

Execution Holdings Limited and subsidiaries

Group Pillar 3 Disclosures

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Pillar 3 disclosures

1. Overview

1.1 Background

With the introduction of the Capital Requirements Directive ('CRD'), also known as Basel II, on 1 January 2007, the FSA has established three Pillars, the purpose of which is to determine the level of capital and its related disclosures required for regulated firms.

Pillar 1 is the minimum capital requirement as prescribed by the rules of the FSA.

For Pillar 2, the Group was required to carry out an Internal Capital Adequacy Assessment Process ('ICAAP') during the year. The purpose of the ICAAP is to assess the group's risks, how it intends to mitigate those risks and how much current and future capital is necessary having considered the relevant mitigating factors.

Pillar 3 is designed to improve market discipline by requiring a firm to disclose certain details of their risks, capital and management objectives and policies.

1.2 Scope

This report has been prepared for the group of Execution Holdings Limited because it is a UK consolidation group and also non-EEA sub-group.

The group has the following entities:

United Kingdom:

- Execution Holdings Limited
- Execution Limited
- Sourcecap International Limited

United States of America:

- Execution Holdings LLC
- Execution LLC

Hong Kong:

- Execution (Hong Kong) Limited

The above companies are collectively described hereunder as the 'Group'.

The companies regulated by the Financial Services Authority ('FSA') are Execution Limited and Sourcecap International LLP. Execution LLC is regulated in the US by the Financial Industry Regulatory Authority ('FINRA') and Execution (Hong Kong) Limited is regulated by the Securities and Futures Commission ('SFC') in Hong Kong.

All the above entities are fully consolidated for accounting and prudential purposes. However, there are some small differences as to the treatment of certain assets and capital items for statutory accounting and for capital adequacy calculations.

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There are no current or foreseen material restrictions or legal impediments to the movement of capital between the legal entities or repayment of liabilities among the parent and its subsidiary undertakings apart from the requirement to ensure there is adequate capital in each of the regulated entities to meet its regulatory requirements.

1.3 Basis of Disclosures

This policy document deals with the requirements of Pillar 3 and the information provided here is in accordance with the rules in the FSA's 'Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU)' Chapter 11 – Disclosure (Pillar 3).

All figures within this document are correct as at 31 December 2008.

1.4 Frequency

The Group will publish the disclosures at least on an annual basis. Future disclosures will be as at the Group's Accounting Reference Date, that is, as at 31 December each year and will be published at around the same time as the annual financial statements are approved by the Group Board.

1.5 Media and location of publication

The disclosures will be published on the Execution Limited website:
www.executionlimited.com.

1.6 Verification

The information contained in this document has not been audited by the Group's external auditors unless they are deemed to be equivalent to those made under accounting requirements, therefore they do not constitute financial statements and should not be relied upon in making judgements about the Group. These disclosures explain how the Board have calculated certain capital requirements and information about risk management.

