

# Tower Research Capital Europe Limited

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**Firm reference number 466464**

**The Minster Building, 21 Mincing Lane, London EC3R 7AG, United Kingdom**

**Prudential disclosures for the year ended 31 December 2023**

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### *1. Introduction*

The following disclosures are provided in accordance with the requirements set out in MIFIDPRU 8 of the FCA prudential handbook. The disclosures have not been audited by the Company's statutory auditors.

### *2. Disclosure overview and description of business*

Tower Research Capital Europe Limited ("TRCEL" or "the Company") is a £750,000 non-SNI MIFIDPRU investment firm, authorised and regulated by the Financial Conduct Authority ("FCA"). The principal activity of the Company during 2023 was proprietary trading in equities and futures on various regulated trading venues. The data presented in this report refers to TRCEL's regulatory position as at 31 December 2023. The prudential framework for TRCEL is set out in the FCA Handbook under the MIFIDPRU Prudential sourcebook for MiFID Investment Firms.

These prudential disclosures have been prepared solely to comply with regulatory requirements to provide public information on the Company's risk management objectives and policies, governance, own funds, capital position, and its approach to assessing the adequacy of its capital and its exposure to risks to market and risks to firm.

The disclosures will be issued as a minimum on an annual basis and will be published on the Company's website <https://tower-research.com/disclaimers/> as soon as practicable after the completion of its annual report and financial statements.

### *3. Internal Governance Arrangements at TRCEL*

The following describes the governance arrangements in TRCEL as at 31 December 2023:

#### *3.1 Board of Directors*

TRCEL's Board of Directors (the "Board") determines the strategic goals of the Company and has ultimate responsibility for ensuring that all risks are managed properly. In conjunction with the support and advice of the Risk Committee, the Board of Directors determines the risk appetite for TRCEL and how enterprise risk management should be managed. The Board meets quarterly.

A representative from the Compliance department attends Board meetings to provide additional management information to assist the Board to make informed decisions around business strategy and risk oversight.

### **3.2 Risk Committee**

The Risk Committee (“RC”) forms the main governance body to assess the day-to-day risk environment of the Company, and meets on a quarterly basis, or more regularly as required.

The Risk Committee has a number of responsibilities, including:

- advising and supporting the Board on TRCEL’s overall current and future risk appetite and strategy, and the implementation of that strategy to ensure that they are in line with the business objectives, corporate culture and values of TRCEL;
- overseeing the implementation of the strategies for capital and liquidity management as well as for all other relevant risks, such as risk to market, risk to firm, operational risk (including legal and IT risks), and reputational risks, in order to assess their adequacy against the approved risk appetite and strategy;
- providing the Board with recommendations on necessary adjustments to the risk strategy resulting from, inter alia, changes in the business model of TRCEL, market developments or recommendations made by the risk management function; and
- reviewing a number of possible scenarios, including stressed scenarios, to assess how TRCEL’s risk profile would react to external and internal events.

### **3.4 Disclosure of Board Directorships**

During the year ended 31 December 2023 three directors held no more than one directorship outside of TRCEL.

### **3.5 Diversity**

TRCEL is committed to encouraging equality, diversity and inclusion among our workforce, including with respect to appointments to the TRCEL management body. Appointments or re-appointments to the management body will therefore have due regard to the benefits of diversity in facilitating independent opinions and sound decision-making.

TRCEL is committed to ensuring that the TRCEL management body is composed of individuals with the requisite skills and experience for their role, and that all members of the TRCEL management body be of sufficiently good repute, honesty and integrity, and that Board members promote diversity in the workplace.

## **4. Risk Management objectives and policies**

### **4.1 High level overview**

The Board’s approach to risk management is to ensure that all material risks are defined, understood and effectively managed through controls and other risk mitigation techniques.

Risk Management is the process of identifying the principal risks to the Company achieving its strategic objectives, establishing appropriate controls to manage those risks, and ensuring that appropriate monitoring and reporting systems are in place to ensure that controls remain robust and evolve with the risk profile of the Company.

