T +44(0) 203 771 5437
E UKsales@adss.com

ADS Securities London Limited

Pillar 3 Disclosure

Dec 2020

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E UKsales@adss.com

1. OVERVIEW

The Capital Requirements Directive (“the Directive”) of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority (‘FCA’) in its regulations through the General Prudential Sourcebook (‘GENPRU’) and the Prudential Sourcebook for Banks, Building Societies, and Investment Firm’s (‘BIPRU’).

The FCA framework 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 FCA
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

The rules in BIPRU 11 set out the provision for Pillar 3 disclosure. This section is designed to meet our Pillar 3 obligations.

We are permitted to omit required disclosures if we believe that the information is immaterial. Information is material if its omission would be likely to change or influence the decision of a reader relying on that information.

In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties. We have made no omissions on the grounds that it is immaterial, proprietary, or confidential.

2. SCOPE & APPLICATION OF THE REQUIREMENTS

The ADS Securities London Limited (“ADSSL” or “the Firm”) disclosure relates to the business and activities of ADSSL only on an individual basis, and not to any of its affiliates or related entities. The ADSSL disclosure is made available on the website at https://www.adss.com/en-gb/legal/regulation/

The ADSSL disclosure has been reviewed and approved by the ADSSL Board of Directors (the “Board”) and is not subject to an external audit.

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3. GOVERNANCE & BOARD COMMITTEES

ADSSL operates its business under a governance and risk control model which satisfies best practice and legal and regulatory requirements for private limited companies. Decisions are ratified as necessary by its business management committees, having regard to the local legal and regulatory obligations, and implemented accordingly. The governance bodies of ADSSL are presented below.

Board of Directors – As at 31 December 2020 the Board consisted of one executive director and two independent non-executive directors. The chairman is an independent non-executive director. The Board meets at least quarterly, and all meetings have minutes taken. The Board has reserved to itself all matters for decision-making but has also delegated some responsibilities to specific committees under specific documented terms of reference:

Audit, Risk & Compliance Committee (ARCC) - consists of two independent non-executive directors and the Head of Finance. The Chairman is an independent non-executive director. Other members of senior management can attend meetings if invited to. All meetings have documented minutes taken.

The ARCC meets at least ten times a year and its meetings are scheduled to occur approximately 1 week before each Board meeting in order to ensure that any matter that requires consideration by the Board is properly reviewed and presented.

In terms of Risk Oversight, the ARCC reviews the risk controls adopted by each business line and department to ensure that they are appropriate and effective for managing day-to-day risk, including escalation processes to senior management.

Risk / BCP / SLA committee - consists of the senior management of ADSSL and its CEO (who is the chairman and executive director). It considers all matters relating to the day-to-day operations between ADSSL and ADSS, as well as any strategic issues facing the business. The committee meets quarterly, and meetings have minutes taken.

Remuneration & Nomination committee – consists of two independent non-executive directors. It considers all matters relating to remuneration and nomination within ADSSL. The committee meets at least annually in March.

Management Committee – consists of the CEO (who acts as chairman of the meetings) and all Heads of Departments including Finance, Compliance, Operations, Sales, and IT. The committee meets monthly and considers all matters relating to the day-to-day operations of the business.

The Terms of Reference for each committee is reviewed a minimum of once a year by each committee chair and its members and is presented to the Board for approval. The Terms of Reference set out each committee's 'Mission', 'Membership', 'Duties and Responsibilities'. The committees will report regularly to the Board in accordance with their Terms of Reference.

4. RISK MANAGEMENT POLICIES & OBJECTIVES

Risk Appetite

ADSSL's Risk Appetite is directly linked to its business strategy, funding capacity and capital planning. The Firm's Risk Appetite Statement (RAS) is an expression of the level of risk ADSSL is willing and able to take in pursuit of its strategic objectives. The RAS provides clear accountability and clarity to the risks that have been identified within the Rick Management Framework consistently with the pursuit of profitability and other strategic objectives. ADSSL "Risk Capacity" is the maximum level of risk that ADSSL can assume given ADSSL's financial resources, earnings profile, and obligations to stakeholders. ADSSL Risk Capacity is a maximum limit which is not intended to be reached, therefore, a specific risk buffer has been introduced that separates ADSSL's Risk Appetite from its Risk Capacity. Such a buffer has been defined by means of stress testing and represents ADSSL's Risk Tolerance.

