

Mariana UFP LLP (“the LLP”)

Capital Requirements Directive - Pillar 3 Disclosures – 2020

Overview

A common regulatory framework has been established across Europe governing the amount and nature of capital to be held by investment firms and banks. This is implemented through the Capital Requirements Directive (2013/36/EU) and Regulations ((EU) No 575/2013) together “CRD IV”.

The main purpose of CRD IV is to build on previous CRD rules and introduce prudential requirements to:

- Increase the quality of capital that firms are required to hold;
- Introduce capital buffers for some firms;
- Introduce an EU wide liquidity regime;
- Establish a leverage back stop;
- Introduce new governance requirements;
- Introduce a remuneration ‘bonus cap’ (subject to proportionality); and
- Harmonise regulatory reporting across Europe through COREP and FINREP reporting.

The Basel framework established a risk sensitive approach to capital management creating a framework comprised of three ‘pillars’.

- Pillar 1 sets out the minimum capital requirements that firms are required to maintain to meet credit, market, and operational risk.
- Pillar 2 sets out the supervisory process to be used to ensure firms assess firm specific risks not covered by Pillar 1 and where necessary maintain additional capital. This is called the Internal Capital Adequacy Assessment Process (or “ICAAP”).
- Pillar 3 requires the firm to disclose information regarding their risk management policies, controls and procedures and their capital position. Its aim 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 processes.

Scope and application of the CRD IV Disclosure requirements

The purpose of this document is to provide information in accordance with Part VIII of the CRR and the Financial Conduct Authority (“FCA”) Prudential Sourcebook for Investment firms (“IFPRU”).

The disclosures in this document are made in respect of the LLP only.

The principal activity of the LLP is the provision of execution and crossing services to a variety of clients in relation to cash equity and listed derivative instruments. In addition, it is a product provider in relation to investment products distributed by Mariana Distribution LLP, and a research provider in relation to special situations research offered by United First Partners. It conducts its business entirely with eligible counterparties and professional investors and has no retail clients. The LLP also operates an Organised Trading Facility (OTF), Mariana UFP OTF, which has admitted to trading equity derivatives and fixed income securities.

The Firm is authorised and regulated by the FCA and is classified as an IFPRU Limited Licence €730K firm.

The rules include provisions whereby the LLP may omit information in this disclosure if it believes that information is immaterial. For the purposes of this disclosure information should be considered as material if its omission or misstatement could change or influence the assessment or decision of a user relying on it to make economic decisions. No disclosures have been omitted on these grounds

The LLP may also omit information where it believes it to be proprietary or confidential. For the purposes of this disclosure proprietary information is information which, if it were shared would undermine the competitive position of the LLP, Information is considered to be confidential where there are obligations binding the LLP to confidentiality with counterparties and other organisations or individuals. Where information has been omitted for these reasons an explanation will be provided. No disclosures have been omitted on these grounds

As a limited licence firm, there are no statements made under Pillar 3 that are equivalent to disclosures required to be made by accounting standards to which the LLP is subject. Therefore, none of the statements made are subject to audit.

Media and location of disclosure

The LLP intends to make the disclosures annually by way of a statement published on its website. All the disclosures made here relate to the position at 31 December 2020. In the event that there is a significant change within the business or to the capital position of the LLP the period of review will be reduced.

Risk management and governance – the Risk Management Framework

The managing partners of the LLP form the Managing Board (the Board) and are responsible for determining the business strategy and risk appetite of the LLP. The members of the Managing Board are Kaveh Rahbary, Daniel Hawkins, & Mark Thomson. The Board meets frequently on an ad hoc basis and at least quarterly on a formal basis. It takes overall responsibility for the design and implementation of the risk management framework and discusses all matters relating to the LLP's business, including business development and strategy, the LLP's financial performance against budgets/KPIs as well as compliance and operational matters. It is the opinion of the Board that given the size and complexity of the LLP's business and its profile and strategy going forwards, its risk management systems, as described in these paragraphs are adequate.

All the members of the Board are experienced financial markets professionals. Messrs. Rahbary, Thomson and Hawkins had many years' experience working for major financial institutions before becoming partners of the LLP. Mr Hawkins is a CFA Charter holder and Mr Thomson is a board member of the Joint Money Laundering Steering Group. The Board is open to the recruitment of new talent which it believes would add significantly to their knowledge and experience. Mr Rahbary has 7 directorships, Mr Hawkins has 12 and Mr Thomson has 7.

The Board has appointed a risk management committee, the Operational Risk group ("Op Risk Group"), consisting of senior managers responsible for risk in their areas meeting monthly. The Op Risk Group is headed by the LLP's Managing Partner and its members are the Firm's managers representing each of the LLP's operating departments. The Op Risk Group is guided by and reports to the Board. It identifies and manages the risks the LLP faces and recommends any action which may be required. Its role is to maintain and review the register of risks the firm faces, to add any new risks and to recommend appropriate action to the Board to monitor and mitigate the risks the LLP faces. The majority of the members of the Op Risk Group are involved in operational roles and therefore are independent from the LLP's revenue generating activities. The Board believes that the risk management arrangements it has in place are adequate for the LLP's profile and strategy.

