Baader Helvea Ltd Pillar III Market Disclosures Document

Purpose of Disclosures

This document sets out the Pillar 3 market disclosures for Baader Helvea Ltd, an authorised and regulated limited licence firm in the UK.

The applicable rules are built on three pillars:

Pillar 1: Minimum capital requirements

Pillar 2: Guidance for the setting of bespoke capital requirements by the firm's senior management through the Internal Capital Adequacy Assessment Process ("ICAAP") and subsequent Supervisory Review and Evaluation Process ("SREP").

Pillar 3: Rules for the disclosure of risk and capital management, including capital adequacy.

The purpose of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment process. The disclosures are to be made public for the benefit of the market.

Background to Baader Helvea Ltd

Baader Helvea Ltd is authorised and regulated by the Financial Conduct Authority (FCA). It is a 100% owned subsidiary of Baader Helvea AG, a Swiss-regulated securities dealer. The Baader Helvea Group is fully owned by Baader Bank AG of Germany. There are no branches or related entities of Baader Helvea Ltd that are also regulated by the FCA. Baader Helvea Ltd is an IFPRU 50k limited licence firm.

Baader Helvea Ltd is a small securities firm that essentially acts in an introducing capacity. It maintains relationships with UK institutional clients. It provides research produced by Baader Bank AG, Baader Helvea AG and Baader Helvea Ltd to clients. Any orders received from clients are passed to Baader Bank AG for centralized trade execution.

Risk Governance within Baader Helvea Ltd

Baader Helvea Ltd is committed to implementing a good practice firm-wide governance and risk management framework appropriate to the size, nature and complexity of the business. The governing body for the risk framework within Baader Helvea Ltd is the Board of Directors which has the ultimate responsibility for managing and controlling risk within the risk appetite of Baader Helvea Ltd.

Risk Management Objectives and Policies

Baader Helvea Ltd's risk management objective is to safeguard the assets of Baader Helvea Ltd while allowing sufficient operating freedom to secure a satisfactory return. The Board of Baader Helvea Ltd recognises that a critical success factor of a good governance and risk management framework is embedding sound risk management into the day to day business of the firm. Baader Helvea Ltd adheres to the Rules on Risk Management of Baader Helvea AG which applies to all subsidiary companies. Risk must be fully understood and adequately measured to ensure that the risk exposure is appropriate for the returns anticipated, and is consistent with Baader Helvea Ltd's long-term goals and obligations to its stakeholders.

Risk in the firm is managed according to common principles and policies approved by the Board. The following key principles are central to Baader Helvea Ltd's risk management strategy:

1. The setting of risk appetite limits;
2. Clearly articulated roles and responsibilities with appropriate segregation of duties;
3. Monitoring of the adequacy and effectiveness of key internal controls;
4. Regular reporting on risk-related issues and forecasts to the Board;
5. Documented and communicated policies addressing key areas of risk to the business.

Risk appetite limits

Risk appetite limits define the level and nature of risks to which senior management considers it is acceptable to expose the firm. It therefore defines the boundaries of activity that the Board intends for the firm. The Board sets and approves, on an annual basis, risk appetite statements for areas of actual or potential significant risk to the business. Baader Helvea Ltd has considered all relevant risk categories suggested by the FCA and has put in place risk appetite statements only for those risk categories which are applicable to the nature of its business.

Roles and Responsibilities

The Board retains final responsibility for ensuring that Baader Helvea Ltd's risk management framework is appropriate to the size, nature and complexity of the business and that this framework is implemented consistently and effectively across the firm.

Senior management in both Baader Helvea Ltd and Baader Helvea AG, the parent company, are accountable for the identification of material risks assumed in their areas of responsibility and for ensuring that these risks are controlled and managed in line with Baader Helvea Ltd's risk policy and within the risk appetite of Baader Helvea Ltd. The principle of individual accountability and responsibility for risk management is an important feature of Baader Helvea Ltd's culture.

Independent review and challenge is provided by the Executive Management Board of Baader Helvea AG which includes the Chief Executive Officer of the Baader Helvea Group, the Chief Financial Officer of the Baader Helvea Group, and the General Counsel & Chief Compliance Officer of the Baader Helvea Group. The Board ensures that the risk policy is consistently implemented within Baader Helvea Ltd and monitors the overall adequacy and effectives of the risk management framework on behalf of the Board.

