Two Sigma Securities UK Limited

MIFIDPRU Disclosures

For the year ended 31 December 2022

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Introduction

Firm Overview

The following disclosures are made solely on behalf of Two Sigma Securities UK Limited ("TSS UK" or "the Firm"), a non-SNI MIFIDPRU investment firm. The principal activity of the Firm is proprietary trading in equities and derivative instruments. The Firm is authorised and regulated by the Financial Conduct Authority ("FCA").

The Firm is a wholly owned subsidiary of Two Sigma Securities International Holdings LLC, a limited liability company formed under the laws of the State of Delaware, USA.

Disclosure Overview

These disclosures (the "MIFIDPRU Disclosures") are intended to satisfy the requirements outlined in MIFIDPRU 8 of the Prudential sourcebook for MiFID Investment Firms.

The MIFIDPRU Disclosures are made with the reference date of 31 December 2022.

The MIFIDPRU Disclosures are not subject to external audit.

In line with MIFIDPRU 8.1.10, the MIFIDPRU Disclosures are made annually in conjunction with the publication of the financial statements.

These MIFIDPRU Disclosures have been reviewed by senior management and approved by the Board of Directors.

Risk management objectives and policies

The Board of Directors has responsibility for the establishment of the firm's risk management framework and oversight of the firm's risk appetite, ensuring that material risks are identified, understood and well-governed via controls or other risk-mitigation techniques.

This is implemented via the Risk Management Framework, through which the Firm identifies principal risks to achieving its objectives. This is furthered by establishing controls, monitoring and reporting to manage those risks as well as ensuring principal risks and associated controls are updated in accordance with changes to its risk profile.

The Board has delegated this task to the Risk Committee, which oversees the Firm's Risk Management activities and advises the Board of Directors on any misalignment between the Firm's risk tolerances and its activities. The Risk Committee, chaired by the UK Chief Risk Officer (CRO), meets quarterly.

Based on the Board's approval of the firm's strategy, a Risk Appetite statement is prepared detailing clearly what risks the firm is willing to take to achieve the strategic vision.

A Risk Register is prepared identifying the possible granular risks that come with the stated risk appetite and their impact on the firm and capital. This is done in discussions with the various teams and individuals to identify potential risks in their processes. The register also identifies any mitigants and the possible impact to the firm from individual risk post these mitigants.

For the current size of the firm and its activities, the biggest risks are discussed below.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, systems or controls.

Operational risk can arise from either trading activities and technology systems or from human error, fraud or theft of sensitive information. The firm employs rigorous controls for each of these including pre and post trade checks, compliance training and remuneration policies. An operational incident log has been created where teams can log any incidents observed and will be used for management information. As part of the RTS6 self assessment the firm tests its controls annually to benchmark against the regulations.

Market Risk

Market risk is the risk of loss resulting from fluctuations in the market value of positions and asset values attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's creditworthiness.

Trading positions and associated market risk are monitored by each trading desk to ensure risk exposures remain within guidelines prescribed by the firm's risk appetite. Trading is subject to several pre-trade and post-trade controls, with any breaches escalated through the risk management process. Changes to these controls, as well as significant changes to our trading strategies or product mix, are raised through a formal process via the Risk Management team. Additional oversight is performed through a number of control functions, providing day-to-day reporting at a business level.

Liquidity risk

Liquidity risk is the risk that TSS UK is unable to meet financial obligations as they fall due without adversely affecting its financial position, the normal course of its business or its reputation. The Firm manages its liquidity risk in line with its Liquidity Risk Management Framework. The Firm also has a Capital and Liquidity sub committee that oversees the capital and liquidity which reports into the Risk Committee.

Concentration Risk

The Firm does not have significant concentration risks from its trading activities as all trading is on exchange traded products and single name positions have controlled limits. The firm's liquid cash is held at high rated banks, vetted by the Two Sigma group's Credit Committee to limit any credit concentration risks.

Business risk

The risk of being unable to meet financial objectives due to poor business strategy, execution or failure to adapt to external factors. The firm has implemented a business development function over the years that ensures a proper review process, strategic planning, tracking of KPIs and thorough quarterly business review process. The firm relies on a strong MIS framework to ensure on time project delivery and KPIs to monitor the deliverables.

Governance arrangements

The Board of Directors

TSS UK is governed by a board of three directors. The board composition is designed to provide senior expertise and management as well to establish control and supervision of the activities of TSS UK in the region, and to oversee the development of the TSS UK business. The Board is composed of the Head of TSS Europe and other duly appointed directors. The Board members shall be determined to have the appropriate background, knowledge, skills and experience commensurate with the role.

