

FXNET LIMITED

(Regulated by the Cyprus Securities & Exchange Commission)



PILLAR III DISCLOSURES

2022

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1. Introduction

FXNET LTD (hereinafter referred to as 'FXNET' or the 'Firm') is an Investment Firm incorporated pursuant to the relevant provisions of the Companies Law, Chapter 113 of the statute laws of the Republic of Cyprus and it is registered with the Cyprus Registrar of Companies under number H.E. 300624. FXNET is authorized and regulated by the Cyprus Securities and Exchange Commission ('CySEC') (<http://www.cysec.gov.cy>) (License No. 182/12) and operates under the Investment Services and Activities and Regulated Markets Law of 2017 for the Provision of Investment Services, the exercise of investment activities, the operations of regulated markets and other related matters ('L.87(I)/2017').

In accordance with the license granted by the CySEC, the principal activities of the Firm comprise the provision of investment/ancillary services, including reception and transmission of orders in relation to one or more financial instruments, execution of orders on behalf of clients for the financial instrument of Contracts for Difference ('CFDs'), dealing on own account for the financial instrument of CFDs, portfolio management, investment advice, foreign exchange services where these are connected to the provision of investment services, granting credits/loans to investors to allow them to carry out transactions in the financial instruments of CFDs, when the Firm is involved in the transaction, as well as safekeeping and administration of financial instruments, including custodianship and related services and investment research and financial analysis or other forms. Details of these services can be found in Appendix 1.

The Firm is an online financial services provider and acts as the principal to its customers in CFDs on currency pairs, indices, commodities and energy, shares and metals.

A detailed list of the financial products offered by the Firm is available online at the Firm's websites (www.nessfx.com / www.investing24.com)

1.1 Prudential Requirements

The new prudential regime for Investment Firms ('IFs') has been approved by the European Parliament in December 2019 and is comprised of the Investment Firm Regulation (EU) 2019/2033 ('IFR') on the prudential requirements of IFs and the Investment Firm Directive (EU) 2019/2034 ('IFD') on the prudential supervision of IFs. IFR on the prudential requirements of IFs became directly applicable in all EU Member States on the 26th of June 2021 whereas IFD on the prudential supervision of IFs was transposed into national legislation by CySEC by issuing Law L.97(I)/2021 on the capital adequacy of IFs applicable as from 26th June 2021, Amending Law L.164(I)/2021 on the capital adequacy of IFs applicable as from the 5th November 2021 and Law L.165(I)/2021 on the prudential supervision of IFs applicable as from 5th November 2021 ('L.165(I)/2021').

The new prudential framework introduced a new classification for IFs, the Systemic and Non-Systemic based on their activities, significance and systemic importance, size and interconnectedness with other financial and economic sectors. Systemic firms and/or where IFs activities are more banking related will remain under Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 ('CRR') and subject to banking supervision ('Class 1A' and 'Class 1B'). Non-Systemic, are firms of either 'Class 2' or 'Class 3', based on certain criteria, which are subject to the new IFR/IFD prudential regulatory framework in full or with certain exceptions. The new classification of the IFs determines their new capital requirements and reporting obligations. FXNET has been classified as a Non-Systemic "Class 2" firm. FXNET complies with the new capital requirements under the IFD/IFR as at 31 December 2022.

The IFR prudential framework consists of a three 'Pillar' approach:

- Pillar I – Covers minimum capital, own funds and liquidity requirements.
- Pillar II – Covers the Supervisory Review and Evaluation Process ('SREP') which assesses the internal capital adequacy processes and whether additional capital is required over and above the Pillar I and provides for the monitoring and self-assessment of an IF's capital adequacy and internal processes.
- Pillar III – Covers external disclosures that are designed to provide transparent information on regulatory own funds requirements, risk management objectives and policies, internal governance arrangements, remuneration policy and practices.

1.2 Scope

The Pillar III Disclosures (the ‘Pillar III Disclosures’ or the ‘Report’) is prepared on an individual (solo) basis and in accordance with Part Six ‘Disclosure by Investment Firms’ of the IFR and relevant Sections of the L.165(I)/2021. Relevant qualitative and quantitative information is disclosed in line with the EBA Draft Implementing Technical Standards on reporting requirements for investment firms under Article 54(3) and on disclosures requirements under Article 49(2) of Regulation (EU) 2019/2033 (thereafter, ‘EBA/ITS/2021/02’).

The Firm’s policy, detailing the approach followed in complying fully with the Pillar 3 disclosure requirements as laid out in Part Six of the IFR, is prepared in accordance with the Firm’s manual.

As a CIF, FXNET is required, pursuant Section 37 of the L.165(I)/2021 to publish, on an annual basis the Pillar III Disclosures. The figures included in Pillar III Disclosures are based on the audited Financial Statements of FXNET for the year ended 31 December 2022. The external auditors of FXNET, have provided an independent conclusion on the fair presentation of the disclosures in accordance with the regulatory requirements imposed by the CySEC.

The Pillar III Disclosures report is available online at the Firm’s websites at www.nessfx.com / www.investing24.com

1.3 Specific Compliance References to EBA ITS/2021/02

Template	Compliance Reference	Section
IF EU CC1	Composition of own funds, such as Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items, and applicable filters and deductions applied to the own funds of the Firm, including the reconciliation of these items with the relevant items of the Firm’s audited balance sheet, and a description of all restrictions applied to the calculation of own funds, in accordance with Article 49 (1)(a) and (b) of the IFR.	Section 5
IF EU CC2	Full reconciliation of Common Equity Tier 1 items, Additional Tier 1 items, Tier 2 items, and applicable filters and deductions applied to the Firm’s own funds and the balance sheet in their audited financial statements, in accordance with Article 49(a) of the IFR.	Section 5

