



Stockbroking

Pillar III Disclosure

Financial Year Ending 31 December 2009



Stockbroking

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1 Overview

This document has been prepared by FEXCO Stockbroking Limited (“FSL” / the “Firm”) and has been approved by the Compliance Committee and the Credit Risk Committee on behalf of the Board of Directors. It continues in effect until such time as a replacement document is issued by FSL and notice of such is placed on the Firm’s website. FSL has adopted the standardised approach to Pillar I reporting under the Capital Requirements Directive and this document reflects disclosures made under that methodology. FSL adopted the revised reporting regime on 1 January 2008.

1.1 Introduction and Background

1.1.1 Capital Requirements Directive (“CRD” / the “Directive”)

The CRD (also referred to as Basel II) came into force in the EU on 14 June 2006 and became effective in Ireland on 1 January 2008. FSL adopted the Directive on 1 January 2008 in accordance with Financial Regulator requirements.

The CRD introduced a “three pillar” approach to prudential reporting:

- Pillar I: a quantitative assessment of the minimum capital requirements of the Firm;
- Pillar II: a qualitative assessment of additional regulatory capital and the supervisory review process; and
- Pillar III: the requirement for market disclosure.

In order to promote transparency and facilitate market disclosure, the Directive requires that all credit institutions and investment firms disclose key information in relation to the risk management procedures and capital resources of the institution. The Directive was implemented in Irish law through Statutory Instrument 660 of 2006: European Communities (Capital Adequacy of Investment Firms) Regulations 2006 and issued guidance notes on implementation of the CRD on December 2006. This disclosure statement is issued in line with these regulations and the Directive.

1.1.2 The Firm

FSL is an authorised investment firm regulated by the Financial Regulator under Regulation 6(2) of the European Communities (Markets in Financial Instruments) Regulations 2007. The Firm is authorised to provide a range of investment services including: receiving and transmitting orders, execution of orders on behalf of clients and providing investment advice to clients. FSL is part of FEXCO, an international financial payments group which is based in Ireland and has operations globally. Within FEXCO are a number of entities which are regulated by the Financial Regulator including FSL.

1.1.3 Purpose of the Pillar III Disclosures

The purpose of this document is to meet FSL’s responsibilities under Pillar 3 of the Basel 2 framework. This document is to be read in conjunction with the Firm’s Annual Report and in conjunction with other financial information which is issued by the Firm from time to time.

1.2 Basis and Frequency of Pillar III Disclosures

These disclosures will be made on an annual basis unless there is a material change in the regulatory capital base of the Firm and the report will be published on the Firm’s website www.fexcostockbroking.com. Copies of the report will also be available on request by writing to the Compliance Officer, FEXCO Stockbroking Limited, FEXCO House, 12-14 Ely Place, Dublin 2, Ireland.

1.3 Verification of Disclosures

These disclosures have been reviewed by the Compliance Committee and the Credit Risk Committee of the Firm. They have not been subject to external audit except where items within this disclosure document have been separately reviewed as part of the preparation of the Annual Financial Statements.

1.4 Consolidated Reporting

FSL is subject to consolidation at a group level and is subject to the consolidated supervision requirements of the Financial Regulator. The disclosures in this document are made in respect of FSL and in respect of the consolidated entity.

2 Risk Management Objectives and Policies

2.1 FSL Risk Management Structure

The Board comprises of senior executives of FSL, senior executives of FEXCO Group and two non-Executive Directors. The Board meets at least quarterly or more frequently where required.

