



Schneider Trading Associates Limited

Pillar 3 Disclosures

SCHNEIDER TRADING ASSOCIATES LTD PILLAR 3 DISCLOSURES

Schneider Trading Associates Ltd (STA) is a company regulated by the FSA. This statement is published in accordance with the FSA rules concerning Pillar 3 disclosures. STA is a wholly owned subsidiary of STA Holdings Ltd (SHL).

In accordance with rules BIPRU 11.3.6R STA's Directors believe that the disclosure of certain quantitative information as required under Pillar III could potentially undermine our competitive position and thus have taken to omit this information from the Pillar III statement.

BIPRU 11.4.2 **R** 01/01/2007

(1) A *firm* must regard information as proprietary information if sharing that information with the public would undermine its competitive position.

(2) Proprietary information may include information on products or systems which, if shared with competitors, would render a *firm's* investments therein less valuable.

BIPRU 11.4.3 **R** 01/01/2007

A *firm* must regard information as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality.

Risk Management objectives

The STA Board of Directors takes ultimate responsibility for the risks undertaken by the business and risk management objectives and policies are a key driver within the overall business strategy. These policies:

- Identify the risks to which the capital of the business is exposed
- Articulate the acceptable levels of exposure to specific risk types and counterparties
- Appropriate to the size, nature and complexity of transactions entered into by STA and its counterparties and reflect the quality and sophistication of the firm's monitoring capabilities, systems and processes

The STA Board delegates authority to a specific executive committee (the STA Risk Committee) which reports monthly on a formal basis to the board. In addition to the policies outlined above, this requires the executive committee to:

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- Define the total financial capital the firm is prepared to place at risk of loss (capital at risk) as distinct from a regulatory authority's imposed minimum capital requirements
- Approve risk limits
- Ensure that the policies and procedures for conducting business are adequate and up to date
- Ensure appropriate internal controls are in place

Risk management policies are reviewed and approved on a regular basis by the executive committee which must in turn submit these to the board for ratification.

In doing so it must take into consideration:

- The firm's overall business strategy
- Appropriateness as to the size, nature and complexity of transactions entered into by the firm
- Quality of internal procedures
- Sophistication of the firm's monitoring capabilities, systems and processes
- Past experiences and performance
- Regulatory constraints

Capital Resources

As at 31st March 2011 Schneider Trading Associates had £3.35 million of authorised and paid up ordinary share capital as a core component of its Tier 1 capital.

The table below illustrates the current Tier 1 and 2 capital structure.

STA Capital Components	£ 000s
Tier 1	
Share Capital	3,350
Audited Reserves	3,074
Deductions from Tier 1	-1,462
Total Tier 1	4,962
Tier 2	0
Total Tier 1 + 2 (pre variable capital	4,962

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deductions)	
Base capital resources requirement Full BIPRU €730k (at 1.1130)	646
Variable capital requirement	2,512
Capital Requirement for which Tier 3 may be used	56
Surplus of capital over own funds	2,450
Individual Capital Guidance	3,400

Offset against the total capital are the variable capital charges for credit risk, operational risk, counterparty credit risk and market risk.

At present the company has no Tier 3 capital.

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STA has a continuous process of monitoring its capital resource availability with comprehensive analysis of its Market Risk Requirement (MRR) and Counterparty Credit Risk (CCR) components. Aside from its share capital, the company's audited reserves make up the largest elements in its capital structure.

Disclosure on potential risks

To ensure that the company is compliant with its requirements for BIPRU 3 (credit risk) BIPRU 6 (operational risk), and BIPRU 7 (market risk) the company uses its risk management and control system to provide continuous reporting mechanism. This in turn leads to a series of key indicator reports being used by the company to monitor its daily activities and risks inherent or external to the business environment.

With regard specifically to BIPRU 6, Operational risk is the risk of a loss arising from failed or inadequate internal processes or systems, human error or other external factors. The risk is managed by individual business areas that have responsibility for putting in place appropriate controls for their department. Regular reporting of risks then takes place at Management, Board and Risk Committee levels.

