

Liquidity Finance LLP

Pillar 3 Disclosure and Policy for an IFPRU Firm as at: 31/03/2021

Introduction

Regulatory Context

Under the CRDIV framework Liquidity Finance LLP (“Liquidity”) is required to make certain disclosures. These disclosure requirements cover relevant risks that apply (e.g. own funds, credit risk, securitisation risk, market risk, operational risk) as well as information about a firm’s risk management, exposures, risk weighting and capital requirements.

Whilst some of the disclosures have been captured within the FCA’s Senior Management Arrangements: Systems and Controls (SYSC) Sourcebook, the majority of requirements are contained within Part Eight of Regulation (EU) No 575/2013 (Capital Requirements Regulation - ‘CRR’).

Frequency

The firm will be making these disclosures annually in line with our internal policy and assessment of the CRR requirements to adequately convey our risk profile. The disclosures are as at the Accounting Reference Date (“ARD”).

Media and Location

The disclosure will be published on the firm’s website.

Verification

For the avoidance of doubt, this document contains the relevant disclosures for the period ending 31 March 2021 in accordance with Part Eight of the CRR. Where additional disclosures have been made, reference has been made to the relevant rules in order to demonstrate compliance with these additional disclosures.

The disclosures made within this document have been reviewed and approved by the firm’s partners and have not been subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the financial statements.

Materiality, Confidentiality and Proprietary & Confidential Information

To achieve an appropriate balance between the information needs of stakeholders and the potential drawbacks of disclosures for institutions, both in terms of costs and business impact, the CRR contains specific provisions whereby firms may omit one or more items of information included in the disclosure requirements in cases where the information provided by such disclosures is not regarded as material or is regarded as proprietary or confidential. One or more disclosures may be omitted (except for disclosures on Diversity, Own Funds and Remuneration in line with CRR Article 432(1)).

The firm has reviewed the guidelines on materiality, proprietary and confidentiality and frequency, detailing the information that institutions in the EU banking sector should disclose under Part Eight of the CRR. In determining the relevance of these guidelines, the firm may omit information that is not

material. In this context, materiality can be taken to mean where 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.

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

Summary

These disclosures address the information asymmetry between preparers and users, by providing the latter with information on the solvency, risks and risk exposures of institutions. The firm is an IFPRU €730k Full Scope investment firm.

The firm considers Operational Risk and Business Risk as the main risks faced by the firm. These are set out later in this document.

Background to the Firm

Background

The firm is incorporated in the UK and is authorised and regulated by the FCA as an IFPRU Full Scope €730K Firm.

The firm specialises in trading Emerging Markets corporate and sovereign bonds across Middle East, Eastern Europe, Latin America, Asia and Africa. These bonds are settled via DTC, Euroclear or Clearstream on a delivery-versus-payment basis.

The firm's primary clients are asset managers, hedge funds, insurance companies, pension funds, local banking institutions and private wealth managers.

The firm can act as a broker on a matched principal model, as a principal or as an agent as per its FCA permissions.

This disclosure is made on the basis that the firm is not part of a consolidated group and reflects the accounting and prudential requirements for Liquidity alone.

Article 435

Disclosure: Risk Management Objectives and Policies

Article 435 (1)

The firm is required to disclose its risk management objectives and policies for each separate category of risk which include: (i) the strategies and processes to manage those risks; (ii) the structure and organisation of the relevant risk management function or other appropriate arrangement; (iii) the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk; and (iv) the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The firm has assessed its risks in its Internal Capital Adequacy Assessment Process ('ICAAP') and

sets out appropriate actions to manage them.

The firm is governed by its founding Partners, Faisal Mian and Jonathan Hinton (both SMF27), who have oversight responsibility as well as daily management responsibility. Jonathan Hinton is also the firm's Head of Risk and Faisal Mian is the firm's MLRO (SMF17); they are supported by the COO and Operations team.

The Partners decide 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 their potential impact and then to ensure that such risks are actively managed.

The firm is too small at this moment in time to have a separate risk committee, however the Partners have regular meetings; risks within the matrix are reviewed on a regular basis and any material changes will be discussed and addressed.

As the firm is non-complex in its business and operations, the Partners consider the risk management systems in place as adequate and proportionate with regard to the firm's profile and strategy.