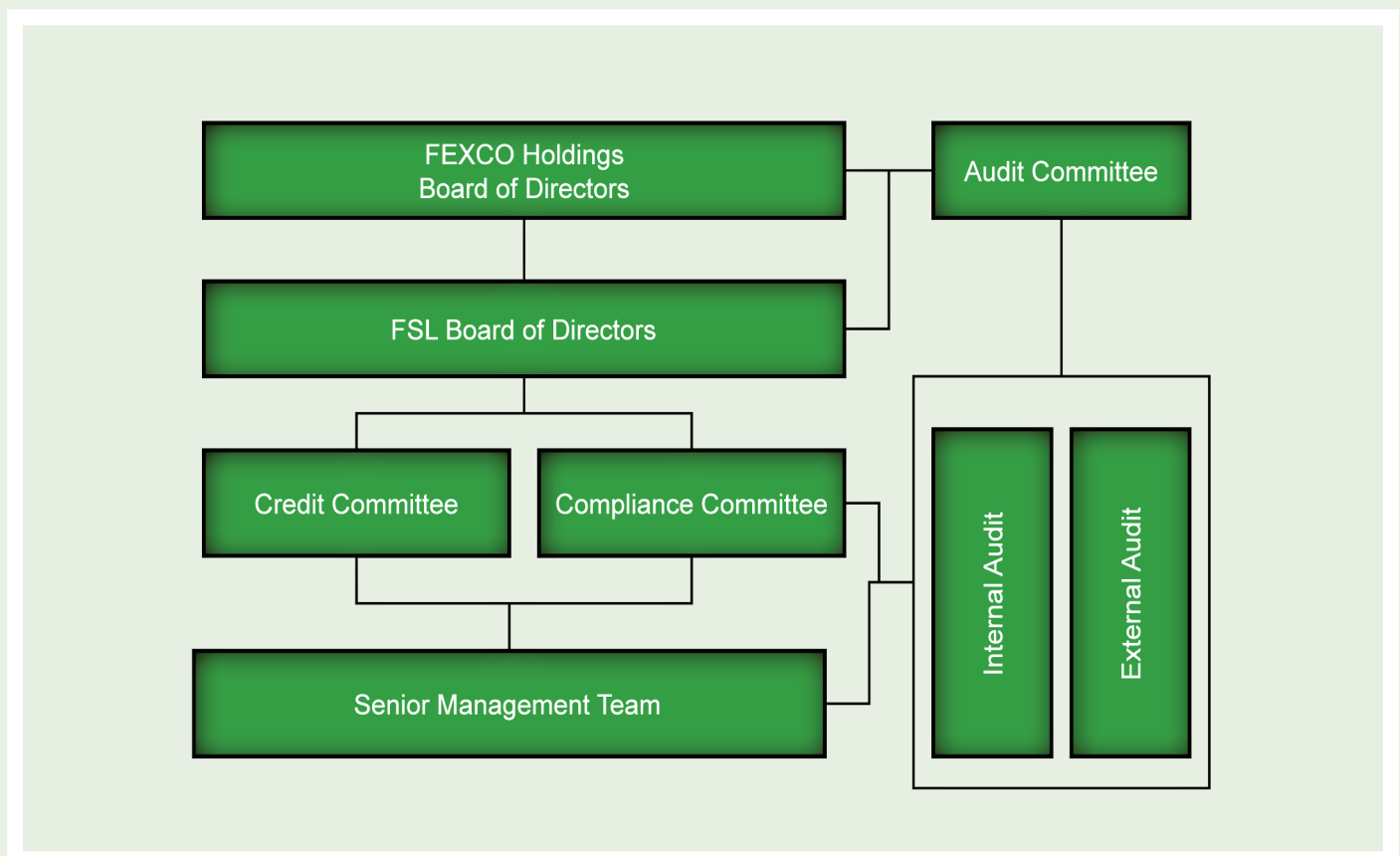
The Board is responsible for:

- establishing and monitoring corporate governance within the Firm;
- determining the strategic direction of the Firm;
- ensuring there are sufficient financial and human resources in place to meet the Firm's objectives;
- defining the risk appetite of the Firm and monitoring compliance with the risk parameters; and
- monitoring the ongoing performance of the Firm against financial targets and objectives.

The Firm's Board of Directors has taken the view that the management of risk is best achieved by embedding the process within the Firm's committees. The committees report back to the Board. The Board is also supported by the Group Audit Committee which provides feedback in relation to the performance of the Firm. The Group Audit Committee reports back to the Board of FSL and the Board of FEXCO Holdings Ltd.

