

# Pillar 3 Disclosure

## 1. Introduction

Firms are required under the Senior Management Arrangements, Systems and Controls (SYSC) manual of the Financial Conduct Authority Handbook to have in place robust governance arrangements and effective procedures which allow it to identify, manage, monitor and report the risks it is or might be exposed to.

BLACK PEARL SECURITIES LTD (“BP”) is authorised and regulated by the Financial Conduct Authority and this document sets out how the Firm complies with its obligations to identify, manage and mitigate risks.

## 2. Overview & Basis of Preparation

This disclosure has been prepared in accordance with the Capital Requirements Directive (“CRD IV”), the legislation implementing Basel III that came in to effect on 1st January 2014. This legislation consists of three Pillars. Pillar 1 sets out the minimum capital resource requirements, Pillar 2 “Supervisory Review Process,” and Pillar 3 “Market Discipline.” Pillar 3 requires firms to disclose information regarding their risk assessment process and capital resources with the aim to encourage market discipline by allowing market participants to assess key information on risk exposure and the risk assessment process.

### 2.1 Frequency and location of disclosure

Future disclosures will be issued on an annual basis once they have been reviewed and approved by the Directors. The disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the financial statements. The report and all future ones will be published on BP’s website.

### 2.2 Scope of disclosure

BP operates an execution-only brokerage service (matched principal) and services customers categorised as Retail (investment), Professional Clients and Eligible Counterparties. The firm has permissions to hold client money and taking its permissions into consideration is classed an IFPRU125K Limited License firm for regulatory purposes.

## 3. Governance Arrangements

### 3.1 The Management Body

The firm is small in nature and the Directors (two) are responsible for the Firm’s risk management governance structure and how the Firm’s risk exposure must be managed in line with the Firm’s overall

business objectives and within its stated risk appetite. This includes the governance of the process for identifying, evaluating, managing and reporting the significant risks faced by the Firm.

The Directors are ultimately responsible for ensuring that the Firm maintains sufficient capital resources to meet its regulatory capital requirements and to support its growth and strategic objectives. Risk management is embedded within the business, with the overall risk appetite and risk management strategy managed by the Directors. The Firm is satisfied that the Directors are able to commit sufficient time and resources to perform their obligations to the Firm.

## 4. Capital Adequacy and ICAAP

The Firm's overall approach to assessing adequacy of its capital resources is documented in the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP process includes an assessment of all material risks faced by the Firm and the controls in place to identify, manage and mitigate these risks. The risks identified are stresstested against various scenarios to determine the level of capital that needs to be held.

Where risks can be mitigated by capital, the Firm has adopted the requirements for Pillar 1. Through the ICAAP assessment the Directors consider Pillar 1 calculations adequate to mitigate material risks faced by the firm and additional capital is not needed under Pillar 2. Whilst the ICAAP is formally reviewed by the Directors once a year, risks and capital required for mitigation will be reviewed if there is any planned change to the business that will impact its risk appetite.

### 4.1 Minimum Capital Requirement & Capital Resources

The Capital Requirements Regulation ("CRR") sets out the pillar 1 minimum capital requirement that IFPRU firms should hold at all times and this comprises of Market Position Risk ("PRR"), Counterparty and Credit Risk ("CCR"), Concentration Risk and Operational Risk. Taking its operations into consideration as a Matched Principal Broker and as an IFPRU125K Limited License firm, BP's minimum capital requirement has been calculated as the higher of:

1. Market Risk + Credit Risk Capital Requirement Or
2. Fixed Overhead Requirement Or
3. Base Capital Requirement

During the 12 month accounting period to 31/03/2021, BP fully complied with capital requirements and operated well within regulatory requirements. As at 31 March 2021 the Firm held an adequate amount of CET1 capital to meet its minimum capital requirements. The Directors are therefore comfortable that the Firm is, and has been throughout the financial year, adequately capitalised for Pillar 1 purposes. The Directors are comfortable that this will ensure prudent capitalisation and cover for market downturns and other risks that may materialise in the short to medium term.

The Directors constantly monitor the performance of the Firm and capital adequacy is regularly assessed by them. The Firm will also monitor risks throughout the year and decide if additional capital should be held against them. Additional risks that supplement the pillar 1 requirements are detailed below but the Directors have assessed that meeting the pillar 1 capital requirement is adequate to cover risks relevant to the business and no pillar 2 add-on is needed.

## 5. Management of Risk Framework

### 5.1 Risk Profile

As an execution only brokerage dealing on matched principal basis, BP is primarily exposed to a number of risks as laid out in section 5.3. BP's profile of these risks is continually evolving and is generally driven by:

1. Changes to the market in which it operates;
2. Strategies and business objectives and;
3. Business/operating models

BP will seek to generate positive returns through carefully considered risk taking and robust risk management. As such the effective management and control of both the upside of risk taking and its potential downside is a fundamental core competency of the Firm.