ADSSL's Risk Appetite is monitored by Senior Management to ensure that the aggregate risk profile of ADSSL (i.e. all material risks as defined within ADSSL's Risk Management Framework) remains within the limits and tolerances set by the Board.

Risk Assessment

ADSSL has undertaken a risk assessment and identified the following as the principal areas of risk to which it may be exposed:

Market Risk:

ADSSL despite being a principal deal broker does not hold any proprietary trading positions as it back-to-back hedges its client facing trade with its prime brokers. As part of its normal course of business ADSSL is exposed to exchange rate movements due to commission income denominated in US dollars and Euro's. ADSSL mitigates the risk of losses due to adverse movement in exchange rates by selling surplus foreign currency balances into Sterling.

Credit risk:

These risk types relate to the risk of loss resulting from a borrower's failure to repay a loan or to meet its contractual obligations.

The Firm has credit risk exposure to banks and prime brokers arising from funds deposited with these institutions for both working capital requirements and client funds. the Firm mitigates the risk to its own funds, as well as those of clients, by ensuring that the Firm's counterparties are well capitalised institutions with a market rating of at least BBB. The Firm follows a standardised approach to calculating credit risk.

Counterparty Credit risk:

The Firm is exposed to counterparty credit risk predominantly from potential prime broker defaults (including to the Firm's sister entity). In the event of a default the Firm would then take on the exposure and risk of these derivative positions.

The Firm calculates counterparty credit risk via the mark-to-market method. All derivative contracts and spread bets are in-scope.

Operational Risk:

Operational risk is defined as having the "risk of change" in value caused by the fact that actual losses, incurred from inadequate or failed internal processes, people, controls and systems or from external events differ from expected losses. It could also be incurred from business change, legal or operational issues, changes to the regulatory landscape, business continuity events, cyber incidents, or IT issues internally or via outsourced partners. It also includes other classes of risk such as fraud, security, privacy protection, legal and environmental risk. As long as people, controls, systems and processes remain imperfect operational risks cannot be fully eliminated.

To mitigate these risks, ADSSL maintains a strong control framework and performs regular risk and control assessments, looking to promptly remediate any gaps and inadequacies. In addition, the Audit Risk and Compliance Committee reviews the risk controls adopted by each business line and departments along with the observations and recommendations put forward by the Risk / BCP / SLA committee to ensure they are appropriate and effective for managing day to day risk including escalation processes to senior management.

The Firm has used the Basel II Basic Indicator approach to measure Operational risk. This means that the Firm must hold capital for operational risk equal to the average over the previous three years of a fixed percentage of positive annual gross income. The fixed percentage is typically 15% of annual gross income.

Liquidity Risk:

Liquidity risk is the risk that ADSSL will not have sufficient liquid assets to meet its financial obligations as they fall due. To mitigate this risk, ADSSL operates a prudent business model in relation to its own monies and its interaction with clients. ADSSL's own resources are kept predominately in cash and there is no leverage within the business. This ensures that the full weight of ADSSL's balance sheet is available at short notice to support any liquidity requirements.

ADSSL relies on its sister entity in Abu Dhabi, ADS Securities LLC ("ADSS") as its only funding source, giving rise to a liquidity concentration risk.

Foreign Exchange Risk:

ADSSL uses sterling as its functional currency with most of its operating expenses denominated in sterling. Income however is derived in other currencies (mainly USD, Euro and Yen) giving rise to a foreign exchange exposure.

Business Risk:

The Firm's management is aware of the level of financial and operational exposure to the Firm's sister entity, and the effect a change in the sister entity's business model could have on the Firm. The Firm also recognises the potential adverse impact of lower-than-expected growth in the customer base, with the corresponding impact of this on revenues.