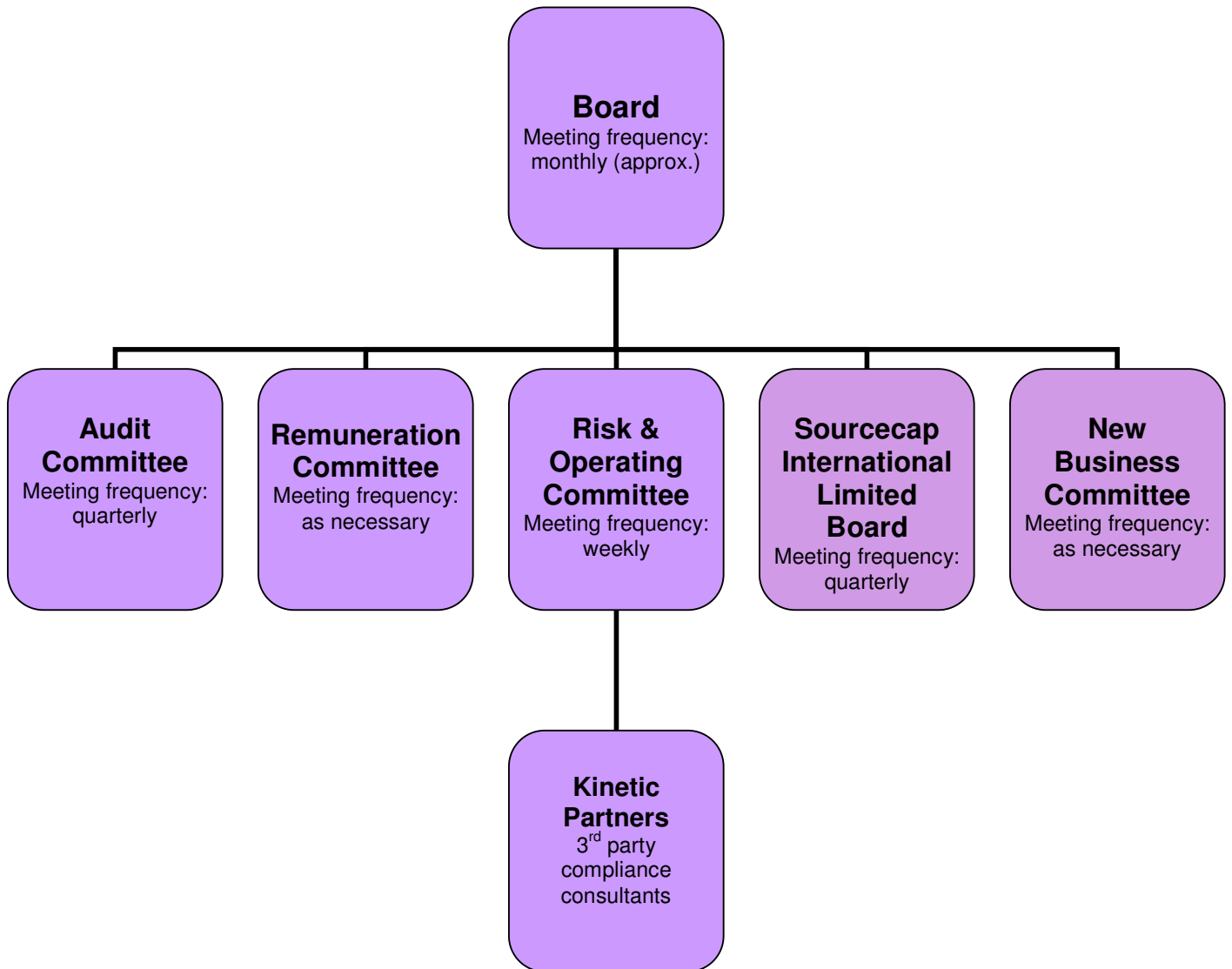
2. Risk management objectives and policies

2.1 Risk Management Framework

The objective of creating a risk management framework is to identify, measure, monitor, manage and report risk in a consistent fashion on a timely basis. To achieve this, the Group has a number of risk management processes, these being:

- ***The Board and its sub-committees***

The Board is made up of four executive directors and four non-executive directors. It is supported by five sub-committees as shown in the committee structure below:



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The five sub-committees collectively assist the Board in discharging its responsibilities on corporate governance. The Board and its sub-committees hold meetings as often as it is necessary for it to carry out its duties.

There is a formal requirement for the Risk and Operating Committee ('ROC') to report annually to the Audit Committee on key risk findings during the year.

- ***Terms of Reference for Board and sub-committees***
The Board and its five supporting committees have approved Terms of Reference detailing the individual responsibilities they have towards risk management.
- ***Non-executive directors***
The Group has four non-executive directors. Their role is to challenge and contribute to the development of strategy, scrutinise the performance of management in meeting objectives and strengthen the corporate governance structure of the Group.
- ***Global Risk Policy***
This policy is intended to provide an overview of the processes that are required to identify and manage risks within the Group. It is intended to assist management in discharging its risk management responsibilities.
- ***Definitive reporting lines and roles and responsibilities***
The Group has a clear structure of reporting lines and each employee is aware of their roles and responsibilities within the organisation. Each approved person as defined by the FSA has a job description.
- ***Business Continuity Plan***
Each office has its own Business Continuity Plan ('BCP') which describes the logistical plan for how the organization will recover and restore partially or completely interrupted critical function(s) within a predetermined time after a disaster or extended disruption. The current BCP's in each office give clear and concise instructions during a disaster or disruption.
- ***Employee handbook***
Each office has its own employee handbook which is given to staff during induction. The handbook details the guidelines (such as holiday entitlement, maternity leave, and so on), expectations and procedures of the business to its employees.
- ***Compliance manual***
The purpose of this manual is to provide guidance and set out certain principles, general practices, rules and procedures which provide the foundations for the proper conduct of business within the firm and, in some cases, reflect other applicable jurisdictions' legal and regulatory requirements. Each employee is given a copy of the manual during induction.

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- ***Monthly consolidated management accounts***

Consolidated and entity-level management accounts are prepared each month. The consolidated management accounts are submitted to the Board members for review and discussion. They are also used to assess the capital adequacy of each entity and of the Group.

2.2 Risk Categories

The most significant risk types to which the Group is exposed are discussed below:

Credit Risk

Credit risk is defined as the risk of loss arising from a counterparty failing to meet their financial obligations or its failure to perform as agreed to the Group.