Table 1: Board Composition

Board of Directors as at 31 December 2022
Matthew Brady Siano
Malcolm Iain Carruthers
Remco Lenterman

The above-listed directors of the Firm each hold only one directorship that is within the scope of the disclosure requirement.

Two Sigma Group has a Diversity, Equity and Inclusion (DEI) Council which drives the group's long-term DEI strategy, roadmap, and implementation plans.

TSS UK is an equal opportunity workplace. The Firm does not discriminate based upon race, religion, colour, national origin, sex, sexual orientation, gender identity/expression, age, status as a protected veteran, status as an individual with a disability, or any other applicable legally protected characteristics.

The Risk Committee

The TSS UK Board has delegated the responsibility of the Firm's risk management framework to the Risk Committee which is chaired by the TSS UK CRO. The committee convenes on a quarterly basis.

Own Funds

TSS UK's own funds are made up entirely of Common Equity Tier 1 (CET1) capital. Below is a summary of TSS UK's own funds as of 31 December 2022 (see table 2) and a reconciliation of the capital resources to the shareholder's equity as per the audited financial statements (see table 3).

TSS UK's reporting currency is US Dollar (USD) and for the purpose of table 2 and 3 all amounts have been converted to British pound sterling (GBP) using year end FX rate of 1.2069.

Table 2: Composition of regulatory own funds

	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	**OWN FUNDS**	**12,567**	
2	**TIER 1 CAPITAL**	**12,567**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**12,567**	
4	Fully paid up capital instruments	33,143	Called-up share capital[1]
5	Share premium	-	
6	Retained earnings	(20,576)	Profit and loss account[2]
7	Accumulated other comprehensive income	-	
8	Other reserves	-	
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-)TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	
19	CET1: Other capital elements, deductions and adjustments	-	
20	**ADDITIONAL TIER 1 CAPITAL**	**-**	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	**TIER 2 CAPITAL**	**-**	
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM TIER 2	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

Table 3: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements

		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to template OF1
		As at period end	As at period end	
Assets - *Breakdown by asset classes according to the balance sheet in the audited financial statements*				
1	Tangible assets	110	-	
2	Cash at bank and in hand	10,786	-	
3	Debtors	6,996	-	
	Total Assets	**17,892**	**-**	
Liabilities - *Breakdown by liability classes according to the balance sheet in the audited financial statements*				
1	Financial liabilities at fair value through profit or loss	(11)	-	
2	Creditors; amounts falling due within one year	(3,633)	-	
3	Creditors; amounts falling due after more than one ye	(1,681)	-	
	Total Liabilities	**(5,325)**	**-**	
Shareholders' Equity				
1	Called-up share capital	33,143	-	4
2	Profit and loss account	(20,576)	-	6
	Total Shareholders' equity	**12,567**	**-**	

Table 4 below outlines the main features of the instruments issued by TSS UK as at 31 December 2022. All numeric values are in USD as this is the reporting currency of the entity.

Table 4: Own funds: main features of own instruments issued by the firm

Features	As at 31 December 2022
Public or private placement	Private Placement
Instrument type	Ordinary shares
Amount recognised in regulatory capital (USD thousands, as of most recent reporting date)	$40,000
Nominal amount of instrument	$1.00
Issue price	$1.00
Redemption price	N/a
Accounting classification	Shareholder's Equity
Original date of issuance	12th April 2019
Perpetual or dated	Perpetual
Maturity date	N/a
Issuer call subject to prior supervisory approval	N/a
Optional call date, contingent call dates and redemption amount	N/a
Subsequent call dates, if applicable	N/a
Coupons/dividends	N/a
Fixed or floating dividend/coupon	N/a
Coupon rate and any related index	N/a
Existence of a dividend stopper	N/a
Convertible or non-convertible	N/a
Write-down features	N/a

Own Funds Requirements

In line with MIFIDPRU 8.5, the Firm is required to disclose its K-Factor requirements and the fixed overheads requirement as outlined in the table below.