1.4 Specific references to articles in the IFR

IFR Reference	High-level summary	Compliance Reference
Scope of disclosure requirements		
46(1)	Requirement to publish Pillar III disclosures.	Section 1
46(3)	Investment firms may determine an appropriate medium and location to comply effectively with the disclosure requirements.	Section 1
Risk management objectives and policies		
47	Disclosure of risk management objectives and policies for each separate category of risk set out in Part Three, Part Four, Part Five of the Regulation including a summary of the strategies and processes to manage those risks and a concise risk statement approved by the Firm’s management body succinctly describing the Firm’s overall risk profile associated with the business strategy.	Section 2 and Section 3
Internal Governance		
48(a)	Disclosure of the number of directorships held by members of the Board of Directors (“BoD”).	Section 4.1
48(b)	The policy on diversity with regard to the selection of the members of BoD, its objectives and any relevant targets set out in that policy, and the extent to which those objectives and targets have been achieved.	Section 4.2

48(c)	Disclosure of whether a separate risk committee is in place, and number of meetings in the year.	Section 4.3
Own Funds		
49 (1)	Information regarding the Firm's Own Funds.	Section 5
Own Funds requirements		
50 (a)	Summary of the Firm's approach to assessing adequacy of capital levels.	Section 6
50 (b)	Result of ICAAP on demand from competent authority.	N/A
50 (c)	The K-factor requirements calculated for RtM, RtF, and RtC, based on the sum of the applicable K-factors.	Section 6.4
50 (d)	The fixed overheads requirement.	Section 6.2
Remuneration policy and practices		
51	Remuneration policy and practices for those categories of staff whose professional activities have a material impact on the investment firm's risk profile.	Section 7
50 (a)	The most important design characteristics of the remuneration system, including the level of variable remuneration and criteria for awarding variable remuneration, pay out in instruments policy, deferral policy and vesting criteria.	Section 7
50 (b)	The ratios between fixed and variable remuneration.	Section 7
50 (c)	Aggregated quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the investment firm.	Section 7
Investment policy		
52 (1) (a)	Disclosure of the proportion of voting rights attached to the shares held by the investment firm, directly or indirectly, a complete description of voting behavior in the general meetings of companies the shares of which are held, an explanation of the votes and the ratio of proposals put forward by the BoD of the Firm which the investment firm has approved, an explanation of the use of proxy advisor firms and the voting guidelines regarding the companies the shares of which are held (subject to additional criteria being met).	Section 8
Environmental, social and governance risks		
53	Information on environmental, social and governance risks, including physical risks and transition risks.	N/A until 2022

2. Risk Management Objective and Policies

2.1 Risk Management Policy

The Risk Management Policy aims to ensure that the risk appetite and tolerance levels, as approved by the BoD, are embedded in the day-to-day operational activities, and adhered by all employees. This is achieved by setting the top-level framework that reflects the Firm's risk management philosophy.

The Board is committed to the following principles for risk management:

- It creates and preserves value;
- It is integrated in the organizational process;
- It is aligned with the Firm's business and culture;
- It is firm-wide, homogeneous, and systematic;
- It includes procedures that are dynamic and adaptive.

2.2 Risk Management Framework

FXNET is committed to having corporate governance, risk management and a control framework appropriate to the size of its business. To achieve this, a comprehensive risk management framework (the 'framework') for the identification, assessment, monitoring and control of risks has been implemented. The framework includes processes in place to manage the risks arising from the Firm's financial services activities including risk to clients, risk to firm and risk to market.

The BoD has the ultimate responsibility for the framework implementation oversight, setting the risk appetite and monitoring of risks on a regular basis.

The Firm maintains a four-eye structure. This structure ensures the separation of power and authority regarding vital functions of the Firm. The adequacy and effectiveness of internal systems and controls are reviewed, based on data and information produced by the internal and external auditors or other competent authorities.

In particular, specific monitoring controls and limits have been put in place to ensure that the Firm maintains at all times adequate level of own funds in line with the risk appetite, in compliance with the prudential requirements and to ensure that in the event where risks materialize losses are absorbed.

The BoD of FXNET Financial Services Ltd is assisted in their oversight function by permanent committees (collectively the 'Committees' and individually the 'Committee'), namely:

- the Risk Management Committee
- the Remuneration Committee.

The role of each committee is described in detail in the relevant sections in this Report. The Firm's BoD is satisfied that these arrangements are appropriate given the risk profile of the Firm.

2.3 Risk Strategy

The BoD is responsible for formulating the Firm's risk strategy and has the overall responsibility to oversee its implementation. The risk strategy focuses on ensuring that the Firm's risk management framework and relevant policies in place are relevant and effective to meet regulatory compliance requirements and to manage the Firm's exposure to various risks. The risk strategy is aligned with the business objectives of the Firm and aims to provide a clear risk culture across the Senior Management and staff in relation to the implementation of the risk management framework.

