

## Oppenheimer Europe Ltd (the “Firm”) - Pillar 3 and Remuneration Code Disclosure

Period end 31 Dec 2018

### ***Introduction***

The Capital Requirements Directive (‘CRD’) (Directive 2013/36/EU) and the Capital Requirements Regulation (‘CRR’) (Regulation (EU) No 575/2013) of the European Union establish the regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firm’s must maintain.

In the United Kingdom, the CRD has been implemented by the Financial Conduct Authority (‘FCA’) in its rules through the Prudential Sourcebook for Investment Firm’s (‘IFPRU’).

The CRD consists of three ‘Pillars’:

- Pillar 1 sets out the minimum capital amount that meets the firm’s credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital , processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The CRR set out the provisions for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations under Part Eight of the CRR (articles 431-455).

The Pillar 3 disclosure document has been prepared by the Firm and is verified by the senior management. Unless otherwise stated, all figures are as at the 31 December 2018 financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year-end and published as soon as practical.

The Firm is permitted to omit required disclosures if it believes that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the Firm.

In addition, the Firm may omit required disclosures where they believe that the information is regarded as proprietary or confidential. In the view of the Firm, proprietary information is that which, if it were shared, would

undermine its competitive position. Information is considered to be confidential where there are obligations binding them to confidentiality with their customers, suppliers and counterparties.

The Firm has made no omissions on the grounds that it is immaterial, proprietary or confidential.

## **Capital resources**

The Firm's FCA prudential category is an IFPRU Full scope Firm and its capital resources requirement changed at the beginning of 2014 to IFPRU Capital requirements under CRD IV (Article 92 of the regulations).

The Pillar I capital rules applicable to the Firm are chiefly set down in EU regulation No 648/2012, commonly known as the Capital Requirement Regulation or CRR.

As a consequence of this the minimum capital rules the Firm must adhere to are:

- The Firm's Own Funds are greater than its Initial Capital Requirement of €730,000; and
- a Common Equity Tier 1 capital ratio of greater than 4.5%; and
- a Tier 1 capital ratio of 6%; and
- a total capital ratio of 8%.

In December 2017 OPEU changed its Firm's Scope of Permission and became a full-scope IFPRU €730k Firm, and therefore deal in investments as principal without the matched principal broker limitation. This allows the Firm to take and hold positions in instruments on its own account. The Firm is not required to prepare consolidated reporting for prudential purposes.

The Firm is a limited company and its capital arrangements are established in its Articles.

The main features of the Firm's capital resources for regulatory purposes are as follows:

<b>Capital Item</b>	<b>Actual Ratio</b>
Common Equity Tier 1 ratio (required 4.50%)	13.46%
Tier 1 Capital ratio (required 6.00%)	13.46%
Total Capital ratio (required 8.00%)	13.74%

The capital ratios above are calculated based on the ratio of Own Funds to a "total risk exposure amount".

Own Funds has the meaning defined in the CRR and for the Firm constitutes ordinary share capital, plus audited profit, less cumulative losses.

The total risk exposure amount for the Firm is the sum of:

1. Credit risk in non-trading book positions.
2. General Position Risk in trading book positions.
3. Specific Position Risk in trading book positions.
4. Foreign-exchange risk
5. Operational risk.

Credit risk (1) is expressed in the CRR as an exposure amount and adds directly to the total risk requirement. Position risk (2) & (3), FX risk (4) and operational risk (5) are calculated as an "own funds requirement" in the CRR and scaled up to a notional exposure by multiplying by 12.5.

The Firm has adopted:

- the standardised approach to credit risk (1)
- the maturity based calculation of general position risk (2) and
- the basic indicator approach to operational risk (5).

### **Capital requirement**

The first requirement is that the Firm has at all times Own Funds that exceed its Initial Capital Requirement of EUR 730k.

The Own Funds of the Firm are \$7,315k, made up of Ordinary Share Capital plus retained earnings net of the losses made in FY2018. This compares to a base requirement of \$836k (being the USD equivalent of EUR730k) which leaves a surplus of \$6,479k. The second requirement is the Firm's Total Capital Ratio is greater than 8%. The Firm's Total Capital Ratio is 13.74% giving a surplus of \$3,056,359. Further, the Firm has maintained a Combined Capital Buffer requirement of \$1,076,749.

### ***Risk management objectives and policies***

Due to the nature, size and complexity of the Firm, OPEU does not have an independent risk management function. Senior management is responsible for the management of risk within the Firm and their individual responsibilities are clearly defined. Senior management report to the Firm's governing body on a frequent basis regarding the risks. OPEU has clearly documented policies and procedures, which are designed to minimize risks to the Firm and all staff are required to confirm that they have read and understood them.

OPEU undertakes an Internal Capital Adequacy Assessment Process ("ICAAP"), at least annually, which is the process through which OPEU determines that it is able to identify and manage its key risks on an ongoing basis and that it has sufficient capital in respect of such risks. The process is forward looking and is an integral part of the management of the Firm.

The ICAAP identifies the major sources of risk to the regulated entity, how the Firm intends to deal with those risks and details of the stress tests and scenario analyses carried out and the resulting financial resources estimated to be required. OPEU also carries out regular assessments of the types and distribution of financial resources, capital resources and internal capital, which are documented in the ICAAP.

If necessary the Firm would allocate extra capital to the relevant risk, but this has not been deemed necessary. The Firm has concluded that its Tier 1 capital is sufficient to cover its Pillar 1 and Pillar 2 requirements.