### 5.2 Risk Appetite

The Directors are responsible for setting BP's risk appetite and defining the type and level of risk that the firm is willing to accept in pursuit of its business objectives. BP maintains a simple company structure but nevertheless, the Directors place a high priority on a strong risk management culture. Directors recognise that risk is inherent to their business and the market in which they specialise. The firm faces a number of business risks which are actively managed.

The Directors have assessed that the principle risks laid out in section 5.3 are suitably mitigated. Further, BP's risk management functions and internal capital adequacy assessment process (ICAAP) are aligned with the firm's business plan and have been drawn up to identify all material risks relevant to the financial and operational activities of the firm. This includes predicting business impact due to more severe market conditions under stress test scenarios. The firm closely monitors its capital position on an on-going basis to address both its qualitative and quantitative risk statements.

### 5.3 Risk Assessment Framework

The Directors are responsible for approving the Risk Assessment Framework, which is used to ensure that the firm has a comprehensive understanding of its risk profile, including both existing and emerging risks facing the firm, and to enable it to assess the adequacy of its risk management in the context of the firm's risk appetite.

Principle Risks	Appetite	Key Drivers	Mitigation
<b>Strategic Risk</b>			
The risk that arises decisions that fail to reflect the full business operating environment and the impact of failing to adequately identify changes to the business model.	The Firm will remain competitive by identifying opportunities and assessing the risks, rewards and costs associated with them before proceeding	Regulatory landscape impacting the business. Commercial/market conditions Internal business/operating model	Due diligence is carried out prior to any new business opportunity and a full assessment of the potential and actual risks taken into account.
<b>Credit Risk</b>			
The risk of financial loss due to the failure of a customer to meet their obligations to settle outstanding amounts	The Firm will only engage in activities where customers have adequate collateral deposited	Market conditions Counterparty credit worthiness	<p>Negative balance protection applies to Retail clients.</p> <p>A margin of 100% and warnings at 70% with a stop out at 50% is applied to all customer trades (professional clients MC and SL may differ) All unmatched trades are rejected.</p> <p>Trading platform mitigates due to tiered requirements to hold more collateral on bigger positions.</p> <p>Mobile phone access to platform allowing clients to manage portfolios.</p>

<b>Market Risk</b>			
Risk of losses in on and off balance sheet positions arising from adverse movements in market prices	The Firm does not engage in propriety trading and does not actively seek market exposure.	Volume and complexity of trading Market Movements Liquidity	Monitoring and timely mitigation of unmatched positions
<b>Liquidity Risk</b>			
The risk that the firm does not have sufficient liquid resources or is unable to deploy such resources to meet its actual or potential obligations in a timely manner as they fall due	The Firm will have sufficient and accessible financial resources as to meet any financial obligations as they fall due	Operational risk Credit risk events Internal business operating model	Daily reviews of financial resources Contingency funding arrangements in place Customer collateral held on account
<b>Operational Risk</b>			
The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events	The Firm will actively identify and manage the risk of its people, processes or systems failing. Operational risk is inherent in any business however the Firm will take steps to prevent such risks from increasing operating costs	Internal business operating model External Threats Market conditions	Employees provided training and guidance on their obligations Critical technology performance monitored Risk scenario contingency planning Timely escalation and mitigation of identified risks Regular review of the Firm's operational risk manager.

<b>Legal</b>			
The risk that interest rates (e.g. Libor, Euribor) and/or their implied volatility will change	The Firm accepts that volatility in interest rates will impact on cash balances and borrowings and has sufficient resources in place	Market movements Liquidity	Entities with whom balances are held are regularly monitored
<b>Risk of Excessive Leverage</b>			
The potential increase in risk caused by a reduction in the firm's own funds through expected or realised losses.	The Firm will only engage in activities where collateral is held The Firm will have adequate financial resources in place	Operational risk Market Conditions Liquidity	Collateral is monitored and trading margin managed Regular reviews of financial resources
<b>Financial Crime Risk</b>			
The risk that the firm fails to prevent its involvement in or use by other parties to commit financial crime	The Firm has no appetite for any breaches or lapses occurring that result in financial crime taking place	External threats Internal controls	Training is provided to all employee's Financial crime procedures and regular monitoring

## 6. Remuneration Policy

BP's Remuneration Policy complies with the Remuneration Code in relation to its size, nature, scope and complexity of its activities. The Policy is aligned to the firms' business strategy, objectives, values and long-term interests in respect of performance and effective risk management in line with the firm's risk appetite.