As a key part of ensuring a good control environment, functions where an internal conflict may occur are segregated within Baader Helvea Ltd and Baader Helvea AG.

Key Control Monitoring

Baader Helvea Ltd believes that an effective system of internal control is an essential element of good management and Baader Helvea Ltd puts in place appropriate procedures to ensure that key risks are appropriately controlled within Baader Helvea Ltd's risk appetite. Day to day independent and objective assessment and monitoring of key controls is provided by the Head of Middle Office of Baader Helvea AG and the Compliance Officer.

Risk Reporting

Regular reporting is in place to allow the Board to review the firm's risk profile against risk appetite, monitor losses, incidents and any breaches of the risk policy.

Policy

Baader Helvea Ltd has in place documented policies with respect to key areas of risk to the firm. These include market abuse, personal account dealing, error reporting, and a Compliance Manual which sets out ethical guidelines.

Capital Resources

The regulatory capital requirement (Pillar I) for Baader Helvea Ltd as at 31 December 2018 is £375,000. The Pillar II capital requirement is £416,000. The actual capital held by Baader Helvea Ltd as at 31 December 2018 is £455,000. Eligible Tier 1 Capital stood at £455,000, which gives a surplus of £39,000 against the higher (Pillar II) capital requirement.

Baader Helvea Ltd's consolidated capital resources as at 31 December 2018 are shown in the table below:

Capital Resources		**£000's**
Tier One Capital	Permanent Share Capital	800
	P&L a/c and other reserves	-345
Tier Two Capital		0
Tier Three Capital		0
Less Deductions		0
Total Capital Resources		455
Regulatory capital req't	(Pillar I/II)	416
Surplus		39

Baader Helvea Ltd's Approach to Assessment of Capital Adequacy

Baader Helvea Ltd maintains sufficient capital to meet UK regulatory requirements. In line with these requirements, Baader Helvea Ltd maintains the higher of Pillar 1 and Pillar 2 (ICAAP) capital requirements. The adequacy of the capital held by Baader Helvea Ltd is assessed, at least annually, as part of the Individual capital Adequacy Assessment Process (ICAAP) and is subject to formal sign off by the Board.

Pillar 1 Capital Calculation

Based upon its regulatory permissions and scope of activities, the firm is subject to the capital requirements for a limited licence firm. Baader Helvea Ltd's pillar 1 capital is based on the Fixed Overhead requirement (FOR), being higher than Baader Helvea Ltd's Credit Risk plus Market Risk exposure.

	Calculation Method	**Capital (£)**
Credit Risk	The firm uses the standardised approach under which the capital requirement is calculated as 8% of the risk weighted exposure amounts as set out by the FCA.	33,000
Market Risk	The firm calculates its market risk capital requirement using the foreign currency PRR method set out in the FCA's rules.	16,000
Fixed Overhead Requirement (FOR)	The FOR is calculated as 13 weeks' fixed expenditure based on financial statements as at 31 December 2018.	375,000
Pillar 1 Capital	Higher of the sum of the credit and market risk charges and the FOR	375,000

Pillar 2 (ICAAP)

Baader Helvea Ltd's ICAAP assesses the amount of capital required to mitigate the risks to which Baader Helvea Ltd is exposed over a 12 month time horizon. The ICAAP consider the impacts of future business plans as well as potential adverse scenarios (such as market downturns or significant operational errors) on the capital resources of Baader Helvea Ltd, to ensure regulator capital requirements are met at all times.

Baader Helvea Ltd's exposure to risk categories as defined by the FCA and Baader Helvea Ltd's strategies with respect to material risk categories is shown below:

	Treatment	**Capital (£)**
Operational risk	Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Examples of significant operational incidents that could arise are: technology failures, trade and trade processing errors, outsourcing malfunctions, and settlement issues. Baader Helvea Ltd's exposure to Operational risk has been assessed using a standardized approach, namely 15% of the 3 year average revenues. Central to the management of Operational risk is the monitoring of key controls. The firm also has insurance designed to reduce its exposure to liability and to protect its assets.	367,000
Credit risk	Credit risk is defined as the risk of loss caused by the failure of a counterparty to perform its contractual obligations. A factor which may contribute to increased credit risk is concentration of assets held with a single counterparty. Baader Helvea has no significant exposure to credit risk other than through balances held with recognised banking institutions regulated in the EU or in Switzerland.	33,000
Foreign Exchange risk	Foreign exchange risk is defined as the risk of loss arising from fluctuations in foreign exchange rates. Foreign exchange risk arises in Baader Helvea through the fact that the Company holds non-GBP bank balances.	16,000
Liquidity risk	Liquidity risk is defined as the risk that the firm, although solvent, either does not have sufficient available resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost. Baader Helvea Ltd maintains surplus liquid resources sufficient at all times to meet any immediate requirements it could prudently foresee. Liquidity is available in the form of cash which is invested in short-term bank deposits to ensure that it is available as required.	0
Business and Strategic risk	Business risk is any risk to a firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy. In a narrow sense, business risk is the risk to a firm that it suffers losses because its income falls or is volatile relative to its fixed cost base. However, in a broader sense, it is exposure to a wide range of macroeconomic, geopolitical, industry, regulatory and other external risks that might deflect a firm from its desired strategy and business plan. Baader Helvea Ltd regularly considers risk which may threaten its business strategy and expected growth according to a range of assumptions as to the state of the economic or business environment which it faces and puts in place additional controls or other actions where it is deemed cost-effective to do so.	0
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	0

	Treatment	Capital (£)
	indirectly to a loss of revenue. The maintenance of Baader Helvea Ltd's reputation is a key component of its ability to achieve its strategic objectives. Some of the key events which could significantly impact the reputation of Baader Helvea Ltd include high profile Operational risk events such as market abuse or loss of high profile key people. Baader Helvea Ltd monitors the potential reputational impact of all risk categories and takes appropriate action to prevent and manage the kinds of events which may give rise to reputational damage. This is achieved through putting in place frameworks and controls around operational risks and monitoring of the effectiveness thereof. It is the responsibility of the board to identify areas of the business or external factors which may significantly affect the reputation of Baader Helvea Ltd and to ensure that these are adequately managed.	
Non-applicable risk categories	The following risk categories are deemed insignificant to the firm's activities: • Residual risk • Interest rate risk • Securitisation risk • Pension obligation risk • Insurance risk	
Total Pillar II capital requirement		416,000

Baader Helvea Ltd. also calculates realistic wind-up coasts and is comfortable that regulatory capital held would allow Baader Helvea Ltd to wind up in an orderly fashion. Based on 2018 audited accounts management estimates wind-up costs of £ 241,000.

BAADER HELVEA REMUNERATION POLICY

General

This policy reflects the Baader Helvea Group's objectives for good corporate governance as well as ensuring that the Group is able to attract, develop and retain high-performing and motivated employees in a competitive, international market. Employees are offered a competitive remuneration package, where they feel encouraged to create sustainable results, while at the same time, maintaining the link between shareholder and employee interests. The cornerstone of this policy is that it reflects the long term strategic and operational objectives of Baader Helvea, underlining the fact that remuneration is designed to eliminate incentives for taking inappropriate risks or for violating applicable regulations.

Remuneration components

There are two main remuneration components which are combined to ensure an appropriate and balanced remuneration package that reflects the business unit, the employee's rank in the Group, their professional activity as well as benchmarking with market rates.

The two remuneration components are:

- Fixed remuneration (including fixed supplements)
- Performance-based remuneration (Discretionary Bonus)

Fixed Remuneration

The fixed remuneration is determined on the basis of the role of the individual employee, including responsibility and job complexity, performance and local market conditions.

Performance-Based Remuneration

The performance-based remuneration motivates and rewards high performers. Performance-based remuneration is awarded in a manner which promotes sound risk management and does not induce excessive risk-taking. This is done by ensuring:

- An appropriate balance between fixed and performance-based components

- That the fixed component represents a sufficiently high proportion of the total remuneration to make nonpayment of the performance-based component possible

While the overall profitability of the firm is important in determining how much will be set aside for performance based compensation overall, the criteria for awarding such remuneration will differ on the basis of each employee's role.

For example, trading volume and transaction revenues for particular stocks will not be taken into consideration when determining performance based compensation for Research Analysts. Employees in Control Functions will not be compensated in such a way as to create a conflict of interests between adequate controls and revenue generation.

Remuneration of the Non Executive members of the Board of Directors

Members of the Board of Directors receive a fixed fee, which is set at a level that is on par with the rest of the market, reflects the qualifications and contribution of each member, the extent of the responsibilities and the number of board meetings.