Table 5: Own Funds Requirement

Items	Own Funds Requirement (GBP thousands)
K-AUM + K-CMH + K-ASA	-
K-COH + K-DTF	31
K-NPR + K-CMG + K-TCD + K-CON	459
Total K- Factor Requirement	**490**
Fixed Overhead Requirement	**3,410**

The Firm is required to disclose its approach in assessing the adequacy of its own funds in line with overall financial adequacy rule (OFAR) in MIFIDPRU 7.4.7R. The Firm assesses the adequacy of its own funds in accordance with the prescribed permanent minimum capital requirement (PMR), fixed overhead requirement (FOR) and K-factors. In addition, the Firm also assesses whether any additional funds are required to be held to support ongoing business operations and orderly wind down of the business. The internal assessment of own funds is done on an annual basis as part of the Internal Capital Adequacy and Risk Assessment (ICARA) process. If there are any material changes to the business this process is updated more frequently. The ICARA process is linked to TSS UK’s overall risk management, business planning, capital and liquidity management, with each of these components informing the other. The assessment involves capital and liquidity forecasts and stress scenarios over a 3 year period where material risks associated with the ongoing business are taken into account. The firm also performs wind-down planning on at least an annual basis.

Remuneration

TSS UK has implemented policies and practices in respect of remuneration which reflects its categorisation under SYSC19G.

TSS UK has adopted a Remuneration Policy which has been developed to ensure the Firm's adherence to the relevant requirements of the relevant MIFIDPRU Remuneration Code. The policy applies to all staff, however, certain aspects only affect individuals who are classified as Material Risk Takers (MRTs). MRTs have been identified using the criteria laid down in SYSC19G5.3.R.

A risk-based approach is taken to remuneration which is consistent with sound and effective risk management, does not encourage excessive risk taking and in line with the Firm's business strategy, objectives and long-term interests as well as its values.

The objectives of the financial incentives account for the Firm's overall performance, relevant business unit performance and individual performance. TSS UK is dedicated to ensuring that staff are not remunerated for exceeding the risk tolerances of the Firm. When assessing individual performance, TSS UK takes account of financial as well as non-financial criteria.

The Board of Directors reviews and approves the remuneration policy. TSS UK used external consultants in the development of the remuneration policy.

TSS UK recognises that poor performance, such as poor risk management and other behaviours which are not in line with the Firm's values or in breach of the Fit and Proper rule and/or Conduct Rules, may pose a threat to the Firm's financial soundness. These risks are acknowledged by the TSS UK Board and managed through an annual performance and appraisal process.

TSS UK's remuneration is composed of fixed base salary, benefits and variable remuneration.

Staff are offered fixed remuneration in the form of a regular salary. This is determined for an individual based on their relevant job role and associated responsibility, as well as their experience and market rates. Fixed remuneration is not dependent on performance and is non-revocable.

All staff are eligible to receive variable remuneration. The Firm awards variable remuneration to reward and incentivise financial and non-financial performance as well as contribution in a fair and reasonable way. Where appropriate, non-financial performance overrides financial performance. Each TSS UK employee undergoes a mid-year review as well as an annual written performance review, and is measured against specified goals throughout the year to ensure that they are performing in line with expectations.

Variable remuneration is discretionary. A proportion of variable remuneration, for eligible staff, is automatically deferred for a period of four years. Variable remuneration is awarded annually and reflects the Two Sigma group's financial performance, the Firm's performance and individual performance (including individual's compliance with the Firm's culture and values) and, where relevant, team or business unit performance.

The size of the Firm's variable remuneration pool is based on risk adjusted profits, rather than revenues, and accounts for the risks identified in the ICARA and the cost of, and requirement for, capital in the short and long term. The Firm will ensure that the total variable remuneration awarded does not limit TSS UK's ability to ensure a sound capital base. TSS UK does not award any retained shares.

The Firm reserves the ability to make adjustments to the deferred portion of awarded variable remuneration in the event of subsequent adverse performance of a MRT or where a specific risk becomes clear and/or materialises, including where financial performance is subdued.

TSS UK may apply malus and clawback provisions in certain circumstances, including but not limited to, poor conduct by a MRT or where a MRT has contributed to a material failure of risk management. Full criteria is available in the TSS UK Remuneration policy. Malus and clawback provisions apply until the vesting of variable remuneration has been completed.

Normally, the Firm does not compensate Staff by means of guaranteed variable remuneration. However, from time to time, staff may be awarded guaranteed variable remuneration if the payment relates to the relevant staff's first year of service at the Firm; or the payment occurs in the context of hiring new Remuneration Code Staff; or in exceptional circumstances when the Firm has a sound and strong capital base.

Severance pay is at the discretion of the Firm. Financial and non-financial performance will be considered when determining whether to pay severance. Additionally, the Firm will ensure that any such payments do not materially impact the Firm's ability to meet its capital requirements or reward failure, misconduct or breach of Conduct Rules (whether advertently or inadvertently).

Quantitative remuneration figures for the year ending 31 December 2022 are contained within Appendix A and available on request.