The Company's operations expose it to certain prudential risks. The Company considers prudential risks regularly and seeks to limit any adverse effects on the financial performance of the Company.

The Board has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify the risks faced by the Company, to set appropriate risk tolerance limits and controls, and to monitor risks. The risk management appetite and policies are reviewed regularly to reflect changes in market conditions and the Company's activities.

A number of risk reports, such as daily risk metrics and profit/loss measurement, are produced at a business or trading desk level. Each trading desk monitors positions and risk factors through the Company's real time risk platform, with breaches escalated through the risk management process. All trading is subject to extensive pre- and post-trade controls, with new product and new limit requests subject to a formal request, review and approval process, by the global risk management team. Key risk metrics are monitored with frequencies as appropriate to the risk. Tolerance levels are set and tracked through quarterly review and the overall Company governance process.

The Risk committee meets quarterly to review key risk indicators, and is attended by business heads and Risk, Legal and Compliance regional heads.

Overall Company market risk is monitored by the UK Chief Risk Officer. The UK Chief Risk Officer is part of an independent global risk function across the Tower group.

## ***4.2 Breakdown of risk management objectives and policies per risk category***

### ***4.2.1 Market risk***

Market risk arises from price risk and foreign exchange risk on the Company's trading book financial instruments. The Company enters into a relatively high daily volume of transactions, and the trading book is closely monitored by the risk management team with various risk limits in place.

Intra-day and end-of-day the trading book is hedged through the strategies deployed with derivatives hedging any cash equity positions. A regime of internal price risk stress tests is in place that is regularly calculated and monitored to ensure there are sufficient own funds in place to mitigate against material market movements on the trading book. Risk tolerances and limits are approved by the Company's Risk Committee each quarter. In addition, the Company manages foreign currency risk through daily monitoring of the positions by currency. Generally, the Company seeks to hedge foreign currency exposures in currencies other than the functional currency.

### ***4.2.3 Operational risks arising from its daily traded flow activity***

Operational risk is the risk of loss resulting from inadequate or failed automated processes, manual processes, or from the impact of external events. Given the nature of the Company's activities, the Company is exposed to operational risk in every aspect of its day-to-day business, mainly arising from its

daily trading activity. There is a dedicated Risk function that identifies and monitors all aspects of operational risk, assessing appropriate mitigating controls to reduce any likely loss impact.

Cyber security risk is ever-present in our business landscape and we have a number of controls in place to mitigate such a risk materialising in the form of a hacking attack or unauthorised access to our trading infrastructure. These controls are under constant review and are tested regularly.

#### **4.2.4 Concentration risk**

Concentration risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Given its business model, concentration risk exists on the relative positions it holds on its trading book as well as the concentration of its cash positions at the various credit institutions the Company has relationships with. Management monitors the distribution of assets and off-balance sheet items by counterparty and ensures the Company has multiple credit institution relationships. For proprietary trading firms, the concentration of where the trading book is cleared is important. To that end, management increased the number of general clearing relationships to more than just one relationship during 2021.

#### **4.2.5 Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. Given the current nature of the Company's activities the principal liabilities are financial liabilities held at fair value, amounts due to related parties and working capital liabilities, the latter mainly relating to compensation payments. To ensure there are sufficient liquid resources available, management carry out various liquidity risk stress test scenarios. The results are reported at least on a quarterly basis with the objective to ensure there are sufficient buffers available to meet its liabilities as they fall due, under both normal and stressed conditions. The Company has little appetite to have any material illiquid assets on its balance sheet at any one time.

### **5. Scope of Application**

The disclosure requirements of MIFIDPRU 8 apply to TRCEL only. The Company is not part of a consolidated group for consolidated supervision purposes and hence the disclosure has been made on a solo basis.

### **6. Own Funds**

The Company's policy is to remain well capitalised and soundly financed. TRCEL will maintain a strong capital base to support the development of the business and to ensure regulatory capital requirements are met at all times.