2.4 Risk Appetite

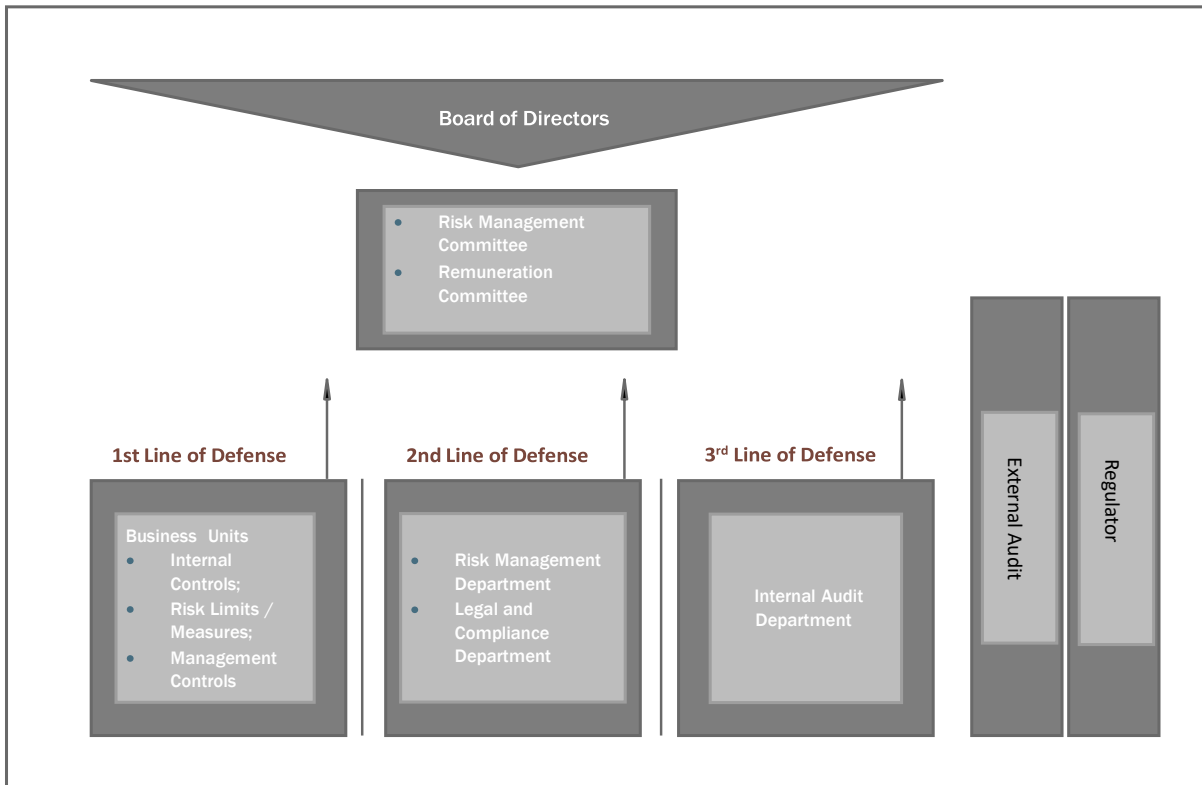
Risk appetite defines the basis of the level and type of risk the Firm is willing to assume in its exposures and business activities, given its business objectives and obligations to stakeholders. These risks include, among others, Risk to Client, Risk to Market, Risk to Firm, reputational risk and compliance risk. The risks and controls around them and the risk appetite set by the BoD for each risk, are set out in the sections further below. The risk management arrangements which are in place, are considered to be adequate.

2.5 Risk Governance Structure

The BoD is responsible for setting the Firm's strategic objectives, the tone for a risk aware culture and its appetite for risk. The internal Governance structure plays a significant role in the success of the risk management effort as it can promote accountability and transparency. It also defines the reporting lines and information flow within the Firm.

The Firm's risk governance is based on the three lines of defense model, to ensure effective risk management though enhanced communication lines and clearly defined roles and responsibilities, as shown in Figure 1 below.

Figure 1: Lines of Defense Model



First Line of Defense – Heads of Business Units are responsible for identifying all risks within their area of operation and establishing an effective controls system to ensure business activities are performed within the Firm’s risk appetite and are fully compliant with the Firm’s policies and defined thresholds.

Second Line of Defense – The Risk Management Function, Legal and Compliance Function are providing support for monitoring the risk profile of the Firm and independently oversee compliance with regulatory framework and management of risk. The second line of defense is responsible to establish policies and guidelines that the business lines should operate within.

Third Line of Defense – Lies with the Internal Audit Department which provides independent assurance on the effectiveness of governance, risk management and internal controls, including the manner in which the first and second lines of defense achieve risk management and control objectives.

2.6 Main Roles and Responsibilities

The main roles and responsibilities of the persons involved in risk management are outlined below:

Risk Management Committee

The Risk Committee is supporting the BoD to oversee the overall management of all Risks. The Risk Committee suggests the risk tolerance limits and advises the BoD accordingly. It also has the responsibility to review and make recommendations on enhancing the Firm’s systems and controls including infrastructure, resources and systems to ensure proper risk management. The Risk Committee comprises of the Risk Manager and two independent non-executive directors. During 2022 the Committee held four meetings.

The Risk Management Committee:

- Establishes a Risk Management Policy and other relevant procedures governing the control of the risks

arising within FXNET and recommends, if required, amendments;

- Approves modifications and oversees the application of risk procedures and controls;
- Reviews and if appropriate, challenges the processes undertaken by the business in setting the overall risk appetite of the business;
- Collects information of risk exposures and risk events occurred across the Firm;
- Evaluates the adequacy and effectiveness of controls in place for managing the Risks;
- Approves remedial action.

The Risk Management Committee establishes the required parameters and applicable market risk limits, and the Dealing Department monitors the positions of the proprietary book to ensure that FXNET's exposure to market risk is within the defined limits.

Senior Management

The responsibility of Senior Management with regard to risk management include the following:

- Identification, measurement, monitoring and management of risks;
- Documentation and maintenance of a Risk Register in line with the Firm's Risk Management Framework as approved. The completed registers are submitted to the Risk Management Department by the end of the year;
- Document any realization of risk in their respective units;
- Ensure that appropriate resources and procedures for risk management are in place.

Risk Management Department

The Head of Risk Management Department's main responsibilities, include the following:

- Establishes and maintains the Firm's risk strategy and risk appetite, in line with the direction given by the Risk Committee and BoD;
- Monitors the adequacy of risk management policies and procedures. Reviews relevant changes and submits to the Risk Committee and the BoD for approval;
- Reviews trading book exposure limits and communicates with the Risk Committee and the BoD for ratification and approval;
- Escalates to the most senior levels of management, risk management issues that require their attention and reports on the remedial action taken;
- Approves limit exceptions and changes, subject to the relevant authorization limits;
- Implement the Internal capital adequacy and risk assessment ('ICARA') of the Firm on a continuous basis and prepare the relevant report for BoD approval on an annual basis;

Compliance Department

The Compliance Function is responsible amongst others, for the following:

- monitor on a permanent basis and assess, on a regular basis, the adequacy and effectiveness of the measures, policies and procedures put in place, and the actions taken to address any deficiencies in the Firm's compliance with its obligations emanating from the applicable laws and regulations;
- draft policies based on the requirement of relevant laws and directives in coordination with the Legal Function and update them as necessary;
- advise and assist the relevant persons responsible for carrying out investment services and activities to comply with the Firm's regulatory obligations;
- report to the management body, on at least an annual basis, on the implementation and effectiveness of the overall control environment for investment services and activities, on the risks that have been identified and on the complaints-handling reporting as well as remedies undertaken or to be undertaken.

FXNET has appointed a Money Laundering Compliance Officer ('MLCO') who acts as the central point of contact both with the law enforcement agencies and internally, in relation to all matters relating to money laundering.

