ALPHADYNE
ASSET MANAGEMENT

Alphadyne Asset Management (UK) LLP

Pillar 3 Disclosure and Policy

Introduction

Regulatory Context

The Pillar 3 disclosure of Alphadyne Asset Management (UK) LLP ("the Firm") is set out below as required by the Financial Conduct Authority ("FCA") in the "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU), specifically BIPRU 11.3.3 R. This is a requirement that stems from the UK's CRD III Implementing Regulations which represented the European Union's application of the Basel Capital Accord. The Firm is no longer formally subject to CRD but remains subject to the UK's implementation Regulations of CRD prior to CRDIV. The regulatory aim of the disclosures is to improve market discipline. Unless otherwise defined, capitalised terms used herein have the meanings given to them in BIPRU. The disclosures are written as of December 31, 2014.

Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date.

Media and Location

The Pillar 3 Disclosure is publically available as an appendix to the Firm's audited financial accounts, filed with Companies House.

Verification

The information contained in this document has not been audited by the Firm's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this disclosure.

Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD requirements, to which the Firm remains subject as a consequence of the UK CRD III implementing Regulations, have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces; and Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements.

The Firm is a MiFID Investment Management Firm. It acts solely as agent, so the main protection to our customers is provided through client money arrangements. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include: the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are outsourced by our clients to third party providers, such as administrators, reducing our exposure to operational risk. The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to Credit Risk is the risk that advisory and sub-advisory fees cannot be collected, and therefore Credit Risk is low. The Firm holds all cash and performance fee balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to any cash amounts held by the Firm in a foreign currency. All foreign currency is converted into GBP on a regular basis.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a MiFID Investment Management Firm. The Firm's activities give it the BIPRU categorisation of a "BIPRU limited licence firm".

The Firm together with Alphadyne (UK) Holdings Limited ("the Ltd") form a UK consolidation group. The disclosures made within this Pillar 3 disclosure are on both a solo (the Firm) and consolidated (the Firm together with the Ltd) basis.

BIPRU 11.5.1

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Control Committee has been delegated the responsibility for ensuring that an adequate and effective system of internal control is established and maintained. It meets no less frequently than semi-annually, but may meet more frequently if circumstances require.

The Control Committee is responsible for establishing the overall risk management policies of the Firm, and ensuring that the risk management framework is appropriate given the nature, scale and complexity of the Firm's business operations and the Firm's desired risk tolerance. In addition, the Control Committee ensures that the Firm has implemented an effective, ongoing process to identify, measure and control material risks that are relevant to the Firm and monitor the adequacy and effectiveness of the internal control system of the Firm.

The Control Committee is ultimately accountable to the owners of the Firm who rely on the Control Committee to design, implement and monitor the process of risk management and implement it into the day-to-day business activities of the Firm.

Risk Framework

Risk within the Firm is managed by use of the following:

- The Firm has established a Control Committee which is responsible for identifying and monitoring risk;
- The Firm has a conservative approach to risk;
- The Firm has identified its risks and recorded them in a 'Risk Register';
- The 'Risk Register' is reviewed by the Control Committee;
- The Firm has undertaken scenario analysis and Stress Tests on the most significant risks identified. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be to the Firm's balance sheet; and
- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate any risks.

BIPRU 11.5.4

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 7and the Overall Pillar 2 Rule

BIPRU 3

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach (BIPRU 3.4) and the Simplified method of calculating risk weights (BIPRU 3.5).

Credit Risk calculation (solo)

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£63,287
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		**£63,287**

	Rule	Exposure	Risk Weight	Risk weighted exposure amount
National Government Bodies	BIPRU 3.4.2	£16,186	0%	£0
Banks etc long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc short-term	BIPRU 3.4.39	£308,294	20%	£61,659
Exposure to Corporates/Debtors	BIPRU 3.4.52	£628,239	100%	£628,239
Prepayments	BIPRU 3.4.128	£59,525	100%	£59,525
Fixed assets	BIPRU 3.4.127	£11,066	100%	£11,066
Other	BIPRU 3.4.128	£30,596	100%	£30,596
Total		**£1,053,905**		**£791,084**

Credit Risk Capital Component	8% of risk weighted exposure	**£63,287**

Credit Risk calculation (consolidated)

