

BWG MARKETS

RISK MANAGEMENT, DEFAULT & INTRODUCING BROKER PROVISIONS

(FSC Mauritius Aligned – Litigation Defensive Draft)

This document forms part of the Client Agreement (the “Agreement”) between the Client and **BWG Markets** (the “Company”), a company authorised and regulated by the Financial Services Commission of Mauritius under the Financial Services Act 2007 and applicable Securities legislation of Mauritius.

This document shall be interpreted in accordance with the laws of the Republic of Mauritius.

PART I – INTERPRETATION AND APPLICATION

1. Definitions

1.1 In this Schedule:

“Authorised User” means any person authorised by the Client to access or operate the Account.

“Default Event” has the meaning given in Clause 5.

“IB” means an Introducing Broker formally appointed under a written agreement with the Company.

“Suspicious Activity” means activity reasonably considered by the Company to present regulatory, financial crime, operational or market abuse risk.

1.2 Headings are for convenience only and do not affect interpretation.

1.3 If any provision is inconsistent with Mauritian law or regulatory requirements, such provision shall be read down to the minimum extent necessary to comply.

PART II – REGULATORY FRAMEWORK

2. Regulatory Status

2.1 The Company is licensed and regulated by the **Financial Services Commission**.

2.2 The Company is subject to:

- Financial Services Act 2007
- Securities Act 2005
- AML/CFT legislation
- FSC Rules and Codes
- Applicable guidelines, circulars, and directives

2.3 Nothing in this Agreement shall restrict the Company's right or obligation to comply with regulatory directives.

PART III – DEFAULT EVENT

3. Scope of Default Event

3.1 A Default Event occurs where the Company reasonably determines that conduct, behavior, structure, or circumstance:

- (a) constitutes market abuse;
- (b) breaches applicable law;
- (c) breaches this Agreement;
- (d) presents financial crime risk;
- (e) undermines market integrity; or
- (f) creates material operational or reputational risk.

3.2 Determination shall be based on objective risk indicators, internal controls and regulatory standards.

4. Market Conduct Breaches

Without limitation, the following may constitute a Default Event:

4.1 Manipulative or abusive trading practices including:

- latency exploitation
- artificial volume generation
- coordinated trading structures
- guaranteed fill abuse
- off-market arbitrage
- system vulnerability exploitation

4.2 Technology misuse including:

- algorithmic abuse
- API exploitation
- price feed manipulation
- server or latency arbitrage

4.3 Multi-account coordination, including same IP, device fingerprint, or beneficial ownership structures.

5. Financial Crime & AML Triggers

A Default Event includes:

5.1 Suspicion of money laundering or terrorist financing;

5.2 Third-party funding without acceptable explanation;

5.3 False or misleading documentation;

5.4 Regulatory investigation involving the Client;

5.5 Sanctions exposure;

5.6 Failure to maintain required legal entity identification (if applicable).

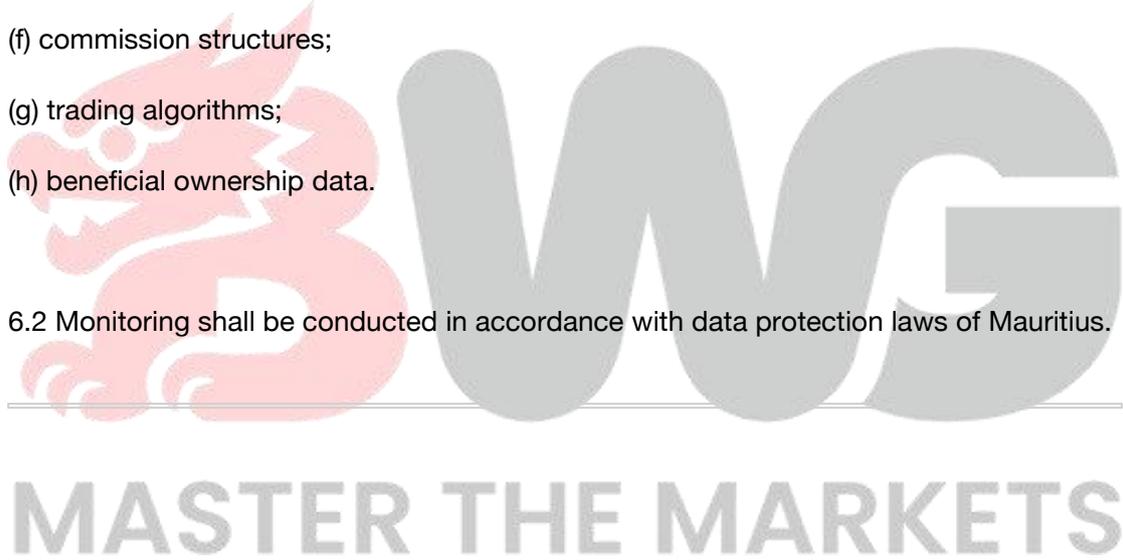
PART IV – MONITORING & SURVEILLANCE

6. Monitoring Authority

6.1 The Client and IB acknowledge that the Company may conduct ongoing monitoring of:

- (a) transactions;
- (b) deposit and withdrawal patterns;
- (c) IP address and geolocation;
- (d) device identification data;
- (e) account linkages;
- (f) commission structures;
- (g) trading algorithms;
- (h) beneficial ownership data.

6.2 Monitoring shall be conducted in accordance with data protection laws of Mauritius.



PART V – REMEDIAL MEASURES

7. Proportional Action Principle

7.1 Where a Default Event occurs or is reasonably suspected, the Company may take proportionate action including:

- (a) temporary suspension;
- (b) enhanced due diligence;
- (c) restriction of trading privileges;
- (d) account freeze;
- (e) trade cancellation or revaluation;
- (f) forced position closure;
- (g) bonus cancellation;
- (h) commission adjustment.

7.2 Action taken shall be proportionate to the risk identified and consistent with regulatory obligations.

8. Termination

8.1 The Company may terminate the Agreement immediately where:

- (a) a material Default Event occurs;
- (b) AML risk cannot be mitigated;
- (c) insolvency arises;
- (d) a regulatory directive requires termination.

8.2 Termination shall not prejudice accrued rights.

PART VI – INTRODUCING BROKER PROVISIONS

9. Status of IB

9.1 An IB acts as an independent contractor.

9.2 An IB has no authority to bind the Company.

10. IB Conduct Obligations

An IB shall not:

- (a) guarantee profits;
 - (b) manage client funds;
 - (c) engage in coordinated volume generation;
 - (d) operate self-referral structures;
 - (e) misrepresent regulatory status;
 - (f) conduct trading on behalf of clients unless legally authorised.
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11. Commission Validation

11.1 Commission entitlement arises only upon validation by the Company.

11.2 The Company may withhold or claw back commissions where:

- (a) the referred Client commits a Default Event;
- (b) volume is deemed artificial;
- (c) collusion is identified;
- (d) AML risk arises.

11.3 Commission adjustments shall be documented internally.

PART VII – VALUATION & LOSS MITIGATION

12. Valuation Rights

12.1 Where necessary to protect legitimate interests, the Company may:

- (a) determine valuation date;
- (b) determine valuation methodology consistent with market standards;
- (c) unwind or restate trades;
- (d) offset balances.