Risk Framework

The Firms' risk management framework is based around its risk matrix and associated model. The model is excel based and enumerates anticipated risk drivers in broad categories matching FCA suggested risk domains.

The Firm's structure and business is relatively straightforward, and so the risk matrix currently regards all risks post mitigation through established policies and procedures. Risk drivers are allocated post mitigation likelihood and impact bands. Scoring on these bands gives an indicative measure of which areas of the business require most attention. The banding is also used to give notional annual cost of each driver and these are summed for comparison with the category thresholds established by the Partners. Maximum losses within each risk category are also employed to establish a notional Pillar 2 capital provision for that category.

Ongoing monitoring of incident and near-miss registers informs the Partners of the risk model's appropriateness, and new risk areas can be added as required.

Risks within the trading book are managed within a different framework with position taking market risk calculated at all times and checked against the amount of capital set aside for this purpose.

Risk Appetite

Liquidity has had a cautious appetite for risk because of the prudent approach of senior management. The firm has taken the approach to be very risk adverse and has always taken reasonable steps to manage its risks.

Risks to income generating capability are mitigated where possible and measures against actual and potential operating risks are taken where its Partners judge the benefit or the potential of the mitigation to exceed the costs of the mitigating controls.

The same low tolerance to risk is reflected on the cost side of the business with minimal long-term cost commitments.

To date Liquidity has had little to no tolerance for engaging in activity that adversely influences its risk

profile. All risks of any significance are identified, assessed and controlled on an ongoing basis.

Material Risks

Liquidity is exposed to the primary risk factors detailed below

Operational Risk

Operational risk represents losses that arise from inadequate or failed internal processes, personnel, systems or from external events. This category excludes business, strategic and reputational risks and includes IT, legal and compliance risks.

The Partners carry out at least an annual Operational risk review. The review process identifies potential and actual operational risks and assesses and where necessary amends the controls in place to mitigate such risks.

Business Risk

Business risk addresses the firm's exposures resulting from inadequate or failed management processes or decisions. Liquidity seeks to mitigate such risks by robust business plan preparation, regular financial forecasting and scenario planning, monthly management information review and Partner's Meetings to ensure adequate monitoring and challenge.

Article 435 (2)(a) – 435 (2)(e)

There are no external partnerships held by members.

The firm's partners are appointed having regard to their individual knowledge, skills and experience and the combined knowledge, skills, experience and diversity of the senior management as a whole.

When appointing partners, the firm adheres to UK and European legislation in relation to equal opportunities and is committed to treating all applicants for positions and employees in a non-discriminatory manner. The firm will also pay due regard to ensuring a broad range of knowledge, skills, diversity and experience is present.

For the year ended 31 March 2020, the firm did not have a Risk Committee. The firm does not consider it appropriate because of the size, nature and scale of its operations to establish a separate Risk Committee as all functions that would be carried out by it are adequately addressed by Senior Management or the Partners.

The Partners meet on a regular basis and receive risk and KPI reports on the operations and business areas of the firm. Where necessary, appropriate measures are implemented to mitigate any actual or potential risks.

Article 437

Disclosure: Own Funds

The firm is an IFPRU €730k Full Scope Firm. The Pillar 1 requirement for the firm is set out at Article 92 of the CRR and is the higher of the Base Own Funds Requirement (€730k); or the sum of Credit plus Market Risk plus Operational Own Funds Requirements (CR + MR + OR)

The 'Total Risk Exposure Amount' (TREA), which, for Liquidity, is defined as 12.5 times the sum of Credit plus Market Risk plus Operational Own Funds Requirements (CR + MR + OR) is the amount used for Pillar 1 Capital Adequacy purposes. Liquidity has no innovative Tier 1 capital instruments or deductions. At 31 March 2021 the firm had:

	GBP (000's)
Ordinary Share Capital	2,500
Share Premium	0
Other Reserves	0
Retained Earnings	1
Total Common Equity Tier 1 Items	2,501
Deductions from Common Equity Tier 1	1,471
Tier 1 Capital and Own Funds	1,030
Total Risk Weighted Exposure Amount ('TREA')	12,194
Common Equity Tier 1, Tier 1 Capital & Total Capital Ratio	8.44%
Base Own Funds Requirement (€730k)	621
Surplus Capital over Pillar 1 Own Funds Requirement	54

Total Common Equity Tier 1 capital as at 31 March 2021	£1,030K
Audited Profit FY to Mar 31, 2021	£2,170K
Audited Profit FY to Mar 31, 2020	£1,962K
Shareholder's Funds as per latest audited financial statements	£3,200K

The Common Equity Tier 1, Tier 1 Capital and Total Capital Ratio of 8.44% at 31 March 2021 (prior to inclusion of audited profit for FY 2020/21) was in excess of CE Tier Minimum 4.5%, Tier 1 Capital Minimum 6% and Total Capital Ratio Minimum 8%.