Regulatory / Legal Risk:

Regulatory risk is defined as having the "license to operate" withdrawn by a regulator or having conditions applied that adversely impact the economic value of the Firm. This could be breaches of the Firm's compliance regulations which can result in fines. The FCA will determine a figure that reflects the seriousness of the breach and in many cases the amount of revenue generated by a firm from a particular product line is indicative of the potential harm that a breach may cause. Having determined the relevant revenue the FCA will then decide on the percentage of that revenue that will form the basis of that breach and choose a percentage between 0% and 20%. ADSSL has created and will continue to adjust operations, compliance, finance, and governance frameworks to identify, understand, measure and control, authorize and mitigate existing and evolving sources of risk.

Client Concentration Risk:

The Board of ADSSL assessed several scenarios related to revenue concentration risk that may not be captured sufficiently by the capital computed under Pillar 1. The Board believes it to be prudent that a Pillar 2 capital add-on be applied to cover for this risk. ADSSL is aware of the potential business risk deriving from a dependency on its largest clients and has calculated a scenario included in Pillar 2 to cover for losing its top Institutional client and its top retail client.

Group Concentration Risk:

The Firm relies heavily for many of its critical components on its sister company. An ADSS default would result in ADSSL being responsible for the other side of the market risk of all London clients. In addition, ADSSL would assume the credit exposure during the time it would take to find a replacement provider.

In addition, the Service Level Agreement (SLA) between London and the sister entity ADSS includes services for Front Office, Human Resources, Cyber Security, Risk, Infrastructure, Platform Support Business Continuity and Legal. In addition, they provide IT support and out of hours desk coverage. To mitigate these risks as much as it can the Firm has a joint Risk / BCP / SLA committee with the sister entity ADSS which discusses any issues with the delivery of the SLA. To address the dependency on its sole prime broker the Firm maintains relationships with two additional external prime brokers.

Large Exposure Risk:

ADSSL is aware that it holds a large credit exposure with ADSS. However, this is not made up of any trading risk so is not reported as a large exposure. Additionally, there are large exposures with National Westminster Bank and Lloyds Bank which are included as credit risks covered by the Pillar 1 calculations.

Cyber Risk:

Cyber security risk means any risk of financial loss, disruption, or damage to the reputation of the Firm because of using interconnected technological systems. ADSSL uses various techniques of protecting its computers, networks, programs and data from unauthorised access or attacks that are aimed for exploitation and holds the appropriate ISO certification.

The Firm has controls implemented that include, advanced endpoint protection, application whitelisting, asset inventory, custom / threat intelligence, database encryption, data loss prevention, employee awareness training, incident response plans, intrusion detection systems, mobile device encryption, penetration tests, perimeter firewalls, two factor authentication, vulnerability scans, web application firewall, web content filtering and security information and event management.

Conduct Risk:

Conduct risk is the term used to describe risks associated to the way an organisation and its staff relate to customers and the wider financial markets, it considers the accountability and responsibility of senior management in the performance of their duties. It is a key requirement for the regulator that a firm can demonstrate strong corporate governance and leadership.

Key Personnel Risk:

This includes the risk of ADSSL losing either a member of the Board or of the Senior Management team, potentially having an adverse impact on both the growth of the business and / or the retention of existing business. The Firm has adopted a remuneration code policy to achieve the fundamental objectives which are to attract, retain and reward talented staff by offering compensation that is competitive within the industry, encourages high level performance, and aligns the interests of management with the interests of shareholders.

5. CAPITAL RESOURCES

Figures in GBP	31 Dec 2020
Total Regulatory Capital / Own Funds	**8,373,403**
Deductions	-
Total Regulatory Capital / Own Funds after deductions	**8,373,403**
Risk exposure	
Credit risk capital component	820,466
Operational risk capital requirement	716,167
Counterparty risk capital requirement	571,219
Credit valuation adjustment (CVA) capital requirement	154,184
Market risk capital requirement	59,646
Total Pillar 1 capital requirement	**2,321,682**
CET1 Capital ratio	**28.9%**
T1 Capital ratio	**28.9%**
Total capital ratio	**28.9%**

The Firm's Common Equity Tier 1 Capital as at 31 December 2020 was £8.4m, £6.1m over the Pillar 1 risk exposure capital requirement of £2.3m.