The table below summarises the regulatory own funds as at 31 December 2023

**Table 6**

	<b>31 December 2023 (£'000s)</b>
Called up equity share capital	14,500

Capital Contribution reserve	9,733
Other reserves	69
Audited retained earnings	16,962
Tier 1 capital	41,264
Deductions	
Deferred tax assets	(2,775)
Additional valuation adjustment	(345)
<b>Adjusted Tier 1 capital</b>	<b>38,144</b>
<b>Total Own Funds</b>	<b>38,144</b>
<b>Shareholders Funds</b>	<b>41,264</b>

There exists only a single class of ordinary shares. There are no restrictions on the distribution of dividends and the repayment of capital.

## *7. K-Factor Risk exposure overview*

The material K-factor risks to which TRCEL is exposed to are detailed below. The relevant K-factor methodologies and the resulting requirements at 31 December 2023 are disclosed.

### *7.1 K-factor: Risk to Market*

Market risk is the potential for changes in the value of investment positions due to market changes, including interest and currency rate movements as well as fluctuations in the prices of investment positions. Market risk is directly impacted by the volatility and liquidity in the markets in which the related underlying financial instruments are traded. The Company is exposed to market risk both on intraday and overnight portfolios.

Foreign exchange risk is the risk of loss due to the fluctuation of exchange rates. For non-trading assets and liabilities, exposures are monitored and where necessary reduced through foreign currency spot transactions.

TRCEL is exposed to the following components of market risk:

- Position risk on its equity positions; and
- Foreign currency exchange risk on its trading book and overall balance sheet.

For position risk on its equity positions, TRCEL applies the K-NPR calculation for the whole of its gross trading book. The standardised equity method as detailed in Articles 342-343 of the UK CRR.

The table below summarises the K-factor market risk requirement as at 31 December 2023, with comparatives for 2022:

*Table 7.1*

<b>K-Risk to Market</b>	<b>31 December 2023 (£'000s)</b>	<b>31 December 2022 (£'000s)</b>
Equity Position Risk Requirement	6,543	5,957
Foreign Currency Position Risk Requirement	4,043	2,548
<b>Total</b>	<b>10,856</b>	<b>8,506</b>

## *7.2 Risk to Firm K-factors*

### *7.2.1 K-TCD: Counterparty Default Risk*

Counterparty credit risk is defined as the risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows. TRCEL trades derivative contracts directly or indirectly cleared through a central counterparty (CCP). As such the Company isn't exposed to any positions that would attract a K-TCD charge.

### *7.2.2 K-CON – Concentration Risk*

K-CON is calculated in accordance with MIFIDPRU 5.7. The material exposures held by the Company relate to credit institutions and some affiliated entities in the Tower group. No exposures held at 31 December 2023 (2022: nil) resulted in any additional own funds requirement under the K-CON calculation.

### *7.2.3 K-DTF: Daily Traded Flow*

As the Company's primary business is that of proprietary trading, K-DTF is a material element of the Company's K-factor make-up. The Company trades mainly exchanged traded equity derivatives and cash equity positions with the table below disclosing the K-DTF as at 31 December 2023 split into its derivative and cash equity components, with comparative data:

*Table 7.2.3*

<b>K-DTF</b>	<b>31 December 2023 (£'000s)</b>	<b>31 December 2022 (£'000s)</b>
Daily trading flow - Cash trades	842	1,094

Daily trading flow - Derivative trades	2,614	2,501
<b>Total requirement</b>	<b>3,456</b>	<b>3,595</b>

## 8 K-FOR (Fixed Overhead Requirement)

### 8.1 Introduction

Article 13 of IFR requires the Company to hold sufficient own funds equivalent to at least one quarter of the fixed overheads of the preceding year. The Company use figures resulting from the applicable accounting framework, IFRS, which is applied to the annual audited financial statements.