The Risk Management Structure, including Board sub-committees, is illustrated below:

The sub-committees of the Board are as follows:



Credit Committee: This committee is responsible for the supervision of Credit Risk within the Firm including the monitoring of large exposures and reviewing the performance of risk management controls. This committee is chaired by the Managing Director of FSL and comprises senior executives of FEXCO Group and Senior Management of FSL.

Compliance Committee: This committee is responsible for providing oversight and guidance to the compliance program of

the Firm with respect to compliance with regulatory and statutory requirements and Firm policy and procedures. This committee is chaired by a Non-Executive Director of the Board and comprises of senior executives of FSL, senior executives of FEXCO Group and an external representative. Members of the Senior Management report to this committee.

Audit Committee: This committee is responsible for reviewing the findings of Group Internal Audit and external audits and in turn reports to the Boards of FSL and FEXCO Holdings. The committee is chaired by a Non-Executive Director of FSL and comprises of representatives from the FEXCO Group and Group Internal Audit.

The sub-committee structure of the Board is designed to support the Board as fully as possible in carrying out their obligations. The framework for risk management is based on the principles of best practice and allows the greatest possible amount of transparency throughout the Firm. All committees are governed by clearly defined and documented terms of reference. At each Board meeting there is a formal presentation of matters in relation to Credit Risk and Compliance. The Board is responsible for approving all significant changes to the risk methodology of the Firm and has input into the creation and approval of the Firm's Internal Capital Adequacy Assessment Process ("ICAAP").

2.2 Relevant Procedures

The Firm maintains a formal organisation chart which is reviewed on a periodic basis by the Senior Management Team and the Board. The Firm maintains detailed policies and procedures in relation to compliance, operational and credit risk issues. These policies and procedures are continually reviewed by the Senior Management Team and the Board sub-committees. The operation and application of these procedures is regularly monitored and tested by the Compliance and Internal Audit Functions.

2.3 The ICAAP

The ICAAP was drafted by the Senior Management Team and approved by the Board. The ICAAP provides a critical assessment of the capital risks within the Firm which are not addressed by Pillar I. The ICAAP reviews the financial position of the Firm on a 1-3 year time horizon (focusing on Year 1) and the financial and other assumptions within the ICAAP are stressed tested. The Firm reviews the ICAAP at least annually during which time the process is fully documented. During the course of the review of the ICAAP, the CRD provisions are also reviewed to ensure that the capital position of the Firm remains strong.

2.4 Analysis of Key Risks

The Firm has assessed its risks under the following headings:

2.4.1 Credit Risk

Credit risk is defined as the risk and potential financial loss that could arise in the event that a customer or counterparty of FSL fails to pay amounts owed to the Firm as they come due.

The Firm deals predominantly with the following counterparties:

Clients – The Firm has historically had very few bad debts. This is particularly the case because the vast majority of our clients hold cash with the Firm and/or hold investments in the Firm's nominee account. The Firm has a right of security over a client's cash and/or investments and can enforce this security in the event of a potential default.

The Firm manages Credit Risk from clients through its Credit Risk Policy and Procedures. These procedures are set by the Credit Committee, approved by the Compliance Committee and monitored on an ongoing basis by the Credit Risk Controller and the Compliance & Risk Manager. In addition FSL does not provide credit facilities to clients and it is the policy of the Firm to require clients to pay for all transactions before settlement.

The Firm employs strict credit limits on client accounts, requiring margin for sizable transactions and requiring approval for any transactions which are outside of the client's normal trading pattern. The Firm has in place staggered approval levels based on the value of the transaction.

Market counterparties – The Firm has controls in place to ensure that all new counterparties are approved based on regulatory and financial suitability and the Firm employs strict credit limit on client trades thereby limiting exposure to market counterparties.

Banks/custodians – FSL only places funds with financial institutions that pass the credit risk assessment which is undertaken annually by the Firm. The Firm holds all client assets with Pershing Securities International Limited, a subsidiary of Bank of New York Mellon. Pershing provide custodial services to over 160 investment firms in the UK and Ireland and has over \$1 trillion in assets under management. The Firm reviews any Credit Risk liabilities for Pershing on a semi-annual basis.