Credit Risk Capital Requirement	**Rule**	**Capital Component**		
Credit risk capital component	BIPRU 3.2	£63,466		
Counterparty risk capital component	BIPRU 13 & 14	£0		
Concentration risk capital component	BIPRU 10	£0		
Total		**£63,466**		
	Rule	**Exposure**	**Risk Weight**	**Risk weighted exposure amount**
National Government Bodies	BIPRU 3.4.2	£30,977	0%	£0
Banks etc long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc short-term	BIPRU 3.4.39	£319,526	20%	£63,905
Exposure to Corporates/Debtors	BIPRU 3.4.52	£628,239	100%	£628,239
Prepayments	BIPRU 3.4.128	£59,525	100%	£59,525
Fixed assets	BIPRU 3.4.127	£11,066	100%	£11,066
Other	BIPRU 3.4.128	£30,596	100%	£30,596
Total		**£1,079,928**		**£793,331**
Credit Risk Capital Component	8% of risk weighted exposure			**£63,466**

BIPRU 4

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 7

The Firm has Non-Trading Book potential exposure only (BIPRU 7.4, 7.5).

Overall Pillar 2 Rule

The Firm has adopted the "Structured" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment is reviewed by the Control Committee, and amended where necessary, on an annual basis or when a material change to the business occurs. The Control Committee reviews and endorses the risk management objective each year or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

BIPRU 11.5.8

Disclosure: Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of advisory and sub-advisory fees. It holds all cash and performance fee balances with Banks assigned high credit ratings. Consequently risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

BIPRU 11.5.12

Disclosure: Market Risk

The Firm has Non-Trading Book potential exposure only (BIPRU 7.4 & 7.5).

Market Risk calculation (solo)				
		Rule		**Position**
Risk Weight	**PRR**			
Interest rate positional risk requirement	BIPRU 7.2	£0	8%	£0
Equity positional risk requirement	BIPRU 7.3	£0	8%	£0
Commodity positional risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency positional risk requirement	BIPRU 7.5	£668,964	8%	£53,517
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
Total		**£668,964**		**£53,517**

Market Risk calculation (consolidated)				
		Rule		**Position**
Risk Weight	**PRR**			
Interest rate positional risk requirement	BIPRU 7.2	£0	8%	£0
Equity positional risk requirement	BIPRU 7.3	£0	8%	£0
Commodity positional risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency positional risk requirement	BIPRU 7.5	£673,588	8%	£53,877
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
Total		**£673,588**		**£53,877**

BIPRU 11.5.2

Disclosure: Scope of application of directive requirements

The Firm is subject to the disclosures under the Banking Consolidation Directive. However, it is not a member of a UK Consolidation Firm and consequently, does not report on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3

Disclosure: Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4). Tier 1 Capital consists of the Firm's Members' Tier One Capital and Audited Reserves/Losses.

Capital Resources (solo)	
Tier 1 Capital	£739,493
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£739,493
Tier 3 Capital	£0
Deductions	£0
Total Capital	**£739,493**

Capital Resources (consolidated)	
Tier 1 Capital	£855,151
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£855,151
Tier 3 Capital	£0
Deductions	£0
Total Capital	**£855,151**

BIPRU 11.5.5
This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3).

BIPRU 11.5.6
This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3).

BIPRU 11.5.7
This disclosure is not required as the Firm does not have a Trading Book.

BIPRU 11.5.9
This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under BIPRU 11.5.8R (9).

BIPRU 11.5.10

Disclosure: Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights (BIPRU 3.5).

BIPRU 11.5.11

Disclosure: Firms calculating Risk Weighted Exposure amounts using the IRB Approach

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by BIPRU 11.5.4R (3).

BIPRU 11.5.15

Disclosure: Non-Trading Book Exposures in Equities

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

BIPRU 11.5.16

Disclosures: Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

BIPRU 11.5.17

Disclosures: Securitisation

This disclosure is not required as the Firm does not Securitise its assets.

BIPRU 11.5.18

Disclosure: Remuneration

The Firm is a Remuneration Code Proportionality Level 3 Firm and has applied the rules appropriate to its Proportionality Level. The Control Committee is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

As at 31 December 2014, the Firm currently sets the variable remuneration of its partners and staff in a manner which takes into account partner and firm performance, by reference to individual performance and performance of the Firm. As permitted for firms falling within proportionality level 3, the Firm takes into account the specific nature of its own activities (including the fee based nature of its revenues) in conducting any ex-ante risk adjustments to awards of variable remuneration and, given the nature of its business, has disapplied the requirement under the Remuneration Code to make ex-post risk adjustments.

The Firm only has one "business area", namely its investment management business. All of the Firm's Code Staff fall into the "senior management" category of Code Staff for the purposes of the Remuneration Code. The aggregate "remuneration" (as defined in the FCA Rules) awarded to the firm's Code Staff during the financial year ending on the accounting reference date was £219,207.