In order to ensure we have sufficient capital to cover some of these operational risks the company also maintains a range of insurance policies to cover eventualities such as Business interruption, Loss of computer systems, Crime etc and has annual review of all policies to ensure that their cover is sufficient.

The company believes that BIPRU 10 concerning Concentration risk is not relevant to the business as there is no concentration within its business environment.

With regard to market risk and BIPRU 7, the company's risk systems are real-time and through the risk teams provide a constant monitoring at all times of all client positions. The use of software and technology to control exposures and place limits, to provide warnings and alerts enables senior management to be up to date at all times on market and counterparty credit risk issues.

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Market Risk

Position Risk

STA defines Market Risk as the risk of losses in on- and off-balance sheet positions arising from movements in market prices or risk factors within the STA trading book or the trading book of the counterparties that it guarantees.

The STA Board of Directors has stated its objective to remain neutral to market risks within the trading book and any positions held therein will be internal hedges. The calculation of regulatory capital required for market risk exposures under Pillar 1 is undertaken using rules and guidance within BIPRU 7.1 to 7.8

The STA Board of Directors has assessed the available capital resources required for Market Risk under Pillar 1 as adequate.

Foreign Exchange Risk

STA maintains small balances in a number of currencies, primarily Euros and US Dollars and has an active policy to keep these foreign currency positions to a minimum.

For the purposes of Foreign Exchange Risk calculation, STA calculates the net open positions in each currency (the company is primarily long of any currency) and applies a charge of 8% against these positions.

The Directors believe that there is no need to calculate any further capital requirement for either the position risk or foreign exchange risk under Pillar II as they believe that Pillar I provides sufficient capital.

Credit risk

In accordance with BIPRU 3.1.6R STA's credit risk capital relates to the company's non-trading book which has not already been deducted from its capital resources.

The company maintains cash balances at its bankers Lloyds TSB and with its General Clearer Man Financial Group. Additionally, there are balances due from other credit institutions relating to STA's brokerage business, prepayments and transactions between STA and other firms within the Schneider Group.

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Depending on the nature of the debt, credit risk exposure is charged either at 8% or a lower limit of 1.6% for balances at recognised credit institutions.

There is a continuous monitoring of all brokerage debts to ensure that all outstanding sums are paid in a timely manner and as stated per the invoices. Disputed details are dealt with by the credit control department and the relevant broker supported by the use of the recorded voice facility to ensure that there are no impaired debts at any time.

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STA has adopted the simplified approach for the purposes of calculating risk weights as detailed under BIPRU 3.5.2 (G).

This approach is based on the following rationale:

- The size and complexity of the firm.
- Current and future operations are centred on providing brokerage services to clients who can be categorised as Eligible Counterparties.
- We do not provide any credit to clients, irrespective of their perceived, declared or otherwise determined creditworthiness.

Counterparty credit risk

STA generates risks through the potential default of its counterparties to fulfil their obligations to STA and these may arise through non-payment or failure to settle transactions. Triggers for these default events will likely be driven by changes in market risk factors (market driven counterparty risks) and STA differentiates between these and other types of repayment risk arising through its non-trading book.

STA measures pre-settlement risks on a credit equivalent exposure (CCE) basis reflecting both the current replacement cost of any positions plus an estimate of the potential future exposure resultant from movements of market rates or risk factors.

Current Exposure is the current replacement cost of transactions – this can be thought of as their current market value (marked to market) and represents what would be lost if the counterparty defaulted (today).

Potential Exposure is an estimate of the future replacement cost of open transactions and represents what may be lost at a future date if the counterparty defaults during the life of transaction.

The calculation of regulatory capital required for counterparty credit risk under Pillar 1 is assessed under BIPRU 13 and BIPRU 14 and using waivers where permission is granted by the FSA.

The STA Board of Directors has assessed the available capital resources required for Counterparty Credit Risk under Pillar 1 as adequate.

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Operational Risk

The STA Board of Directors defines Operational Risk as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

The calculation of regulatory capital required for Operational Risk exposures under Pillar 1 is undertaken using rules and guidance of BIPRU 6.3 (Basic Indicator Approach).