2.4.2 Market Risk

Market Risk is defined as a risk arising from potential adverse changes in transaction values linked to movement in interest-rates, stock prices, currency movements and other market risk factors. FSL does not maintain a proprietary trading book and therefore market risk for FSL arises solely from the risk attached to client positions.

In regard to client positions, market risk arises from potential movements in stock prices and currency rates. FSL manages the risk of exposure clients have to movements through its Credit Risk Policy and Procedure as documented in 2.4.1

To protect against currency risk, all non-Euro transactions are converted to Euro at the time of execution utilising the FX rate at the time of execution unless the client requests otherwise. The Firm applies all conversions at either the time of execution or the time of settlement and therefore does not run open positions on currency. This allows the Firm to mitigate any potential currency risk inherent within the trading positions.

2.4.3 Liquidity Risk

Liquidity Risk is defined as the risk that FSL will not have sufficient financial resources to meet its financial liabilities as they fall due. It is the Firm's policy that it meets its financial liabilities as they come due and that it monitors its liquidity position on a daily basis. Monitoring of Liquidity Risk is the responsibility of the Financial Controller. Detailed Management Information stating the liquidity position of the Firm is presented to the Managing Director on a weekly basis and to the Board at Board meetings.

2.4.4 Operational Risk

Operational Risk is defined as the risk of a loss arising or other negative impact due to inadequacy or failure of internal processes, people and systems or from external factors such as regulations or key suppliers. FSL considers that the most effective operational risk mitigant is periodic monitoring; testing and review of internal process and key operational issues.

The Firm has in place a Business Continuity Plan ("BCP") designed for the effective continuing operation of the Firm in the event of an inability to conduct business in the premises due to fire, bomb threat, flooding, power outage or IT failure. The BCP allows the Firm to rapidly reinstate "business as usual" procedures thereby causing minimum disruptions to the customers. The BCP is tested annually and monitored by the Managing Director.

To monitor risks within the administration and dealing functions which can be largely attributed to human error (collectively referred to as "people risk") the Firm has specific training programs for new employees and performance of all employees is regularly monitored. Extensive management information is provided to the Managing Director daily and controls around employee performance are monitored on an ongoing basis to ensure they remain effective.

3 Capital Resources

At 31 December 2009 and during the course of the year, FSL complied with all capital requirements imposed by the Financial Regulator. The table below sets out a breakdown of the Firm's capital resources available to meet these requirements:

Regulatory Capital Resources 31 December 2009

	€ '000
Tier One Capital	
Paid Up Share Capital including Share Premium	1,905
Revenue Reserves and Profit & Loss (less deductions)	(1)
Total Tier One Capital	1,904
Tier 2 Capital	
Subordinated Loan	51
Total Tier Two Capital	51
Total Capital Resources	1,955

3.1 Tier 1 Capital Notes

The paid up share capital includes a share premium adjustment taking into account the conversion to Euro of the called up share capital.

The Profit & Loss and revenue reserves are net deductions.

4 Capital Adequacy

FSL is required to maintain the higher of its initial capital requirement and its expenditure requirement. The expenditure requirement is set annually by the Financial Regulator following the submission of the annual financial statements.

Pillar I Capital Requirements 31 December 2009

	€ '000
F/X Risk	6
Settlement & Counterparty Risk	0
Non-Trading Book Risk	157
Total Capital Requirement	163
Expenditure Requirement	1,063

4.1 Pillar I Capital Requirements

FSL's capital management policy is to ensure that it always has sufficient capital meet its regulatory capital requirements. Supervision of the capital management policy lies with the Board. The Firm's capital position is reviewed at each Board meeting. The Firm believes in taking a pro-active approach to capital management and addressing capital issues before intervention is required by the Financial Regulator.

5 Further Information

If you would like further information in relation to this document, please contact:
Compliance & Risk Manager, FEXCO Stockbroking Limited, 14 Ely Place, Dublin 2

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