Internal Audit Department

The Internal Audit Function is responsible, amongst others, to:

- assess the appropriateness and adequacy of risk and compliance policies and procedures in line with the annual audit plan approved;
- perform independent review of the risk assessment, stress testing and capital calculations and provide

- assurance on their compliance with the policies and procedures approved by the BoD;
- provide timely, accurate and relevant reporting in relation to internal audit matters to the BoD and the Senior Management.

2.7 Internal Capital Adequacy and Risk Assessment

The ICARA shall be conducted at least annually. The Firm will use the results of its most recent ICARA exercise as a measurement of its internal capital requirements. The Firm will apply methodologies which are specified by the regulatory framework in order to calculate the capital requirements for Pillar I risks, as well as additional capital requirements for those risks which are either partially covered or not addressed under Pillar I.

2.8 Reporting and Information Flow

The Firm has established a risk-related information flow to the BoD. Details of the major reports submitted to the BoD are presented in the table below:

Table 1: Reports submitted to the BOD

Report Name	Description	Owner	Recipient	Frequency
Compliance Report	Annual Compliance review	Compliance Officer	BoD, CySEC	Annual
Internal Audit Report	Annual Internal Audit review	Internal Auditor	BoD, CySEC	Annual
Risk Management Report	Annual Risk Management report	Risk Manager	BoD, CySEC	Annual
Anti-money laundering Report	Annual Anti-money laundering report	Anti-money Laundering Compliance Officer	BoD, CySEC	Annual
Pillar III Report	Disclosures regarding the risk management, capital structure, capital adequacy and risk exposures of the Firm	Risk Manager	BoD, CySEC, Public	Annual
Prudential Supervision Information workbook	Prudential supervision information - Form 165-3	Head of Finance	BoD, CySEC, Public	Annual
Financial Statements	Audited financial statements of the Firm	Head of Finance	BoD, CySEC	Annual
Resolution Template	Overview of the recovery arrangements established by the Firm	Risk Manager	BoD, CySEC	Annual
ICARA Report	Assessment of the level of capital that adequately supports all relevant current and future risks of our business	Risk Manager	BoD, CySEC	Annual
Capital Adequacy Report	Capital requirement calculation	Head of Finance	Senior Management, CySEC	Quarterly

2.9 Risk Management Statement

The BoD of FXNET confirms that the risk management arrangements and procedures of the Firm are adequate, given the size and complexity of the operations of the Firm. In particular, the BoD confirms that the risk management systems put in place are adequate with regard to the Firm's risk profile and strategy.

3. Risk Profile

FXNET has identified and assessed its risk profile on the basis of its strategy objectives, operations, business and regulatory environment exposures and requirements. The Firm has put in place a number of management and internal controls including policy, procedures and monitoring program to ensure that identified risks are managed within its Risk Appetite.

The Firm's risk profile is presented in the following sub-sections.

3.1 Risk to Client (RtC)

RtC covers the risk imposed to the Firm's clients resulting from the business activities and services the Firm offers. RtC is measured by the following k-factors: Clients Money Held (CMH), Assets Under Management (AUM) and Clients' Orders Handled (COH). The Firm executes orders under its own name only, thus COH is not applicable. In addition, during the reporting period the Firm reported zero AUM.

Therefore, as at 31st of December 2022 the only K-factor applicable for the Firm is K-CMH. K-CMH captures the risk of harm in relation to the clients' money held in the Firm's own balance sheet or in third-party accounts, and Arrangements under applicable national law provide that client money is safeguarded in the event of bankruptcy, insolvency, or entry into resolution or administration of the Firm. This is broken down further into money held in segregated accounts and money held in non-segregated accounts.

K-CMH is estimated as the rolling average of the value of total daily client money held, measured at the end of each business day for the previous 9 months, excluding the 3 most recent months.

3.2 Risk to Market (RtM)

RtM, relates to the market risk for positions the Firm holds in CFDs underlying financial instruments such as foreign currencies, commodities, indices, precious metals, commodities and equity securities. Therefore, the Firm's market risk exposure is related to the impact of unanticipated exchange rate changes ('foreign exchange risk'), the impact of unexpected changes in the commodities prices ('commodity risk'), and the impact of changes in price of the debt and equity instruments ('position risk'). Market risk exposures at any point in time depend primarily on short-term market conditions and client transaction activities during the trading day.

FXNET acts, at all times, as the principal to the clients' trades. The Firm does not take proprietary positions based on an expectation of market movements. The Firm is also exposed to market risk in relation to foreign exchange risk which arises from non-CFD recognized assets and liabilities held in a currency other than the Firm's reporting currency (EURO).

Market risk is carefully managed through detailed policy, procedures and mitigating controls including the following, but not limited to:

- A dynamic and live mark-to-market valuation is employed for accounting and risk measurement purposes, while several broker counterparty agreements are in place for efficient and timely risk transfer;
- The Risk Management Function set exposure limits on a Group level;
- Real time measures of aggregated market risk, such as Net Open Positions measures, are available to the Dealing and Risk Departments, as well as to the members of the Risk Management Function;
- Dynamic Leverage limits are set for each instrument limiting the total exposure a client can generate against the Firm;
- At specific political or other economic events (i.e. Brexit), FXNET reduces the leverage of the specific products that may be impacted so that it can protect both itself and its clients from sudden price movements;
- Power BI reporting tool allows the Risk Management Function to monitor market risk in real time, and provides enhanced data analysis;
- The Dealing Department receives hourly, per shift (every 8 hours) and daily dealing automated reports with a summary analysis of all trading activity, indicating the top 10 accounts with the highest trading activity;
- Trading (hedging) accounts are maintained with other regulated financial institutions for engaging in hedging activities in financial instruments when a need to hedge arises.

The Firm follows the total standardized approach to calculate its own funds requirements for position risk in the trading book in accordance with Chapters 2, 3 or 4 of Title IV of Part Three of the CRR, with respect to foreign

exchange risk, commodities risk and position risk in equity.

3.3 Risk to Firm (RtF)

RtF covers the Firm's exposures to their trading counterparties, the concentration risk in the Firm's large exposures, and the operational risk arising from the Firm's trading flow which could result from inadequate or failed internal processes, people and systems or from external events.