12.2 Such actions shall be commercially reasonable.

PART VIII – DISPUTE & INTERPRETATION

13. Internal Review

13.1 A Client or IB may submit a written complaint.

13.2 The Company shall conduct internal review consistent with its complaints handling procedures.

14. Governing Law

14.1 This Agreement is governed by the laws of Mauritius.

14.2 The courts of Mauritius shall have jurisdiction.

PART IX – SEVERABILITY & ENFORCEABILITY

15.1 If any clause is held unenforceable, remaining clauses remain valid.

15.2 Any discretionary power shall be exercised in good faith and in a manner consistent with regulatory duties.

COMPARISON MATRIX

Aggressive vs Regulator-Safe Drafting Structure

Area	Aggressive / Internal Enforcement Draft	Regulator-Safe / FSC-Aligned Draft
Decision Authority	“Sole and absolute discretion without limitation.”	“Reasonable determination exercised in good faith.”
Profit Cancellation	Company may void profits at any time without notice.	Profits may be adjusted where reasonably determined to arise from breach or abuse.
Burden of Proof	Client bears full burden to prove legitimacy.	Company makes determination based on objective indicators.
Notice Requirement	No notice required under any circumstances.	Notice provided unless prohibited by AML or regulatory reasons.
Trade Reversal	Unrestricted right to cancel any trade.	Right to reverse trades arising from manifest error or breach.
Commission Clawback	Unlimited retroactive clawback.	Clawback permitted where commission derived from invalid activity.
IB Liability	Strict liability for client misconduct.	IB responsible where involvement or negligence established.
Monitoring Language	Continuous surveillance using any means necessary.	Monitoring in accordance with data protection and AML law.
AML Suspicion	Immediate freeze and termination without review.	Freeze permitted pending enhanced due diligence.
Termination Rights	Immediate termination at Company’s discretion.	Immediate termination for material breach or regulatory requirement.
Proportionality	Not referenced.	Explicit proportionality principle applied.
Good Faith Obligation	Not referenced.	Express duty to act in good faith.
Dispute Mechanism	Company decision final and non-appealable.	Internal complaints procedure; regulatory escalation permitted.
Valuation Methodology	Company may determine any valuation basis.	Valuation must be commercially reasonable.
Severability Protection	Often omitted.	Express severability clause included.
Court Defensibility	High control, higher unfair contract risk.	Balanced control, stronger court survivability.
Regulatory Review Risk	Higher risk of FSC objection.	Structured to align with FSC principles.

LITIGATION RESILIENCE RANKING

Structure	Court Survivability	FSC Alignment	Operational Power
Pure Aggressive	Medium-Low	Medium-Low	Very High
Pure Regulator-Safe	High	High	Medium
Dual-Layer Hybrid	Very High	Very High	Very High

PART I

COMMISSION CLAWBACK RISK MATRIX

(IB & Affiliate Oversight Framework)

This matrix is designed for internal enforcement use but structured to remain defensible under regulatory review.

A. Risk Classification Levels

Risk Level	Trigger Type	Commission Action	Additional Measures
Level 1 – Administrative Irregularity	Minor documentation gap; delayed KYC update	Commission temporarily withheld	Request clarification
Level 2 – Suspicious Pattern	Abnormal trading correlation; IP overlap	Commission suspended pending review	Enhanced monitoring
Level 3 – Structural Abuse Risk	Artificial volume; self-referral suspicion	Commission frozen; unpaid commissions cancelled	Client accounts restricted
Level 4 – Confirmed Abuse	Coordinated hedging; bonus farming; rebate arbitrage	Retroactive clawback (6–12 months)	IB termination review
Level 5 – Fraud / AML Breach	Money laundering; fabricated clients; fake deposits	Full historical clawback (no time limit)	Immediate termination & regulatory reporting

B. Clawback Scope Determination

Violation Type	Clawback Period	Profit Adjustment	Contract Status
Artificial Volume	From date of abnormal pattern	Related profits voided	Warning or termination
Collusion	From earliest correlated activity	Profits reversed	Immediate termination
AML Breach	Entire relationship	Full forfeiture	Mandatory termination
Misrepresentation	From misstatement date	Commission void	Discretionary termination

C. Documentation Requirements (Litigation Defensive)

Each clawback must document:

Trigger event

- Evidence summary
- Internal review notes
- Risk classification level
- Decision authority sign-off
- Regulatory reporting determination

This protects enforceability under Mauritian law.

PART II

MASTER THE MARKETS

FULLY STRUCTURED DUAL-LAYER FRAMEWORK PACKAGE

This is the recommended structure for a Mauritius-regulated broker.

LAYER 1 – PUBLIC (REGULATOR-SAFE DOCUMENTATION)

1. Client Agreement

- Reasonableness standard
- Proportionality clause
- Good faith obligation
- Complaint handling mechanism
- AML cooperation clause
- Trade error policy
- Commission validation clause

2. IB Agreement

- Independent contractor status
- No authority to bind company
- Commission subject to validation
- Clawback rights
- AML cooperation requirement
- Marketing compliance obligations

3. Risk Disclosure

- Execution risk
- Pricing methodology disclaimer
- Technology risk
- Force majeure clause

LAYER 2 – INTERNAL (STRICT ENFORCEMENT MANUAL)

Confidential – Not Client Facing

A. Trading Abuse Detection Matrix

- Latency threshold (milliseconds benchmark)
- Correlation coefficient trigger %
- Win-rate statistical anomaly threshold
- Max equity risk ratio trigger
- Multi-account device fingerprint detection