The LLP believes that the main areas of risk to which it is exposed are Credit & Counterparty Risk, Market Risk, Operational Risk (including Compliance Risk), Concentration Risk, Business Risk and Reputational Risk.

The primary objective of the LLP's risk management is to plan, organise and perform sufficient actions to provide reasonable assurance that the firm's overall objectives and goals will be met, and to limit the risk of adverse events occurring to a level that is acceptable to the members as set out in the ICAAP.

Key parts of the policy to manage risk, including operational risk, are:

- regular board and management meetings;
- regular management information including annual reports by the Compliance Officer and Money Laundering Reporting Officer of the LLP;
- regular internal compliance monitoring;
- staff training; and
- risk assessments as part of the firm's ICAAP process, at least annually

Risk profile

Credit & Counterparty Risk

The LLP has the following risk exposures on its balance sheet on the balance sheet date:

	ECAI	RWA (£000s)	C&CR (£000s)
Institutions	S&P	26	2
Corporates	unrated	6,604	528
Other	unrated	11,448	916
		18,078	1,446

In fact, because of the nature of its business as a pure agency broker specialising in listed derivatives, the LLP's counterparty exposure is very limited. The LLP's risk under this heading relates to the LLP's non-trading book. The group's ICAAP has identified two sources of credit and counterparty risk. The first relates to the collection of revenues by the LLP (these are normally due by major institutions whose payment policies often result in delayed payment of accounts payable) and the second arises from the LLP maintaining cash balances at its bankers and with its clearing agents (all of whom are rated by Standard & Poor's as at least investment grade and within acceptable risk parameters). These exposures are monitored daily by the LLP's finance team. In addition, there are balances due from other corporates and group companies. No assets are encumbered. Depending on the nature of the debt, credit risk exposure is allocated accordingly.

Balances due to the LLP are constantly monitored by the finance team daily to ensure they are paid on a timely basis. The LLP's clients are largely substantial financial institutions and normal payment terms are 30 days. As soon as any disputes are identified, the finance team deals with them immediately.

Market Risk

The LLP does not trade for its own account or hold positions and all transactions are entered into on either a matched principal or agency basis. The LLP's principal exposure to market risk relates to the currency or foreign exchange exposure arising from revenues largely generated in Euros (the LLP's core products are Euro index and single stock options and futures, and commission income is generated in Euros) while expenses (in relation to staff and other operational costs) are largely incurred in pounds sterling since the LLP's operations are based in the UK.

Equity and interest rate position risk are not required for Limited Licence firms and therefore the LLP only takes foreign exchange risk into account when calculating market risk.

The LLP has procedures to monitor this exposure daily and where possible exposure is hedged back to the LLP's

reporting currency. Typically, the LLP's exposure is greater than 2% of total Own Funds since it is not commercially viable to hedge all exposures, in particular where balances must be kept in Euros with the LLP's clearers and where commission receivable remains outstanding.

	MR (£000s)	
FX risk exposure	5,684	455

Operational Risk

This covers the potential losses resulting from inadequate or failed internal processes, people and systems or from external events and can represent failures in internal systems and controls. The LLP includes Compliance Risk under this heading. It has identified the following as the key operational risks: the risk arising from dealing errors occurring in the execution of client orders; potential client dissatisfaction with a transaction executed on their behalf; and the risks arising from the approval of financial promotions. The LLP undertakes a robust risk identification and scoring exercise across the LLP and encourages high standards of training and competence amongst its staff but accepts that it operates in a heavily regulated environment and breaches can lead to fines or disciplinary action. The LLP believes that its systems and controls are satisfactory and are subject to effective monitoring by its compliance function which also considers the regulatory environment, including planned changes in the pipeline, within which the LLP operates. The compliance function reports directly to the Board which is closely involved in its monitoring and oversight.

Concentration Risk

Exposure to concentration risk arises as a result of the LLP's dependence on the services of a few key service providers and because of its current relationship with its appointed representatives, Mariana Capital Sales Limited and Mariana Distribution LLP. Risk is mitigated by careful and regular monitoring of all these exposures.

Business Risk

This is the risk to the LLP's current and future earnings due to changes in the business environment and includes poor decision making and the failure to be able to implement strategic plans. The LLP has significant expansion plans which have been carefully stress tested and which are being implemented with the close oversight of the senior management team. Progress is carefully monitored against key performance indicators and a detailed risk assessment program which is being updated on a weekly basis as the project progresses.

Reputational Risk

Maintenance of its good reputation is vital for the LLP. However, the assessment and mitigation of Reputational Risk is largely a function of the LLP's overall operational risk and how effectively the LLP is managed and led. The Board believes that the avoidance of Reputational Risk is embedded into the LLP's culture and its approach to conducting business, what business it will conduct and who it is prepared to conduct business with.