The Firm is also subject to an Individual Capital Guidance (ICG) capital requirement decided by the FCA. Since the ICG exceed both the Pillar 1 & 2 combined requirements, and the wind down costs, the Firm's total capital requirement is £7.7m. The Firm holds a £0.7m surplus versus this requirement.

Pillar 1 Capital requirement consists of credit risk, counterparty credit risk, operational risk, and market risk. These have resulted in a Pillar 1 requirement of £2.3m.

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Pillar 2 Capital covers business risk, client concentration risk, cyber risk, regulatory risk, reputational risk, group concentration risk, legal risk, and conduct risk. Stress testing was performed to inform these calculations, and these resulted in a total Pillar 2 Capital requirement of £4.4m.

Expected wind down costs as at 31 December 2020 were £4.0m.

6. THE INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS ("ICAAP")

The Firm's ICAAP submission summarises the risk-based approach that ADSSL has adopted towards evaluating and managing its aggregate risk profile, capital requirement and regulatory capital resources.

The document explains the approach that ADSSL has taken towards identifying its material risks, the potential impact of such risks at varying levels of stress and the capital requirement and the related capital resources that ADSSL is projected to hold over the horizon of the ICAAP.

The responsibility for ensuring that ADSSL has adopted an effective ICAAP framework sits with the Board. It is also the responsibility of the ARCC to regularly review and challenge the ICAAP Submission.

The Capital Requirements Directive (CRD IV) drives the European capital requirements for investment firms. This has been implemented by the FCA in its rulebooks with direct reference to the Capital Requirements Regulation (CRR). The Firm is a UK registered FCA regulated Limited company. As such it is categorised under CRD IV as an IFPRU licence firm; with a base capital requirement of €730k

The Board of ADSSL exercises challenge, oversight, and approval of the ICAAP framework and ICAAP Submission. The document is reflective of the revised approach adopted. The Executive Directors are responsible for the day-to-day ICAAP maintenance, but all key inputs, such as financial assumptions are open to challenge by the Board. Therefore, on a day-to day basis it is the Executive Directors that develop the assumptions based upon the activities of the Firm, monitors and assesses risk and based upon these risks develops appropriate stress tests and scenarios to monitor them. It also is responsible for monitoring and maintaining adherence to the regulatory Capital requirements.

7. REMUNERATION

ADSSL is subject to the FCA's Remuneration Code and is required to produce remuneration disclosures in accordance with Article 450 of the Capital Requirements Regulation.

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The Firm is incorporated in the UK and is authorised and regulated by the FCA. The Firm acts as a principal dealer who is counterparty to all its client's trades. The Firm in turn nets off its market risk by hedging all its trades with its sister company based in Abu Dhabi. The Firm has identified itself as a Proportionality Level Three Investment Firm and adopted a proportioned approach to its Policy.

It has considered its individual needs on an ongoing basis and, where appropriate, disapplied certain remuneration principles (as set out below) in accordance with FCA guidance.

The Firm will review any principles which have been disapplied on at least an annual basis, to ensure that these continue to be appropriate for the Firm.

During the year ended 31 December 2020, the aggregate remuneration from the Firm of staff identified as Code Staff, split by fixed and variable pay in GBP, was as follows:

Category	No. of Staff	Fixed Pay	Variable Pay
Senior management	4	507,359	0
Material risk takers	7	665,172	199,960

ADSSL seeks to attract and retain employees, who are motivated by its culture, high ethical business standards and reputation.

ADSSL's remuneration policy promotes staff retention and loyalty and all variable remuneration paid rewards excellence based upon individual and group success with the ADSSL's profitability underpinning all variable remuneration schemes in operation.

The remuneration governance is operated through regular meetings between the Board, Human Resources, and a select number of senior managers.