



GALVAN RESEARCH AND TRADING LIMITED

PILLAR 3 RISK DISCLOSURE STATEMENT

Overview

The Basel II Accord, implemented in the European Union through the Capital Requirements Directive (the Directive) establishes a revised regulatory capital framework across Europe governing the amount and nature of capital that must be maintained by credit institutions and investment firms.

In the United Kingdom, the Directive has been implemented by the Financial Services Authority (FSA) in its regulations through the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU).

The CRD framework consists of three pillars:

Pillar 1 specifies the minimum amount of capital that a financial services firm is required to maintain to support its business;

Pillar 2 requires the firm to assess whether any additional capital should be maintained against any risks not adequately covered under Pillar 1, and the FSA then to review this process;

Pillar 3 specifies the disclosures which the firm is required to make about its capital, its risk exposures and its risk assessment processes.

The FSA rules governing Pillar 3 disclosures provide that the firm may choose not to disclose information which is not material. The firm may also choose not to disclose information if it is proprietary or confidential, though it must state if any such items have been omitted (BIPRU 11.3.7).

Frequency of Publication

The disclosure will be reviewed on an annual basis at a minimum and, if appropriate, more frequently.

Report Location

Whilst all the information was included in the last financial report, the key information has been duplicated and is included in this Disclosure which can be found under the Risk Warnings section of our website.

Corporate Governance Processes

The Board of Galvan Research and Trading Limited Board ("Galvan" or the "Firm") oversees an on-going capital assessment process in order to ensure the continuing capital adequacy of Galvan, particularly in the light of changing business factors, both internal and external, to Galvan. The Board delegates the on-going monitoring responsibility of this to the Executive Directors.

The overall governance of the firm is based upon the high level decision making and control framework, key controls and strategic and capital planning.

The firms approach to assessing the adequacy of its internal capital to support its current and future activities is documented in its Internal Capital Adequacy Assessment Process (ICAAP), which includes an assessment of each of the risks faced by the firm and the internal controls in place to mitigate those risks.



Internal control and risk management

There is an on-going process for identifying, evaluating and managing the significant risks faced by the Firm, which has been in place for the period and up to the date of approval of the financial statements. The system of internal control is designed to manage rather than eliminate the risk. As such it can provide only reasonable not absolute assurance against material misstatement or loss.

The Board is responsible for determining the Firm's risk appetite and for ensuring that the Firm's risk management processes are appropriate and operating effectively. Day to day management of risk is delegated to the Executive members of the Board who effectively are the Firm's Senior Management Team responsible for overseeing the Firm's Risk and Compliance systems and controls.

Principal risks and controls

Galvan has taken the approach to be risk adverse and the firm takes reasonable steps to manage its risks. This is reflected in their low appetite for taking on risk in any of its activities. Risks to income generating capability are mitigated wherever possible and measures against actual and potential operating risks are taken where its Directors 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. Galvan has 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 on-going basis.

The critical material capital adequacy risks for Galvan are outlined below, along with mitigating actions.

Market Risk - Market Risk is the risk of any impact upon the firm's financial condition due to fluctuations in values of, or income from, assets or in interest or exchange rates. Decline in value would result in reduction the asset value of Galvan.

Key mitigating actions – Senior Management are responsible for ensuring that market risk is regularly taken into consideration. Stress tests involve testing relevant market factors using scenarios that are believed by management to represent possible market events. Stress tests are performed and documented annually or as required by risk management at interim periods.

The Director's do not believe there is a significant market risk to Galvan as it is a broker and does not have direct exposure to market movements in asset prices or exchange rates.

Reputational Risk – Reputational Risk is defined as the risk of damage to the firm's reputation that could lead to negative publicity, costly litigation, a decline in the customer base or the exit of key employees and therefore, directly or indirectly, a loss of income.

Key mitigating actions – The firm monitors on a frequent basis the firm's clients and its reputation. By having systems and controls to monitor any errors and mitigate them as they arise, Galvan can quickly assess any risks arising to their reputation. Senior Management has extensive experience dealing with CFD's and providing high standards of client care.

Counterparty Risk – Counterparty Risk is defined as the risk of failure of a counterparty to perform as contracted. Galvan may be exposed to counterparty risk primarily from external service providers.

Key mitigating actions – Galvan actively manages Counterparty Risk by diversifying its relationships, executing its business with reputable counterparties and, where applicable, having in place back up counterparties.



Credit Risk – Credit risk is defined as the risk that the firm’s debts are not collected as they fall due.