Trading Counterparty Default (TCD) Risk

Captures the risk of default by the Firm's counterparties to over-the-counter ('OTC') derivatives, repurchase transactions, securities and commodities lending or borrowing transactions, long settlement transactions, margin lending transactions, or any other securities financing transactions, as well as by recipients of loans granted by the investment firm on an ancillary basis as part of an investment service.

For the purposes of hedging exposure and transferring market risk, the Firm has several broker counterparty agreements in place. Each broker / liquidity provider is evaluated and chosen based on an assessment of the following criteria:

- Credibility of the LP,
- Jurisdiction and regulation: reputable European, or equivalent jurisdiction, based brokers are preferred,
- Financial strength: listed companies or strong financial statements are favored,
- Expertise, reliability, and quality of service.

In relation to margin lending transactions, before any trading activity takes place, the Dealing Department ensures that the client accounts are funded and adequate equity for the margin requirements is available. The Firm has established minimum margin levels below which all positions are automatically closed at market prices in order to prevent the account from going into deficit. Automated processes are in place in each trading platform that monitor the client margin level and automatically begin closing positions at market price when levels fall below the corresponding Stop Out limit.

Calculation of K-TCD

K-TCD is calculated based on each counterparty type in a similar approach with CRR. Particularly, the value of the financial instrument exposure (i.e. taking into consideration its replacement cost, an add-on for potential future exposure, and the collateral) is multiplied by relevant risk factor per counterparty accounting also for the mitigating effects of effective netting and the exchange of collateral (if and where applicable).

Total K-TCD is the sum of K-TCD calculated for each of the transaction, in accordance to the following formula:

$$K - TCD = a * Exposure Value * RRRsk Factor * CredRRt ValuatRRon AdAAustment$$

where,

a=1.2;

Exposure Value is calculated in accordance Article 27 of the IFR;

Risk Factor as applicable to the counterparty type as set out in the table 2 in Article 26 of the IFR;

Credit Valuation Adjustment is calculated in accordance with Article 32 of the IFR.

It is noted that as at 31 December 2022 the Firm does not hold any collaterals in its trading book.

Concentration Risk on Large Exposures

Concentration Risk captures risk in relation to individual or highly connected private sector counterparties with whom the Firm has exposures above 25% of its own funds. In the case where counterparties' exposures exceeded the limit(s), the K-CON factor is calculated to determine the relevant own funds requirement to cover such excess exposures.

As at 31 December 2022, the Firm had not reported any large exposures thus, K-CON requirement is not applicable.

3.4 Daily Trading Flow (DTF)

Captures the operational risks to the Firm arising from large volumes of trades concluded on a daily basis that have been impacted from inadequate or failed internal processes, people and systems or from external events. Operational risk is perceived lower where for short-term contracts and thus, increases in own funds requirements are limited. The Firm's daily trading is concentrated in CFDs that have traditionally low / immediate maturities and therefore, operational risk is kept at lower levels.

Calculation of the K-DTF

Daily trading flow is the sum of the absolute value of buys and sells for both cash trades (amount paid/received on each trade) and derivatives (notional amount of the contract).

The K-DTF factor is equal to the rolling average of the value of the total daily trading flow, measured through each business day over the previous 9 months, excluding the 3 most recent months.

3.5 Liquidity Risk

Liquidity risk is the risk that the Firm will not be able to meet its financial obligations and arises when the maturity of assets and liabilities does not match.

The Firm has robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity risk over an appropriate set of time horizons, including intra-day, so as to ensure that they maintain adequate levels of liquidity buffers; tailored to the business lines, foreign currencies and other traded financial instruments, which includes adequate allocation mechanisms of liquidity costs, benefits and risks. The Firm has no long-term debt.

In order to manage its liquidity risk, the Head of Finance of FXNET, the Board as a whole and the Risk Management Committee monitor rolling forecasts of the Firm's liquidity requirements based on expected cash flows in order to ensure that the Firm has sufficient cash to meet its operational needs, under normal and abnormal (stressed) market conditions. An internal system is available for monitoring in real time liabilities due to client trading activity. No client funds are used to fund broker margin requirements or any other financial obligations.

The Firm ensures that sufficient cash is available on demand to meet any operational expenses that arise and holds an amount of liquid assets equivalent to at least one third of the fixed overhead requirement calculated in accordance with Article 13(1) of the IFR.

3.6 Other Risks

Technological, Systems and Data

The Firm's systems are evaluated, maintained and upgraded continuously. Data recovery programs and backup systems ensure continuity in the Firm's core operations.

The Firm mitigates any risk from failure of third party providers such as data suppliers, market information, telephone and internet access by ensuring it has multiple providers for each service.

A Disaster Recovery Plan and a Business Continuity Plan (BCP) is in place such that:

- Key personnel and management can physically relocate and carry out business, as normal;
- The BCP center is appropriately equipped in order for FXNET to maintain its competitive advantage and systems integrity, including but not limited to internet connectivity from multiple service providers;
- A Disaster Recovery Plan that details the recovery process of the IT infrastructure in the event of a disaster has been developed, documented and frequently tested.

Fraud

Regular internal audit reviews are performed to ensure that employees comply with the Firm's internal procedures. An Anti-fraud policy facilitates the development of controls for the prevention and detection of fraud against the Firm.

Strategic Risk

FXNET is exposed to strategic risk that could result due to poor strategic business decisions taken and implemented by the Firm. Strategic risk can also be a result of changes in the sector the Firm operates in or the business environment in general.

The Firm assesses, as often as required, the Firm's strategic direction taking into account its objectives and updates the Firm's budget accordingly. The Board approval is required for any projects that might have an impact to the Firm's short and long term-business plans. The Board is updated on milestones and other goals achieved/not achieved so that actual results can be measured in comparison to forecasts.

Reputational Risk

FXNET is exposed to reputational risk that arises due to a number of factors including but not limited to negative publicity, pending or concluded litigation, poor performance or any legal or regulatory violations.

To mitigate this risk, the Firm ensures that all regulatory requirements are adhered to and emphasizes the importance of proper risk management across the organization. The Internal Audit and Compliance departments ensure that the policies and procedures are enforced at all times.

