



MITSUI BUSSAN COMMODITIES LTD

21st February 2019

Pillar 3 Reporting Disclosures

Background

Mitsui Bussan Commodities Ltd “the Company” or “MBC” is authorised and regulated by the Financial Conduct Authority “FCA” to conduct business under the Financial Services & Markets Act 2000 as amended by the Financial Services Act 2012. MBC is classified as an Exempt IFPRU Commodity Firm by the FCA.

In accordance with Article 498 of Regulation (EU) No 575/2013 of the European Parliament and of the Council dated 26 June 2013 (the “Regulation”), the Company is exempt from the capital requirements of the Regulation until the earlier of 31 December 2020, or the date any modifications come into force. The Company calculates its regulatory financial resources under the Chapter 3 rules of the FCA’s IPRU (INV) rulebook.

Article 431 of the Regulation requires Exempt IFPRU commodities firms to make certain public disclosures to market participants. These are known as Pillar 3 disclosures and this document is designed to meet the Company’s Pillar 3 requirements.

Disclosure policy

As MBC is an IFPRU firm, the Company refers to the Regulation for the scope, frequency and form of the disclosures. The Company reviews its disclosures for the purposes of the Regulation in conjunction with the production of its annual audited financial statements.

1. *Risk management objectives and policies*

In the ordinary course of business, the Company is exposed to a variety of credit, market, liquidity and operational risks. These risks are identified, measured, mitigated and monitored using the 3 lines of defence model. Risk appetites and limit structures are clearly defined through a risk framework which includes risk policies, tolerances and a governance structure all of which are overseen by the board of directors.

Financial risk management

The Company’s risk management function monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyses exposures by degree and magnitude of risks. These include credit, market, liquidity and operational risks.

Compliance with policies and exposure limits is reviewed by internal audit on a regular basis.

Credit risk

The credit risk of an asset is the risk of loss if another party fails to perform its obligations or fails to perform them in a timely fashion.

Credit risk is primarily attributable to mark to market exposure, trade receivables in the balance sheet and potential future exposure. Therefore the management of our credit lines and to whom the Company gives credit is paramount to a strongly controlled business.



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The Company employs various controls to manage potential future exposure, trade tenor and current exposure which are monitored continuously. Any limit excesses are reported to the Credit Risk Management Committee which decides on an appropriate course of action.

To manage the level of credit risk, the Company enters into netting agreements whenever possible and, where appropriate, obtains collateral netting agreements which incorporate right of set-off which provides for the net settlement of contracts with the same counterparty in the event of default. Counterparties are also marked to market daily and margin collateral is collected where necessary.

Market risk and sensitivity

Market risk is the risks that arise from fluctuations in values of, or income from, assets or in interest or exchange rates. Accordingly, these movements may affect the Company's profitability.

Key risk sensitivities are measured and monitored daily. On a daily basis reports are prepared with limits and warning levels by portfolio covering sensitivity measurements. Stress tests are also performed regularly to give management indicative losses in the case of a hypothetical severe market movement and to estimate potential losses in these extreme conditions.

Liquidity risk

Is the risk that a firm, although solvent, either does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure such resources only at excessive cost.

The Company manages liquidity risk by maintaining adequate reserves and banking facilities, by continuously monitoring forecast and actual cash flows and matching profiles of financial assets and liabilities.

Ultimate responsibility for liquidity risk management rests with the board of directors, whom have built an appropriate liquidity risk management framework for the management of the Company's short, medium and long term funding and liquidity management requirements in order to facilitate an on-going stable flow of funds.

Operational risks

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk.

This broad category extends across all departments throughout the Company. The Company strives to mitigate operational risks through reviewing processes and controls continuously. The Company being part of Mitsui & Co., Ltd falls under the Japanese Financial Instruments and Exchange Law and as such the Company is continuously audited on our internal controls from within our own company by our parent's internal audit function.

Employee retention is managed in accordance with good practice standards through the Group's remuneration policy on rewards, compensation benefits and continued employee development.

A more detailed disclosure of the Company's risk management policies can be found in the notes to the Company's financial statements.



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Capital resources

The company is required under regulatory rules to maintain sufficient financial resources to meet the level of risks arising from its activities. Called up share capital, share premium and the profit and loss reserve on the balance sheet qualify for inclusion as financial resources. In addition, the Company has a rule waiver from the FCA that allows it to utilise subordinated loans drawn against group companies to supplement its regulatory capital if required.

The Company manages its capital by performing a daily computation of capital requirements and ensures that its capital exceeds these requirements. As at 31 March 2018, The Company's Financial Resource Requirement (FRR) was \$207,755k whilst the Financial Resources amounted to \$244,945k giving coverage of 117.9%.

The FRR is composed of:

Primary requirement

This is the base requirement plus other liquidity adjustments. At 31 March 2018 this requirement was \$31,283k.