Key mitigating actions – Galvan manages credit risk by executing its business with highly capitalised counterparties and by entering into arrangements whereby balances are paid down regularly and promptly.

Liquidity Risk – Liquidity Risk is defined as the risk of inability to obtain funding, either via liquid assets or short-term borrowing, on a day-to-day basis and particularly in times of stress.

Key mitigating actions – Monthly management accounts are prepared and distributed to and reviewed by senior management. Galvan holds excess cash to cover at least three months overheads and the company is cash generative.

Operational Risk – Operational Risk is defined as the risk of loss due to system breakdowns, internal and operational control failures, employee fraud or misconduct, and catastrophes.

Key mitigating actions - Operational risk is assessed at least annually as part of the Pillar II process and is monitored by the Board.

Regulatory and Legal Risk – Regulatory and Legal Risk is defined as the risk that Galvan’s activities do not comply with applicable laws and regulations.

Key mitigating actions - The Compliance and Risk Officer monitor and manage regulatory and legal risks. These functions report into the Chief Executive Officer (“CEO”). In addition, external counsel and consultants with industry expertise are utilised as needed. Galvan employs legal and compliance firms to ensure they are compliant with regulatory and legal bodies.

Business Risk – Business Risk is defined as the risk that Galvan’s clients leave, which would have a significant impact on their income. There is steep competition in the market place for CFD firms such as Galvan.

Galvan, as a CFD broker generates its income by way of charging a commission fee.

Key mitigating actions – Galvan has a wide spread of clients, no single client represents more than 5% of total income and hence there is limited Concentration Risk.

Galvan maintains its client base through the quality of its services to its clients. Galvan’s client base is not sensitive to the loss of any key staff. The directors and key staff members are experienced in the CFD market and are able to monitor investment decisions when they are made.

Litigation Risk – Litigation Risk is defined as the risk that Galvan will be in breach of any fiduciary or other contractual duties which results in extensive litigation.

Key mitigation actions - Galvan selects law firm’s with industry expertise to draft key contracts and agreements. All documents are vetted and then approved by senior management before being signed by its client’s.

Interest Rate Risk – Interest Rate Risk is defined as the risk arising from potential changes in interest rates.

Galvan is exposed to interest rate risk primarily on its cash balances; however the senior management believe that the exposure is not material.



Satisfaction of capital requirements

Our regulatory capital ratios continue to be strong, reflecting a sizable buffer over the FSA requirements.

The Pillar I requirement

The Pillar I requirement is made up of the higher of the base capital requirement (€50k); the Fixed Overhead Requirement (FOR); or the sum of Credit plus Market Risk requirement (CRR +MRR). The Credit Risk represents an 8% requirement calculated on the firm's account receivables and the Market Risk an 8% on foreign exchange balances.

The FOR is based on 13 weeks fixed costs.

Having analysed the Firm's material risks, Pillar II requirements are lower than Pillar I, therefore the regulatory requirements are based on the Pillar I requirement.

The Pillar II requirement

Galvan assessed the material risks to the Firm and their impacts if they were to be crystallised over the next 12 months as well as any foreseeable requirements arising over the next three years.

The main driver of Pillar II capital is wind up costs. The wind up cost figure has been estimated from both internal and external loss events.

Wind-Up Scenario

The fixed overheads of the firm are moderate to low and can be forecast with a high degree of certainty and any operating commitments are short-term. The Directors would not take any salary or dividends and most other costs would cease immediately with the exception of contractual commitments covering IT, office rent and other subscription and third party services. It is estimated that the firm would take about three months to wind-down. As a result the firm's current Pillar I capital exceeds these costs and would be sufficient to wind down the business. The firm has a long contractual commitment to their office; however, the contract allows Galvan to sub-let or assign the property. Therefore an estimate of 6 months to find a new tenant is deemed proportionate.

In addition, the wind up costs for Galvan have been calculated as a reasonableness check on the Pillar II capital. The wind up costs are less than the Pillar I FOR requirement. Galvan is comfortable that in an extreme scenario it would be able to wind up its operations without detriment to its clients and other stakeholders.

Remuneration

Galvan's senior management is responsible for determining the remuneration policy of the firm and reviews the policy at least annually.

Galvan's senior management have determined that variable remuneration is to be paid on the basis of performance. Due to its size and nature Galvan does not operate a share or other non-cash scheme and does not include further remuneration details as these are considered proprietary and confidential.