Exposure to Interest Rate Risk

The Firm has no material interest rate risk exposure to positions not included in the trading book.

4. Governance Arrangements

4.1 Number of Directorships held by members of the Board

Section 9 paragraph 4 of the L. 87(I) / 2017 determines that members of the BoD of a CIF that is significant in terms of its size, internal organization and the nature, the scope and the complexity of its activities shall not hold more than one of the following combinations of directorships at the same time:

- one executive directorship with two non-executive directorships;
- four non-executive directorships.

It is noted that Section 9 paragraph 5 of the L. 87(I) / 2017 of the Law, determines that executive or non-executive directorships held within the same group shall count as a single directorship.

As at 31/12/2022 the number of directorships held by the members of the BoD are as follows:

Table 2: Number of Directorships of the members of the BoD

No	Name of Director	Type of Directorship	Number of Executive Directorships	Number of Non-Executive Directorships
1	Mr. Kypros Papatheodoulou	Executive Director	0	0
2	Ms. Anna Kiczuk	Executive Director	0	0
3	Mr. Neoclis Nikolaidis	Independent Non-Executive Director	0	0
4	Mr. Michalis Elpidorou	Independent Non-Executive Director	0	0
5	Mr. Christos Avgoustinou	Non-Executive Director	0	0

4.2 Diversity Policy

The Firm recognizes the benefits of having a diverse BoD which includes and makes use of differences in the skills, experience, cultural and educational background, race and age between directors. The Firm's Recruitment Policy is fully aligned with Diversity to promote an inclusive workspace at all levels, reflective of the communications in which it does business.

In the BoD composition, it is essential for the Firm to ensure that Diversity is taken into consideration and that the Directors selected will be able to devote the necessary time and effort to fulfil their respective responsibilities.

5. Own Funds

The Firm's regulatory capital base consists of Common Equity Tier 1 ('CET1') only, which includes share capital and retained earnings. The Firm does not issue Additional Tier 1 or Tier 2 items.

From CET1, the Firm deducts intangible assets, the Investors Compensation Fund contribution and the additional cash buffer of 3 per thousand of the eligible funds and financial instruments of the Firm's clients, as required by CySEC Circular C334. The intangible assets that are deducted from Tier 1 capital relate primarily to trademarks and computer software. From the Firm's capital, prudential filters (i.e., value adjustments due to the requirements for prudential validation) are also deducted.

The main features of the Firm's own funds instruments are presented in table EU IF CCA attached in Appendix 1. The composition of the regulatory own funds is presented in table EU IF CC1 below.

Table 3: EU IF CC1 – Composition of regulatory Own Funds

	Amounts (EUR)
1 OWN FUNDS	1,769
2 TIER 1 CAPITAL	1,769
3 COMMON EQUITY TIER 1 CAPITAL	1,769
4 Fully paid up capital instruments	1,202
5 Share premium	476
6 Retained earnings	146
7 Accumulated other comprehensive income	
8 Other reserves	
9 Minority interest given recognition in CET1 capital	
10 Adjustments to CET1 due to prudential filters	
11 Other funds	
12 (-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	
13 (-) Own CET1 instruments	
14 (-) Direct holdings of CET1 instruments	
15 (-) Indirect holdings of CET1 instruments	
16 (-) Synthetic holdings of CET1 instruments	
17 (-) Losses for the current financial year	
18 (-) Goodwill	
19 (-) Other intangible assets	
20 (-) Deferred tax assets that rely on future profitability and do not arise from temporary differences net of associated tax liabilities	
21 (-) Qualifying holding outside the financial sector which exceeds 15% of own funds	
22 (-) Total qualifying holdings in undertaking other than financial sector entities which exceeds 60% of its own funds	
23 (-) CET1 instruments of financial sector entities where the institution does not have a significant investment	
24 (-) CET1 instruments of financial sector entities where the institution has a significant investment	

25	(-)Defined benefit pension fund assets	
26	(-) Other deductions	
27	CET1: Other capital elements, deductions and adjustments	-55
28	ADDITIONAL TIER 1 CAPITAL	N/A
29	Fully paid up, directly issued capital instruments	N/A
30	Share premium	N/A
31	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	N/A
32	(-) Own AT1 instruments	N/A
33	(-) Direct holdings of AT1 instruments	N/A
34	(-) Indirect holdings of AT1 instruments	N/A
35	(-) Synthetic holdings of AT1 instruments	N/A
36	(-) AT1 instruments of financial sector entities where the institution does not have a significant investment	N/A
37	(-) AT1 instruments of financial sector entities where the institution has a significant investment	N/A
38	(-) Other deductions	N/A
39	Additional Tier 1: Other capital elements, deductions and adjustments	N/A
40	TIER 2 CAPITAL	N/A
41	Fully paid up, directly issued capital instruments	N/A
42	Share premium	N/A
43	(-) TOTAL DEDUCTIONS FROM TIER 2	N/A
44	(-) Own T2 instruments	N/A
45	(-) Direct holdings of T2 instruments	N/A
46	(-) Indirect holdings of T2 instruments	N/A
47	(-) Synthetic holdings of T2 instruments	N/A
48	(-) T2 instruments of financial sector entities where the institution does not have a significant investment	N/A
49	(-) T2 instruments of financial sector entities where the institution has a significant investment	N/A
50	Tier 2: Other capital elements, deductions and adjustments	N/A

A full reconciliation of the Common Equity Tier 1 items, Additional Tier 1 items and applicable filters and deductions applied to own funds of the Firm and the balance sheet in the Firm's audited financial statements, is provided in table EU IF CC2 below. The Firm does not issue Additional Tier 1 items or Tier 2 items.

Table 4: EU IF CC2 - Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements.