The STA Board of Directors believes that the Basic Indicator approach is considered to be the most suitable for the business and this basis has assessed the available capital resources required for Operational Risk under Pillar 1 as adequate.

STA has assessed its Pillar II requirements in relation to a comprehensive matrix of risks factors. It has determined both an expected magnitude and an expected frequency for each factor and assigned a capital sum to each after adjusting for such mitigants as are deemed appropriate. As a result of this analysis STA has determined that its Pillar I requirements is appropriate to meet its requirements for Pillar II under BIPRU 6.

Remuneration Code

As a non-complex full scope BIPRU firm STA falls under the obligation of being a Proportionality Tier 3 "PT3". This requires that the firm's Remuneration Code "RC" makes disclosures under BIPRU 11.5.18R (1), (2), (6) (7) & (7) (a). Such disclosures cover matters such as the decision making, links between pay and performance, remuneration by business area and remuneration of staff who have had a material risk impact on the firm's activities. There is also a requirement for disclosure of the amount of variable versus fixed remuneration during the period under review. For the year ended 31 March 2011 the variable amount was 0% of the total.

Overview

In accordance with the implementation of Capital Resource Directive 3 the firm is required to have a documented policy on the remuneration of staff whose practices have or may have a material impact on the institution's risk profile, Code Staff ("CS"). General information concerning the firms approach to compensation for its staff should also be available. Such disclosure should be proportionate to the firm's size and complexity. The overall amount of disclosure required is based on the firm's Proportionality Tier "PT", as a non-complex full scope BIPRU firm STA is bound by the PT 3. As a PT3 the company has elected, in light of its size and the nature of its activities, to disapply the requirements for it to have a remuneration committee as prescribed by the RC. The disclosure requirements relevant to STA are detailed in the FSA Handbook. For the purposes of this document these have been listed below with our responses and or comments immediately following them.

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Decision-making process used for determining remuneration policy

The firm pays its directors and staff a combination of salary, bonus and other benefits, including pension contributions. The salaries of all junior staff are determined by the Human Resources Manager in consultation with the relevant Director but for more senior staff, salary levels are agreed by the Board.

Financial and non-financial criteria are taken into account when assessing individual performance and deciding upon remuneration. This is done formally through the annual Performance Review and Development Process.

In determining the appropriate level of salary, the following factors are considered when determining the appropriate level of compensation, benefits & eligibility for bonus payments.

- Education, Experience & Seniority;
- Nature of role, e.g. Support, Administration or Management;
- Current compensation, Guidance from recruitment agencies, market research; and
- Peer review.

Although the firm is very much a commercial enterprise the management have a very strong focus on providing ways to ensure that staff feel appreciated and endeavours to create a collegial atmosphere. Accordingly the firm offers, on a company wide basis, such benefits as Health Insurance, gym membership, season ticket loans & death in service cover.

All staff are entitled to join the firm's money purchase pension scheme into which the firm agrees to pay a percentage of salary each year in addition to amounts payable by the staff.

Link between performance and remuneration

Bonus payments are primarily paid in recognition of an employees contribution to the firms overall performance. As expected the amounts payable are based on a standard percentage awarded to all staff with the exception of Directors. All staff are judged equally on matters such as, work ethic, willingness to assist others, desire to improve and internal motivation.

The firm has no employees on a guaranteed bonus scheme.

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Remuneration of senior management and members of staff whose actions have a material impact on the risk profile of the firm

This information is confidential to the individuals so the information provided below is that which is available in the statutory accounts of STA for the year ended 31st March 2011.

	2011 £	2010 £
Emoluments for qualifying services	729,455	925,992
Company pension contributions to money purchase schemes	18,502	27,053
	<hr/>	<hr/>
	747,957	953,045
	<hr/>	<hr/>
Emoluments disclosed above include the following amounts paid to the highest paid director:	121,420	189,198
Emoluments for qualifying services	5,000	7,031
Company pension contributions to money purchase schemes		
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	126,420	196,229
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Remuneration for the financial year, split into fixed and variable remuneration

During the period under review the total remuneration for the financial year totalled £ 5,186,513 all of which was fixed.