There is a requirement for the LLP to maintain additional capital to cover any Pillar 2 capital requirements in respect of the risks identified as part of its ICAAP.

Own Funds

As per Article 92 of the CRR, institutions shall at all times satisfy the following own funds requirement:

- Common Equity Tier 1 capital to be at least 4.5% of Total Risk Exposure Amount (TREA);
- Tier 1 Capital to be at least 6% of TREA; and
- Total Capital (Own Funds) to be at least 8% of TREA

In accordance with the regulatory requirements the LLP must at all time maintain Own Funds equivalent to at least the base capital requirement for an IFPRU 730k firm of €730,000. Its Pillar 1 capital requirement, set out in Article 95(2) of the Capital Requirements Regulation, is the higher of the sum of the credit risk and market risk capital requirements and the Fixed Overhead Requirement ('FOR' which is one quarter of its estimated projected annual fixed overhead expenditure). The LLP must maintain Own Funds equal to or in excess of its Pillar 1 requirement at all times.

The firm's Own Funds are comprised only of core tier one capital, specifically permanent partnership capital less the goodwill intangible asset and audited retained earnings. The firm's tier one capital and deductions made in accordance with CRR rules at 31 December 2020 are as follows:

Common Tier 1 Capital	£000s
Eligible LLP Members Capital	9,353
Prior year reserves - audited	-431
Overdrawn current accounts	-61
Profit attributable to owners of parent	79
(-) Part of interim or year-end profit not eligible	-79
less intangible asset - Goodwill	-488
less intangible asset - Other	-52
TIER 1 CAPITAL	8,320
TOTAL CAPITAL (OWN FUNDS)	8,320
TOTAL RISK EXPOSURE AMOUNT	23,762
CET1 Ratio	35.01%
Tier 1 Capital ratio	35.01%
Total Capital (Own Funds) ratio	35.01%

Applying the requirements above, the LLP had:

- Common Equity Tier 1 capital of £8,320 million, representing 35.01% of TREA
- Tier 1 capital of £8,320 million, representing 35.01% of TREA
- Total Capital (Own Funds) of £8,320 million, representing 35.01% of TREA

The figures above are comfortably in excess of the minima set out in the CRR. In addition, the LLP Board has stress tested several scenarios through the ICAAP process to assess the potential impact of a reduction in business volumes and a long-term decline in the LLP's core business. The results of these tests and the surplus identified in the calculations set out above provide the members with comfort that the LLP is in compliance with all applicable capital adequacy requirements and that it is well capitalised in case of any future market downturn or other shocks arising from political or economic uncertainties.

Capital Buffers

The disclosure requirements applicable under CRR Article 440 are not applicable to Limited Licence firms.

Encumbered Assets

In accordance with CRR Article 443 certain disclosures are required in relation to encumbered and unencumbered assets. None of these disclosure requirements are applicable to the LLP.

Securitisation Positions

The LLP is not exposed to securitisation positions.

Leverage Ratio

Under CRR Article 6(5) as a Limited Licence firm the LLP is not required to comply with the requirements laid down in Part 7 – Leverage.

Remuneration Policy

The LLP follows FCA guidelines in relation to its Remuneration Policy (as set out in SYSC 19A) and applies the principles of proportionality as applicable to a Level Three IFPRU limited licence firm. Remuneration is designed to ensure that the LLP does not encourage excessive risk taking and supports its business strategy and long-term interests and that the interest of staff is aligned with that of clients.

The Board acts as the Remuneration Committee and is directly responsible for the overall remuneration policy which is reviewed annually. No external consultants were used by the Firm in determining its remuneration policy. Remuneration is discussed at least quarterly at the Board’s meetings. Fixed remuneration is reviewed in principle annually and any variable remuneration allocated is decided at the same time. Variable remuneration is allocated and adjusted in line with the requirement to retain experienced and qualified staff, capital and liquidity availability within the LLP as well as the performance of the LLP and the individual. The aim is to ensure that the remuneration structure promotes effective risk management and that the fixed and variable remuneration components for all Code and non-Code staff are suitably balanced and that remuneration is sufficient to reward and retain qualified and experienced staff. Total remuneration is based on both financial and non-financial indicators as well as the performance of the firm and the relevant business unit. Compliance with SYSC 19A is monitored where applicable.

The LLP does not enter into agreements to award guaranteed variable remuneration.

No individual LLP member was remunerated at more than €1,000,000.

Remuneration of senior management (all Code Staff) and workers whose activities might have a material impact on the risk profile of the LLP is set out below. There are no material risk takes outside the LLP’s senior management. None of the remuneration relates to shares or share-linked remuneration.

	Number of staff	Fixed Remuneration	Variable Remuneration
Senior management	7	£454,648	£0
Material risk takers	0	£0	£0