Article 438

Disclosure: Capital Requirements

The firm has adopted the "Ground Up" 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 Partners and amended where necessary, on an annual basis or when a material change to the business occurs. The Compliance Officer presents the ICAAP document to the Governing Body of the firm which reviews and endorses the risk management objective annually or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

To meet our Capital Requirement, Liquidity is required to hold the greater of:

- Base capital requirement of €730,000; or
- The sum of the Credit Risk Capital Requirement and Market Risk Capital Requirement and Operational Risk Capital Requirement based on a risk weighted balance sheet; plus
- Any Pillar 2 capital add-on requirement identified in the ICAAP.

Credit Risk Capital Requirement

The Credit Risk Capital Requirement (“CRCR”) consists of two elements and is calculated as follows:

(1) Credit Risk Capital Component (“CRCC”)

For the Pillar 1 calculation of Credit Risk, the firm as an IFPRU €730k Full Scope Firm uses the ‘Standardised’ Approach as detailed under Article 112.

Article 112 exposure	Risk weighted assets (GBP 000)	Capital Requirement (GBP 000)
exposures to institutions	1,108	89
exposures to corporates	34	3
Total	1,142	92

(2) Counterparty Risk Capital Component (“CPCC”)

The firm does not hold derivative positions in its trading book and as a result counterparty risk is not applicable.

Article 439

Disclosure: Exposure to Counterparty Credit Risk

The firm does not view Counterparty Credit Risk as directly applicable. The Issuer risk that is generated through debt instruments is already present within the credit instrument risk/specific risk component of the market risk calculation

Article 440

Disclosure: Capital Buffers

Liquidity is not currently required to hold any countercyclical capital buffer

Article 441

Disclosure: Indicators of Global Systemic Importance

This disclosure is not applicable as the firm is not considered a ‘Global Systemically Important Institution’.

Article 442

Disclosure: Credit Risk Adjustments

Liquidity does not have permission to hold client money or assets on its balance sheet, nor does it undertake lending activities and therefore Liquidity is primarily exposed to Credit Risk from the risk of non-collection of fees and commissions and of money held on deposit with credit institutions.

Thorough due diligence of prospective clients is undertaken by the Risk Officer, which includes

creditworthiness. All cash balances are held with banks that have high credit ratings.

Consequently, risk of past due or impaired exposures is minimal. An asset is considered 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.

Article 443

Disclosure: Unencumbered Assets

The firm currently has encumbered assets of £500,000 and unencumbered assets of £6,581,434, and this position is regularly monitored with the “COR005 Asset Encumbrance” COREP return submitted by the firm on a quarterly basis.

Article 444

Disclosure: Use of ECAs

The firm does not use any ECAs (External Credit Assessment Institutions) nor would this be expected given the firm’s business and operations.

Article 445

Disclosure: Exposure to Market Risk

Article 92(3)(b) & (c), own funds requirements for trading and non-trading book business.

Non trading book Item	Own Funds Requirement (GBP 000)
Foreign Exchange Risk	102

Trading book Item	Own Funds Requirement (GBP 000)
Market Risk	0

Liquidity’s Position Risk Requirement (“PRR”) is calculated in accordance with Part 3 Title IV of the CRR. Liquidity’s policy has been to trade with matched settlement date. If this was to change Liquidity would be exposed to the FX movement over the different dates.

For the avoidance of doubt, the firm does not hold securitisation positions and therefore there is no Specific Interest Rate Risk to disclose.

Article 446

Disclosure: Operational Risk

Liquidity has adopted the basic indicator approach for calculation of the Pillar 1 capital requirement for operational risk as prescribed by article 315 of the CRR. This is computed as 15% of the average relevant income of Liquidity over three years. The Operational Risk Capital requirement was £783K at 31 March 2021.