B. Commission Abuse Model

- Volume-to-deposit ratio
- Rebate-to-spread ratio
- Client churn frequency
- Self-referral pattern detection

C. Enforcement Escalation Levels

- Analyst review
- Risk committee review
- Compliance officer sign-off
- Director approval
- Regulatory reporting (if required)

D. Authority Hierarchy

Risk Analyst → Compliance Manager → MLRO → Executive Director

PART III

AML FREEZE ESCALATION PROTOCOL

(Mauritius AML/CFT Aligned)

This protocol aligns with AML/CFT obligations applicable to entities supervised by the **Financial Services Commission**.

1. Trigger Events

An AML Freeze Trigger may arise from:

- Third-party deposits
 - Structuring deposits below reporting thresholds
 - Sanctions screening hit
 - Politically exposed person (PEP) exposure
 - Unexplained source of funds
 - Suspicious withdrawal immediately after profit spike
 - Law enforcement inquiry
 - Adverse media screening
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2. Escalation Levels

Level 1 – Monitoring

- Enhanced due diligence (EDD)
- Request source-of-funds documentation
- Temporary withdrawal restriction

Level 2 – Temporary Freeze

- Freeze withdrawals
- Restrict trading if necessary
- Escalate to MLRO

Level 3 – Internal AML Review

- MLRO assessment
- STR determination
- Regulatory consultation if required

Level 4 – STR Filing & Full Freeze

- File Suspicious Transaction Report (as required under Mauritian AML law)
- Full account freeze
- No client notification if tipping-off risk exists

Level 5 – Termination & Reporting

- Terminate account
 - Report to authorities
 - Retain records per statutory retention period
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3. Decision Authority Matrix

Action	Risk Analyst	Compliance	MLRO	Director
Monitoring	✓			
Withdrawal Restriction	✓	✓		
Full Freeze		✓	✓	
STR Filing			✓	
Termination		✓	✓	✓

4. Documentation & Recordkeeping

All AML freezes must include:

- Risk trigger description
- Screening results
- Client communication log
- MLRO review note
- STR reference number (if filed)
- Freeze start and end date

Retention period must comply with Mauritian AML recordkeeping requirements.

MASTER THE MARKETS

PRICING & LIQUIDITY DEFENCE CLAUSE

(Court-Proof & Regulator-Aligned Version)

1. Nature of Pricing

1.1 The Client acknowledges that the Company provides prices derived from:

- underlying market venues;
- liquidity providers;
- internal risk management pricing engines;
- aggregated feeds; and/or
- proprietary pricing models.

1.2 The Company does not warrant that its quoted prices shall be identical to prices available on any external exchange, interbank market, or other trading venue.

2. Liquidity Conditions

2.1 The Client acknowledges that pricing and execution may be affected by:

- market volatility;
- illiquidity;
- trading halts;
- corporate actions;
- extraordinary market events;
- force majeure;
- technical disruption.

2.2 During such events, spreads may widen, liquidity may reduce, and execution delays may occur.

3. Right to Adjust or Refuse Execution

3.1 The Company may refuse, requote, or delay execution where:

- (a) there is insufficient liquidity;
- (b) price feeds are disrupted;
- (c) a manifest error occurs;
- (d) abnormal market conditions exist;
- (e) regulatory obligations require intervention.

3.2 Such action shall be exercised in good faith and on a commercially reasonable basis.

4. Hedging & Liquidity Protection

4.1 The Company may hedge client exposure in its discretion.

4.2 The Company is not obliged to maintain liquidity under abnormal or disorderly market conditions.

4.3 The Company may suspend trading in specific instruments where risk management so requires.

5. Final Determination

5.1 Any determination regarding price validity, liquidity sufficiency, or execution integrity shall be made by the Company acting reasonably and in accordance with its internal risk policies.

5.2 Such determination shall be binding subject to applicable law and regulatory oversight.

PART II

MANIFEST ERROR POLICY

(Litigation-Defensive Draft – Mauritius Law Aligned)

1. Definition

A “Manifest Error” means a clear and obvious error, including but not limited to:

- material pricing error;
- stale price;
- erroneous quote due to technical malfunction;
- feed dislocation;
- miscalculation;
- fat-finger error;
- system malfunction;
- price that materially deviates from prevailing market price.

