

Hobart Capital Markets LLP

Pillar 3 Disclosure as at 30 June 2019

BACKGROUND

Hobart Capital Markets LLP is authorised and regulated by the Financial Conduct Authority ("FCA").

The European Union Capital Requirements Directive introduced a revised regulatory capital framework governing the amount and nature of capital that must be maintained by credit institutions and investment firms. In the UK the directive has been incorporated by the FCA into its regulations through the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook ("BIPRU") for banks, building societies and investments firms.

The regulatory framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital required to meet credit, market and operational risk in order that the firm may support its business activities;
- Pillar 2 requires the firm to assess whether any additional capital should be maintained against any risks not adequately covered under Pillar 1 whilst allowing the FCA to review this process; and
- Pillar 3 requires firms to disclose publicly both qualitative and quantitative information about the firm's risk profile, its risk exposures, and its risk management procedures.

FCA's BIPRU 11 rules set out the provisions for Pillar 3 disclosure and permit nondisclosure of information that the directors believe to be immaterial, to the extent that such non-disclosure would be unlikely to change or influence the decision of a reader relying on that information. Material considered to be proprietary and/or confidential, disclosure of which might affect the competitiveness of the firm and/or breach client confidentiality obligations may also be omitted.

We have made no such omissions in this, our Pillar 3 disclosure.

Hobart Capital Markets LLP ("HCM") is authorised and regulated by the FCA and subject to minimum capital requirements. HCM is a Limited Liability Partnership (LLP) and reports to the FCA on a quarterly, 6-monthly and annual basis.

HCM has no equity trading-book exposure.

Please see below for reports on financial risk management objectives and policies.

Financial risk management

HCM does not take or hold proprietary trading positions. It acts as a principal in back to back riskless principal trades as well as acting as an agent for sales and purchases. It is also exposed to credit risk, liquidity risk and operational risk. HCM is aware of its risks and works to manage and reduce these risks at all times. The partners determine the company's business strategy and risk appetite and are responsible for the design and implementation of the firm's risk management framework, based largely on an Internal Capital Adequacy Assessment Process (ICAAP) which is undertaken annually, this looks at the capital requirement of HCM (Pillar 1 Capital) and also identifies and quantifies its own assessment of the risks HCM faces together with any Pillar 2 Capital that may be required. The ICAAP also measures the additional capital resources required to cope with these risks.

Financial risk management (continued)

As at 30 June 2019, the members' net interest in the HCM, excluding other amounts due to members, amounted to £514,465. This meets HCM's Pillar 1 regulatory capital requirement with the FCA. The current FCA capital requirement is based on the HCM's fixed overhead requirement ("FOR"). The regulatory solvency ratio of HCM as at 30 June 2019 is 164%.

The principal risks HCM faces are detailed below:

Market risk is the risk of adverse change in net assets or income arising from movements in foreign exchange rates, a reduction of liquidity in the market and the related fall in transactions. As HCM is an agency and riskless principal broker and only deals on behalf of its clients, movements in stocks and share prices will not directly affect HCM. It is the policy of HCM to reconcile all currency positions and where applicable sell down into its base of Sterling at least monthly. HCM incurs foreign currency liabilities to meet certain operating costs, and where appropriate any foreign currency risk is minimised.

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to HCM. HCM has adopted policies governing the management of credit risk. Accordingly, HCM's credit exposure to its counterparties are continuously monitored and there has not been any instances of HCM suffering any financial loss due to the failure of any contractual obligations.

Liquidity risk refers to the risk that HCM is unable to meet its obligations as they fall due owing to insufficient financial resources. Liquidity risk is managed by maintaining a strict working capital cycle. In addition a three year budget is prepared to comply with the FCA's Pillar 2 reporting obligations.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It is inherent in every business operation and covers a wide spectrum of potential issues. HCM manages this risk by operating a controls based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored.

Interest rate risk represents the sensitivity of the HCM's changes in interest rates. However HCM does not have long-term borrowings from external parties and therefore is not overly exposed to interest rate risk.