### 8.2 FOR Calculation

The calculation below in table 9, calculated in accordance with MIFIDPRU 4.5, represents the fixed overheads for the last audited financials as at 31 December 2023.

## 9. Own fund Requirement and capital adequacy as at 31 December 2023

The table below shows the capital adequacy position for the Company as at 31 December 2023, with 2022 comparatives:

*Table 9*

<b>Capital Adequacy</b>	<b>31 December 2023 (£'000s)</b>	<b>31 December 2022 (£'000s)</b>
Permanent minimum capital requirement	750	750
Fixed Overhead requirement (A)	7,751	5,052
Total K-factor Requirement (B)	14,312	12,101
- Risk to market	10,856	8,506
- Risk to firm	3,456	3,595
<b>Own funds requirement (Max (A,B))</b>	<b>14,312</b>	<b>12,101</b>
<b>Own Funds</b>	<b>38,144</b>	<b>36,176</b>
<b>Surplus</b>	<b>23,832</b>	<b>24,075</b>



## 10. Remuneration Policy disclosures

### 10.1 Qualitative disclosures

Given the Company's size, internal organisation and the nature, scope and complexity of activities, the Company has made its Remuneration Policy disclosures as required under MIFIPRU 8.6.

The Remuneration Policy Statement ("RPS") is adopted each year by TRCEL's Board of Directors. The CEO oversees the annual review and update of the RPS, which includes an analysis of all new offers of employment and additional data from the Human Resources and Legal departments. The Board of Directors has the ultimate responsibility for the implementation of the RPS. The Company is part of a wider group and as such relies upon a group remuneration committee, and this committee annually reviews the RPS.

TRCEL's compensation plan is composed of base salary (fixed remuneration), benefits (fixed remuneration) and bonuses (variable remuneration). All components are determined on a gender-neutral basis.

Annual discretionary bonuses are awarded based upon TRCEL's financial performance, and individual's financial (for trading teams, this includes the relevant team's performance) and/or non-financial performance.

Trading performance bonuses are awarded to eligible trading team members. Eligible individuals receive varying levels of participation in the profits they generate for TRCEL (adjusted for various costs related to the trader's team) with the amount of the bonus being calculated using a Sharpe ratio analysis. An individual's non-financial performance, including an evaluation of the individual's compliance with TRCEL's policies and procedures, is also considered when determining the amount of the award.

TRCEL has identified Material Risk Takers ("MRTs") in line with the applicable rules for 2023 in relation to SYSC 19G.5. Compensation for MRTs has been delivered in line with SYSC 19G.6.

### 10.2 Quantitative disclosures

For the purposes of ensuring confidentiality, the following table represents all Material Risk Takers (including Senior Management and others).

*Table 10.2.1*

Total amount awarded to all staff in 2023 (£'000s)	Number of staff	Fixed	Variable	Total
All MRTs	5	1,804	8,291	10,095
Other staff	107	15,587	34,025	49,612
Total	112	17,391	42,316	59,707

*Table 10.2.2*

Total amount awarded to MRTs in 2023 (£'000s)	Number of staff	(£'000s)
Guaranteed variable remuneration	Nil	Nil

Severance payments	Nil	Nil
Total of highest severance awarded	N/A	N/A

*Table 10.2.3*

Amount and form of variable remuneration awarded in 2022	Non-deferred	Deferred	Total (£'000s)
Total	2,802	5,489	8,291
Cash	2,802	1,244	4,046
Non-Cash	-	4,245	4,245

*Table 10.2.4*

Amount and form of variable remuneration awarded in previous years	Vesting in 2023	Vesting in future years	Total (£'000s)
Total	-	7,083	7,083

For the purposes of confidentiality, variable deferred remuneration awarded in previous years to two individuals has not been disclosed as disclosure would lead to individual information no longer remaining confidential.

## **11 Investment policy (MIFIDPRU 8.7)**

The Company does not hold any share in a company whose shares are admitted to trading on a regulated market representing 5% or more of the total voting rights of that company.