		Balance sheet as in audited financial statements as at 31/12/2022 EUR
Assets - Breakdown by asset classes according to the balance sheet in the published/audited financial statements		
1	Property plant and equipment	121926
2	Intangible assets	635126
3	Non-current receivable	44949
	Current assets	
4	Non-financial assets	417072
5	Financial assets	183441
6	Current income tax assets	-
7	Cash and cash equivalents	1118174

Total Assets		2520688
Liabilities - Breakdown by liability classes according to the balance sheet in the published/audited financial statements		
Non-current liabilities		
1	Deferred income tax liabilities	-
Current liabilities		
2	Trade and other payables	680201
3	Current income tax liabilities	32
Total Liabilities		680233
Shareholders' Equity		
1	Share capital	1201811
2	Other reserves	476293
3	Retained earnings	162351
Total Shareholders' Equity		1840455
Total Liabilities, Minority Interest and Shareholders' Equity		2520688

6. Own Funds Requirement

The legal and regulatory framework under which FXNET operates stipulates that the Firm must at all times maintain a sub-optimal amount of own funds to fulfil its own funds requirements.

The objectives of FXNET when managing its own funds are:

- safeguarding the Firm's ability to continue as a going concern;
- maintaining an optimal own funds structure in order to reduce the cost of own funds;
- ensuring sufficient own funds is available to meet the usual business activities and any unforeseen contingencies;
- ensuring compliance with own funds regulatory conditions.

6.1 Own Funds Ratios

In accordance with Article 9 (1) of the Regulation, the Firm's own funds shall meet the following conditions at all times:

$$a) \frac{\text{Common Equity Tier 1 capital}}{D} \geq 56\%$$

$$b) \frac{\text{Common Equity Tier 1 capital} + \text{Additional Tier 1 capital}}{D} \geq 75\%$$

$$c) \frac{\text{Common Equity Tier 1 capital} + \text{Additional Tier 1 capital} + \text{Tier 2 capital}}{D} \geq 100\%$$

Where, for the purpose of the own funds requirement calculation, D is defined as the highest of:

- (a) the Firm's fixed overhead requirement in accordance with Article 13;
- (b) the Firm's permanent minimum capital requirement in accordance with Article 14; and
- (c) the Firm's K-factor requirement in line with Article 15(1) of the Regulation.

6.2 Fixed overhead requirement

In accordance with Article 13 of the IFR fixed overhead requirement shall amount to at least one quarter of the fixed overheads of the preceding year, subject to specific deductions as per Article 13 (4) of the IFR.

The table below presents the fixed overhead requirement calculated as at 31st of December 2022.

Table 5: Fixed Overhead Requirement calculation

Item	Amount '000
Fixed Overhead Requirement	280
Annual Fixed Overheads of the previous year after distribution of profits	1,120
Total expenses of the previous year after distribution of profits	1,120
Of which: Fixed expenses incurred on behalf of the investment firms by third parties	
(-) Total deductions	
(-) Staff bonuses and other remuneration	
(-) Employees', directors' and partners' shares in net profits	
(-) Other discretionary payments of profits and variable remuneration	
(-) Shared commission and fees payable	
(-) Fees, brokerage and other charges paid to CCPs that are charged to customers	
(-) Fees to tied agents	
(-) Interest paid to customers on client money where this is at the firm's discretion	
(-) Non-recurring expenses from non-ordinary activities	
(-) Expenditures from taxes	
(-) Losses from trading on own account in financial instruments	
(-) Contract based profit and loss transfer agreements	
(-) Expenditure on raw materials	
(-) Payments into a fund for general banking risk	
(-) Expenses related to items that have already been deducted from own funds	
Projected fixed overheads of the current year	
Variation of fixed overheads (%)	-100.00%

6.3 Permanent minimum capital requirement

The Firm's permanent minimum capital requirement pursuant to Section 16 of the L.87(I)/2017 and in accordance with Article 9 of the IFD is EUR 750 thousand.

6.4 K-factor requirement

In accordance with Article 15 (1) of the IFR, the K-factor requirement shall amount to at least the sum of the following set of K-factors which capture Risk to Client, Risk to Market and Risk to Firm as follows:

Table 6: Total K-Factor Requirement

	Factor Amount	K-factor requirement
TOTAL K-FACTOR REQUIREMENT		1,632
Risk to Client		10
Assets under management	-	-
Client money held - Segregated	2,536	10
Client money held - non-segregated		
Assets safeguarded and administered		
Client orders handled - Cash trades		

Client orders handled - Derivatives Trades	-	-
Risk to Market		934
K-Net positions risk requirement		934
Clearing margin given	-	-
Risk to firm		689
Trading counterparty default		506
Daily trading flow - Cash trades		
Daily trading flow - Derivative trades	19,919	2
K-Concentration risk requirement		180

The Firm's own funds required conditions and capital ratios are reflected in the table below:

Table 7: Own Funds Requirement

	EUR '000
OWN FUNDS REQUIREMENTS	1,632
Permanent minimum capital requirement	750
Fixed overhead requirement	280
Total K-Factor Requirement	1,632
Total own funds requirement	1,632
CET 1 Ratio	108.35%
Tier 1 Ratio	108.35%
Own Funds Ratio	108.35%
Transitional requirement based on CRR own funds requirements	-
Transitional requirement based on fixed overhead requirements	-
Transitional requirement for investment firms previously subject only to an initial capital requirement	-
Transitional requirement based on initial capital requirement at authorisation	-
Transitional requirement for investment firms that are not authorised to provide certain services	-
Transitional requirement of at least 250 000 EUR	-
Total own funds requirement (including Transitional Requirements)	1,632
CET 1 Ratio (including Transitional Requirements)	108.35%
Tier 1 Ratio (including Transitional Requirements)	108.35%
Own Funds Ratio (including Transitional Requirements)	108.35%

According to Article 2 of the Commission Implementing Regulation (EU) 2021/2284 laying down implementing technical standards for the application of Regulation (EU) 2019/2033 of the European Parliament and of the Council with regard to supervisory reporting and disclosures of investment firms, FXNET submits on a quarterly basis their Prudential Forms to CySEC using unaudited figures.

In order to manage its own funds requirements, FXNET monitors, constantly, its capital adequacy ratio to ensure that this remains, at all times, at a level well above the regulatory limit. The Firm uses forecasts to assess its capital position, based on its operating plan, so as to ensure that no capital deficiencies will arise and accumulates additional capital through the accumulation of profits over time.

7. Remuneration Policy and Practices

The Remuneration policy of the Firm is a significant component of the Firm's corporate governance and risk culture. The Remuneration policy is formulated in line with the Firm's strategy, business objective, risk strategy and in accordance with the remuneration principles set out in Section 24(1) of the L.165(I)/2021.