The Group is primarily an agency broker therefore it is not exposed to credit risk in the normal course of business.

Additionally, the Group only uses deposit taking institutions with at least an 'A' credit rating for its cash deposits.

Market Risk

Market risk comprises of equity risk, interest rate risk, foreign currency risk and commodity risk.

- ***Interest rate risk***

The Group is exposed to interest rate risk in that bank deposits and borrowings are on a floating rate basis. The Group does not have significant exposure to interest rate fluctuations on its balance sheet, thus this risk is accepted by the Group and is assessed annually as part of the ICAAP.

- ***Foreign Currency risk***

Foreign currency risk is made up of transactional risk and structural foreign exchange risk on overseas subsidiary entities. The Group does not take structural hedges but any excess capital is remitted to the UK parent where possible. The Group minimizes its transactional exposure by matching foreign currency income and expenditure where possible.

- ***Equity Risk***

The Group is an agency broker and does not hold any trading positions. On occasion in order to facilitate a client trade, a very small position might be held overnight but is cleared the next business day.

- ***Commodity risk***

The Group only trades in equities therefore it is not exposed to commodity risk.

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Operational Risk

Operational risk is defined by the FSA using the Basel definition as ‘the risk of loss, resulting from inadequate or failed internal processes, people and systems, or from external events’.

The components of operational risk have been defined as:

- ***Process risk***
The risk of direct or indirect loss resulting from inadequate or failed internal business processes.
- ***People/key person risk***
The risk of direct or indirect loss resulting from the deliberate or intentional actions of employees and/or management of the company. Also, shortcomings in people management and development.
- ***Systems/infrastructure risk***
The risk of direct or indirect loss resulting from inadequate or failed system infrastructure of the organisation including all network, hardware, software, communications and their interfaces.
- ***External risk***
The risk of direct or indirect loss resulting from events outside of the Group’s direct or indirect control or from events that impact on an external relationship.
- ***Group risk/conflicts of interest***
The risk of loss due to conflicts of interests between stakeholders.
- ***Legal/regulatory risk***
The risk of loss due to non-compliance with laws, rules, regulations, agreements, prescribed practices or ethical standards.
- ***Trade processing risk***
The risk of loss from errors in trade processing.
- ***Strategic risk***
The risk of loss arising from changes in the business environment and from adverse business decisions (for example, failure of new business), improper implementation of decisions (that is, risk of failing to manage new business) or lack of responsiveness to changes in the business environment.
- ***Reputation risk***
Current or prospective risk to earnings and capital arising from adverse perception of the image of the entity on the part of customers, counterparties, shareholders, investors and regulators.

From the risks above, the Group considers that people risk as its only significant operational risk.

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3. Capital

3.1 Capital Resources

The Group has the following capital resources at 31 December 2008:

	£'000
Tier 1 Capital	
Total tier 1 capital before deductions	15,778
<i>Deductions</i> : intangible assets and investment in own shares	(216)
Total tier 1 capital/total capital after deductions	15,562

The Group does not have any tier 2 and 3 capital resources.

3.2 Capital Planning

Monthly consolidated and entity-level management accounts are prepared and reviewed in detail by the Group management and subsequently discussed at the Board meetings. The Group's financial resources compared to its minimum capital requirements are also discussed at these meetings.

Annual budgets for each entity are prepared and approved by the Group Board and these are tracked against the actual performances with significant deviations investigated.

Results from the extensive stress testing on plausible events performed as part of the ICAAP concluded that the Group had sufficient capital to meet its regulatory resource requirements and also to support its current and foreseeable activities.

As discussed above, there are no restrictions on management in regards to the transfer of capital in or out of businesses and in the jurisdictions that the Group operates in, apart from the need to hold the minimum regulatory capital in each regulated entity.

4. Regulatory Capital Requirements

This chapter describes the regulatory capital requirements of the Group. This is based on the Pillar 1 requirements of CRD.

The regulatory capital requirements as at 31 December 2008 is as follows:

	£'000
Credit risk capital requirement	981
Market risk capital requirement	641
Operational risk capital requirement	6,599
Total capital requirements	8,221

4.1 Credit risk

The Group applies the risk weights under the standardised approach to credit risk to calculate its risk weighted exposure amounts for each of its exposures.

4.2 Market risk

As discussed above the majority of the Group's operations are as an agency broker thus trading positions are not held in the normal course of business. Thus, the Group's market risk capital requirement is usually only foreign exchange risk.

4.3 Operational risk

The Group has adopted the Basic Indicator Approach to calculating the operational risk capital requirement as stipulated in the FSA handbook under BIPRU 6.3.