Position risk requirement (PRR)

This is a calculation of all commodities' positions in accordance with the extended maturity ladder approach. As at 31 March 2018 the PRR was \$143,743k.

Counterparty risk requirement (CRR)

CRR is calculated in accordance with the Company's Adequate Credit Management Policy and the rules set out in IPRU (INV) 3-170(2). These rules dictate percentages the Company is required to hold as capital to cover the various types of credit risks the firm is exposed to.

An additional CRR is taken in respect of concentration risk should there be a significant exposure to a single counterparty or group. At 31 March 2018 the concentration risk requirement was nil.

At 31 March 2018 the CRR was \$32,728k.

2. *Remuneration disclosures*

Information concerning the decision-making process used for determining the Remuneration Policy

In order to comply with the principles detailed in the FCA's Remuneration Code, the Company ensures that its remuneration practices promote sound and effective risk management and do not encourage risk-taking that exceeds the Company's levels of tolerated risk. The guidance to the Remuneration Code divides investment firms into 3 proportionality levels. Each level determines to the extent to which the Remuneration Code applies. MBC falls within proportionality level 3.

The variable remuneration bonus pool is set based principally on profit but at an individual employee level is balanced to ensure that a balance of qualitative and quantitative metrics are considered and that work performance standards are linked to best practice and promoting good conduct, including meeting requirements to act in the best interests of clients, rather than simply profit. The input of the Company's risk and compliance functions are sought in setting the Company's remuneration policy and setting of individual



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awards. The Company considers this is sufficient to promote sound and effective risk management. As a significant IFPRU firm, MBCL is required to establish a remuneration committee as prescribed by the Remuneration Code.

In accordance with good practice standards, the Company has a Human Resources Management Committee whose remit is to make appropriate recommendations to the Remuneration Committee regarding employee remuneration (in respect of salary reviews and bonus payments for all staff) and to the Board of Directors (in respect of the bonus pool for front office staff and its distribution). Final remuneration decisions are made by the Chief Executive Officer and the Board of Directors respectively. The Human Resources Management Committee comprises of various senior managers of the MBC group and the Head of Human Resources and General Services. No member is permitted to participate in any meeting (or the relevant part of any meeting) of the Human Resources Management Committee at which any part of their remuneration is being discussed or participate in any recommendation or decision concerning their remuneration. The Human Resources Management Committee reports to the Remuneration Committee on at least an annual basis. The Remuneration Committee includes an Independent Non-Executive Director and two Non-Executive Directors. The outcomes from these meetings will be reported to the Board of Directors.

Information on the link between pay and performance

The Company operates an annual appraisal process throughout its divisions. Performance appraisals are assessed by reference to both financial and non-financial metrics, including achievement of objectives, conduct and performance.

Front office

The bonus pool for front office staff is determined by the Board of Directors, by reference to the Company's gross trading profit net of appropriate valuation adjustments, cost of capital and expenses.

Individual bonuses for front office staff are in the main discretionary and are determined by a recommendation from the Chief Operating Officer which is reviewed by the Human Resources Management Committee and approved by the Remuneration Committee and Board of Directors. The application of the factors used in determining individual discretionary bonuses for front office staff are at the absolute discretion of the Company. The current factors (which are both quantitative and qualitative in nature), are as follows:

- the success of the Company during the relevant period;
- individual performance, conduct, team and individual contribution;
- adherence to and promotion of the Company's professional standards and conduct (as defined in the Staff Handbook and Business Conduct Guidelines from time to time)
- the strategic business requirements of the Company in terms of its need to retain staff.

These performance measures take limited account of future earnings or future risks because they are based on actual profits for the year.

It is the Company's policy to pay reduced or nil discretionary bonuses if the Company's performance is weak or loss-making.



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Non-front office

Discretionary bonuses for non-front office staff employed by the Company are determined by reference to appraisal ratings (together with labour market trends and retention considerations) magnitude of task/responsibility, performance and conduct.

The performance of the Company is also taken into account. It is the Company's policy to pay reduced or nil discretionary bonuses if the Company's performance is weak or loss-making. Secondees, Japanese staff who are posted to work wholly or mainly for the Company for a rotational secondment period, remain employed by the parent company, Mitsui & Co., Limited under that company's terms and conditions of employment.

Aggregate quantitative information on remuneration, broken down by business area

Under SYSC 19A of the Remuneration Code, the Company is required to report remuneration on a consolidated basis. The Group's aggregate overall remuneration for the year ended 31 March 2018 was \$27,179k. MBC has only one business area.

Aggregate quantitative information on remuneration broken down by senior management and members of staff who have a material impact on the risk profile of the firm

The Company is a level 3 firm as defined by the FCA's remuneration code and is subject to data protection legislation when disclosing remuneration information. Remuneration disclosures will therefore be made on a limited basis as disclosure of information may result in individual information being easily identifiable. However all necessary information will be made available to the FCA on request.