The Remuneration policy applies for categories of staff, including senior management, staff engaged in key control functions, any employees whose professional activities have a material impact on the risk profile of the Firm and client facing staff. The Policy is reviewed at least annually, and any amendments made are approved by the Remuneration Committee and the BoD. The BoD is responsible for its implementation as well as for identifying and preventing any risks and conflicts which may arise as a result of the remuneration practices of the Firm.

The implementation of the policy is also subject to periodic review by the Compliance Department and by the Internal Audit Department in order to ensure compliance with the regulatory principles and the Firm's culture. The Remuneration Committee includes the two independent non-executive directors and meets at least quarterly.

Remuneration Committee is responsible to:

- Assist the BoD in the oversight of the Firm's remuneration policy and practices implementation and prepare decisions regarding remuneration;
- Exercise competent and independent judgment on remuneration policies and practices and the incentives created for managing risk, capital and liquidity and provide advice where relevant amendments should be made;
- ensure that transparent information is provided to shareholders in relation the Firm's remuneration practices including both fixed and variable remuneration;
- ensure that the Policy is consistent with, the Firm's strategy, business objective, risk strategy and in accordance with the regulatory remuneration requirements;
- defines the scope of any performance related pay schemes and determines any benefits under the remuneration program ensuring that the remuneration structure is appropriate and does not

in any way create a potential conflict of interest either between the Firm and the employees or the Firm vis a vis its clients.

7.1 Reporting to the Board

The Remuneration Committee's chairman reports formally to the Board on its proceedings after each meeting on all matters. The Remuneration Committee makes whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

7.2 Performance Review

The Remuneration Committee, at least once a year, reviews its own performance, constitution and terms of reference to ensure it is operating at maximum effectiveness and recommends any changes it considers necessary to the Board for approval.

7.3 Fees and Emoluments of members of the BoD and other key management personnel

The table below provides aggregated quantitative remuneration information split into fixed and variable, of the Firm's BoD and other senior management whose actions have a material impact on the risk profile of the Firm.

It is noted that for the year 2022 the Firm did not offer variable remuneration and during the reporting period there were no individuals remunerated EUR 1m or more.

Table 8: Amount of remuneration, split into fixed and variable

Position	Fees and emoluments of members of the Board of Directors and other key management personnel		
	EUR '000		Number of Persons
	Fixed Remuneration	Variable Remuneration	

Executive Members of the Board	33	-	2
Non-Executive Members of the Board	12	-	2
Other key management personnel	2.069	-	8
Total	2.114	-	12

Appendix 1 – Investment and Ancillary services

		Investment services and activities									Ancillary services							
		1	2	3	4	5	6	7	8	9	1	2	3	4	5	6	7	
	1	√	√	-	√	√	-	-	-	-	√	√			√	-	-	
	2	√	√	-	-	-	-	-	-	-	√	√			√	-	-	
	3	√	√	-	-	-	-	-	-	-	√	√			√	-	-	
	4	√	√	-	-	-	-	-	-	-	√	√			√	-	-	
	5	-	-	-	-	-	-	-	-	-	-	√			-	-	-	
	6	-	-	-	-	-	-	-	-	-	-	-			-	√	-	-
	7	-	-	-	-	-	-	-	-	-	-	-			-	-	-	-
	8	-	-	-	-	-	-	-	-	-	-	-			-	-	-	-
	9	√	√	√	√	√	-	-	-	-	√	√			√	-	-	
	10	√	√	-	-	-	-	-	-	-	√	√			√	-	-	

Investment Services and Activities

- 1) Reception and transmission of orders in relation to one or more financial instruments.
- 2) Execution of orders on behalf of Clients.
- 3) Dealing on own account.
- 4) Portfolio management.
- 5) Investment advice.
- 6) Underwriting of financial instruments and/or placing of financial instruments on a Firm commitment basis.
- 7) Placing of financial instruments without a Firm commitment basis.
- 8) Operation of Multilateral Trading Facility.
- 9) Operation of Organized Trading Facility.

Ancillary Services

1. Safekeeping and administration of financial instruments for the account of Clients, including custodianship and related services such as cash/collateral management.
2. Granting credits or loans to an investor to allow him to carry out a transaction in one or more financial instruments, where the Firm granting the credit or loan is involved in the transaction.
3. Advice to undertakings on capital structure, industrial strategy and related matters and advice and services relating to mergers and the purchase of undertakings.
4. Foreign exchange services where these are connected to the provision of investment services.
5. Investment research and financial analysis or other forms of general recommendation relating to transactions in financial instruments.
6. Services related to underwriting.
7. Investment services and activities as well as ancillary services of the type included under Parts I and II (Third Annex) of the Law 144(I)/ 2007 related to the underlying of the derivatives included under paragraphs 5, 6, 7 and 10 of Part III where these are connected to the provision of investment or ancillary services.

Financial instruments

1. Transferable securities.
2. Money-market instruments.

3. Units in collective investment undertakings.
4. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to securities, currencies, interest rates or yields, or other derivatives instruments, financial indices or financial measures which may be settled physically or in cash.
5. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to commodities that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event).
6. Options, futures, swaps, and any other derivative contract relating to commodities that can be physically settled provided that they are traded on a regulated market or/and an MTF.
7. Options, futures, swaps, forwards and any other derivative contracts relating to commodities, that can be physically settled not otherwise mentioned in paragraph 6 of Part III and not being for commercial purposes, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are cleared and settled through recognised clearing houses or are subject to regular margin calls.
8. Derivative instruments for the transfer of credit risk.
9. Financial contracts for differences.
10. Options, futures, swaps, forward rate agreements and any other derivative contracts relating to climatic variables, freight rates, emission allowances or inflation rates or other official economic statistics that must be settled in cash or may be settled in cash at the option of one of the parties (otherwise than by reason of a default or other termination event), as well as any other derivative contract relating to assets, rights, obligations, indices and measures not otherwise mentioned in this Part, which have the characteristics of other derivative financial instruments, having regard to whether, inter alia, they are traded on a regulated market or an MTF, are cleared and settled through recognised clearing houses or are subject to regular margin calls.