3 Capital	£0
Deductions	£0
Total Capital	£2,544

(Figures shown in thousands)

BIPRU 11.5.5

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.6

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.7

This disclosure is not required as the Firm does not have a Trading Book unless it fails to match a trade. As at the year-end there were no un-matched trades.

BIPRU 11.5.9

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under [BIPRU 11.5.8R \(9\)](#).

BIPRU 11.5.10

Disclosure: Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights ([BIPRU 3.5](#)).

BIPRU 11.5.11

Disclosure: Firms calculating Risk Weighted Exposure amounts using the IRB Approach

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.15

Disclosure: Non-Trading Book Exposures in Equities

The Firm does have non-trading book investments and these are subject to credit risk requirement as detailed in this document.

BIPRU 11.5.16

Disclosures: Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations and any interest earned is not material to the Firm's overall income.

BIPRU 11.5.17 Disclosures: Securitisation

This disclosure is not required as the Firm does not Securitise its assets.

BIPRU 11.5.18**Disclosure: Remuneration**

The Firm is subject to the BIPRU Remuneration Code Firm and has applied the rules appropriate to as permitted under guidance on proportionality. The Board is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

The firm has only one member of code staff, its sole Director, Yuval Hatuka. Mr. Hatuka received no remuneration from the firm during the 2015 financial year.