Article 447

Disclosure: Exposures in Equities not included in the Trading Book

This disclosure is not required as the firm does not have any non-trading book exposure to equities.

Article 448

Disclosure: Exposures to Interest Rate Risk on Positions not included in the Trading Book

Although the firm has substantial cash balances on its balance sheet, there is currently no exposure to Interest Rate fluctuations.

Article 449

Disclosure: Exposure to Securitisation Positions

This disclosure is not required as the firm does not securitise any assets.

Article 450

Disclosure: Remuneration Policy and Practices

Due to the size of the firm, it does not consider it appropriate to have a separate remuneration committee, as required by SYSC 19A.3.12R. Instead this function is undertaken by the Partners. This will be kept under review and, should the need arise, the firm will establish such a committee.

The firm has implemented an appropriate Remuneration Policy which is reviewed by the Partners at least annually.

Staff remuneration comes in two parts, base salary (for employees) or draw (for LLP members) and discretionary bonus. Overall responsibility for all employee remuneration lies with the Partners.

Base Salary / Draw

Base salaries / draws are reviewed annually. The Partners meet to assess the existing remuneration and whether any changes are required. Each relevant individual's performance with respect to specific deliverables and objectives, the wider strategic aims of the firm form part of the assessment. The Partners will also make reference to benchmarks within the industry. All base salaries / draws are submitted and subject to a formal review by the Partners.

Discretionary Bonus Pool/Variable Remuneration

This seeks to reward team and individual performance and contribution to results, revenues, strong risk management, compliance with regulations, operational efficiency and an appropriate management of costs.

The firm is a Remuneration Code Proportionality Level 3 firm and has applied the rules appropriate

to its Proportionality Level. All variable remuneration is adjusted in line with capital and liquidity requirements.

Remuneration Code Disclosures

Liquidity is required to disclose aggregate information on remuneration for its Code Staff, broken down both by business area and by senior management and other Code Staff.

Liquidity has identified 14 employees as being within the definition of Remuneration Code Staff as at March 31, 2021, of which 6 are employed at Liquidity's overseas affiliates. Liquidity has made no omissions on the grounds of data protection, but due to confidentiality have omitted to provide a breakdown of remuneration between staff types given the limited number of staff. The relatively small size of Liquidity and lack of complexity in its activities is such that Liquidity has only one business area so the disclosure is not broken further.

For the year ended 31 March 2021 the aggregate remuneration in respect of all Staff is as follows:

Remuneration Type	Senior Management and Significant Influence Functions (GBP 000)	Other Code Staff (GBP 000)
Fixed Remuneration	181	372
Variable Remuneration	5,753	2,069
Total Remuneration	5,935	2,441

Overall for the year, the total remuneration between remuneration Code Staff relating to UK regulated activities was £8,375,590.

Article 451

Disclosure: Leverage

This disclosure is not applicable as the firm does not directly employ any leverage.

Management Body (SYSC 4.3A and CRD)

As an investment firm subject to CRD IV, we are required to disclose information (via our website) regarding the managing body of the firm which includes:

- Explaining the obligations placed upon the management body;
- Ensure that as a firm we embrace diversity and;
- Place adequate resources for the employment of reputable and competent partners and appropriate induction and training programmes.

We can confirm that the firm is not considered a 'significant IFPRU firm'. The Partners of the company do not hold more partnerships than is appropriate.

The Partners are the decision-making forum for the firm and set out its internal governance structure.

They have overall responsibility for management of the business and establishing business strategy and risk management and are accountable to shareholders for financial and operational performance. They oversee and appoint the SMF16 and SMF17 (compliance and anti-money laundering roles) and sign off the firm's compliance monitoring programme. The Partners review formal reports from staff performing these functions on an annual basis (and receives MI on a regular basis which is discussed as a regular agenda item at all Partners' meetings).

The Partners consider strategic issues and ensures the company manages risk effectively through approving and monitoring the company's risk appetite and considering stress scenarios, as well as monitoring and employing the relevant staff and third parties (i.e. our auditors) to ensure the firm manages its resources prudently (assessed formally via our ICAAP and is a constant presence on the agenda).

Given the small size of the firm, Liquidity does not have a formal Diversity Policy in place. The firm's human resources department is adequately resourced (on a proportionate basis given the size and responsibilities of the Partners) to recruit, induct and train staff to ensure its competency, reputation and skill set for the roles they are performing.