### ***Risks***

Below we consider, for each separate category of risk, the strategies and processes to manage the risks:

#### **Operational risk:**

The Firm has identified a number of key operational risks to manage. These relate to systems failure, failure of a third party provider, key man, potential for serious regulatory breaches, market abuse, dealing errors, IT security

breach, money laundering, breach of regulatory rules, fraud and theft. Appropriate policies are in place to mitigate against these risks, and the Firm has no significant history of operational failures which have resulted in unidentified costs being incurred. The Firm uses external auditors to sign off on accounts and carry out annual audits of procedures, external IT providers and advisors to advise on IT security.

## **Market Risk**

Market Risk is the risk of loss arising from adverse movements in the level or volatility of market prices of investments in which the Firm holds a position. The Firm is exposed to market risk on both intraday and overnight positions. The majority of positions are held for a short period of time and are usually closed by the end of the trading day, mitigating market risk. Any overnight positions held are subject to position limits and are monitored by risk management, limiting market exposure.

Risk limits are set and monitored to prevent excessive intraday and overnight risk accumulating.

## **Credit & Counterparty Risk**

Credit risk is the risk that the Firm is exposed to a loss in the event the customer or counterparty is unable to fulfil its settlement obligations. In the event a customer or counterparty fails to satisfy its obligations, the Firm may be required to purchase or sell financial instruments at prevailing market prices in order to fulfil the customer's or the counterparty's obligations, or the applicable clearing broker has the right to execute to exercise its contractual rights in order to mitigate its exposure if the Firm declines to act.

The Firm seeks to control credit risk by monitoring its customer and counterparty transactions, properly training and supervising personnel, reviewing information it receives from the clearing broker on a daily basis, and reserving for doubtful accounts when necessary.

The Firm uses the standardised approach detailed in IFPRU 4.2 of the FCA Handbook when calculating risk weighted exposures.

For each of the exposures the Firm references credit rating assessments issued by External Credit Assessment Institutions ("ECAI"). The following ECAs are used:

- Fitch Ratings;
- Moody's;
- Standard & Poors;

Ratings are used in conjunction with the credit quality step map issued by the Bank of England to ascertain an appropriate weighting for each exposure.

## **Liquidity Risk**

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario.

Liquidity risk is not considered to be material as the Firm has a strong cash position on its balance sheet and no bank borrowings as at 31 December 2018, therefore suitable for providing sufficient liquidity to meet the working

capital requirements under normal business conditions. Liquidity risk is monitored using the Firm's Liquidity Framework which is designed to ensure that it has sufficient liquid funds to meet its foreseeable liabilities as they fall due. The Firm's obligations are monitored daily and the Firm is adequately capitalized and has steady revenues to meet its day-to-day obligations.

### **Securitization Risk**

OPEU is not involved in any Securitization arrangements, this risk is, therefore, considered to be nil.

### **Insurance Risk**

Insurance Risk is the inherent uncertainty as to the occurrence, amount and timing of insurance liabilities. This is not considered to be a material risk.

### **Pension Obligation Risk**

Pension Obligation risk is the risk to a Firm caused by contractual or other liabilities to or with respect to a pension scheme.

OPEU employees are able to join a stakeholder pension scheme arranged by the Firm, however all contributions are by the individual, the Firm does not have any obligation to contribute to these policies at all and has no plans to add this to staff remuneration packages. OPEU does not run a defined benefit pension scheme. Consequently, this risk has been assessed as being nil.

### **Interest rate risk**

This is not considered to be material to OPEU.

## ***Remuneration***

OPEU must comply with the FCA's Remuneration Code ("the Code"). The purpose of the Code is to ensure that Firm's have risk focused remuneration policies, which are consistent with and promote effective risk management and do not expose themselves to excessive risk. We have reviewed all existing employment contracts to ensure they comply with the Code.

Senior management is responsible for setting the Remuneration Policy Statement for all staff and the compliance oversight officer is a member of the senior management team.

The Firm's policy is designed to ensure that we comply with the Code and our compensation arrangements:

1. *are consistent with and promote sound and effective risk management;*
2. *do not encourage excessive risk taking;*
3. *include measures to avoid conflicts of interest including the monitoring and pre-trade approval of any personal trading in employee accounts;*
4. *are in line with the Firm's business strategy, objectives, values and long-term interests.*

The Firm sets financial and non-financial criteria to incentivise staff, including, but not limited to:

1. *Overall firm trading performance is analyzed, not only individual trading results;*
2. *Overall contribution to improvements made to the Firm's operating platform*

The Code can be applied in a proportionate way and OPEU is in proportionality level three. *As such Senior Management has determined that the following rules are not proportionate to OPEU and have not implemented these detailed rules:*

- *SYSC 19A.3.44 - Leverage;*
- *SYSC 19A.3.47 - Retained shares and other instruments;*
- *SYSC19A.3.49 - Deferral; and*
- *SYSC 19A.3.51, 19A.3.52 - Performance adjustment*

*Variable remuneration is not based solely on the financial performance of the individual. Senior management also considered the individuals overall (non-financial) performance to the whole team and the overall results of the Firm. The performance of the individual is assessed over the entire year.*

### **Application of the requirements**

The Firm is required to disclose certain information on at least an annual basis regarding their Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the Firm. The Firm's disclosure is made in accordance with their size, internal organisation and the nature, scope and complexity of their activities.

The Firm may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.

The Firm has made no omissions on the grounds of data protection.

### **Quantitative information**

The following business areas received the following aggregate amount of remuneration (\$ millions):

Business line A: US Equities	4.19
Business line B: International Equities	0.52
Business line C: Fixed Income	3.10
Business line E: Investment Banking	2.57
Business line F: Support	3.03