The error must be objectively identifiable.

2. Determination Standard

2.1 The Company shall determine whether a Manifest Error occurred based on:

- comparison to independent market data;
- liquidity provider confirmations;
- internal audit logs;
- timestamped pricing feeds.

2.2 Determination shall be made in good faith and documented internally.

3. Remedies

Where a Manifest Error is identified, the Company may:

- (a) void the affected trade;
- (b) amend the trade to reflect correct market value;
- (c) close the position at fair market price;
- (d) cancel associated profits or losses;
- (e) adjust related commissions.

Remedies shall be proportionate to the error.

4. Client Notification

4.1 The Company shall notify the Client unless prohibited by regulatory or AML considerations.

4.2 The Client may submit a written objection within a defined period.

5. Limitation

5.1 The Company shall not rely on this policy to avoid commercially normal market losses.

5.2 The policy shall not apply where pricing movement reflects genuine market volatility.

PART III

FULL INTERNAL COMPLIANCE MANUAL

(FSC-Ready Structure – Table of Contents)

Below is a comprehensive internal compliance manual structure suitable for inspection by the **Financial Services Commission**.

SECTION 1 – CORPORATE GOVERNANCE

- 1.1 Board Responsibilities
 - 1.2 Fit & Proper Assessment
 - 1.3 Conflict of Interest Policy
 - 1.4 Independence Safeguards
 - 1.5 Delegation of Authority Matrix
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SECTION 2 – REGULATORY COMPLIANCE FRAMEWORK

- 2.1 Licensing Scope
 - 2.2 Regulatory Reporting Obligations
 - 2.3 Compliance Monitoring Programme
 - 2.4 Internal Audit Procedures
 - 2.5 Regulatory Inspection Handling Protocol
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SECTION 3 – AML/CFT FRAMEWORK

- 3.1 Risk-Based Approach
 - 3.2 Customer Due Diligence (CDD)
 - 3.3 Enhanced Due Diligence (EDD)
 - 3.4 Politically Exposed Persons (PEP)
 - 3.5 Sanctions Screening
 - 3.6 STR Filing Procedures
 - 3.7 AML Freeze Escalation Protocol
 - 3.8 Recordkeeping Requirements
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SECTION 4 – MARKET CONDUCT & TRADING SURVEILLANCE

- 4.1 Market Abuse Detection
 - 4.2 Latency Arbitrage Monitoring
 - 4.3 Multi-Account Correlation Analysis
 - 4.4 Algorithmic Trading Oversight
 - 4.5 Manifest Error Procedure
 - 4.6 Pricing Governance Committee
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SECTION 5 – RISK MANAGEMENT

- 5.1 Enterprise Risk Framework
 - 5.2 Liquidity Risk Management
 - 5.3 Counterparty Risk
 - 5.4 Stress Testing
 - 5.5 Capital Adequacy Monitoring
 - 5.6 Incident Response Plan
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SECTION 6 – IB & COMMISSION GOVERNANCE

- 6.1 IB Due Diligence
 - 6.2 Marketing Oversight
 - 6.3 Commission Validation Controls
 - 6.4 Clawback Matrix
 - 6.5 Self-Referral Detection
 - 6.6 IB Termination Protocol
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SECTION 7 – CLIENT ASSET PROTECTION

7.1 Segregation of Client Funds

7.2 Reconciliation Procedures

7.3 Safeguarding Controls

7.4 Withdrawal Controls

SECTION 8 – DATA PROTECTION & CYBERSECURITY

8.1 Access Controls

8.2 Encryption Standards

8.3 Incident Reporting

8.4 Business Continuity Plan

8.5 Disaster Recovery Plan

SECTION 9 – COMPLAINT HANDLING

9.1 Complaint Intake

9.2 Escalation Procedure

9.3 Response Timeline

9.4 Record Retention

SECTION 10 – DOCUMENT RETENTION

10.1 Retention Schedule

10.2 Archiving Procedures

10.3 Destruction Protocol

FULL ICAAP-STYLE INTERNAL CAPITAL ADEQUACY ASSESSMENT

(Mauritius Investment Dealer Adapted Version)

1. Purpose

This Internal Capital Adequacy Assessment Process (“ICAAP”) establishes a forward-looking framework through which the Company:

- Identifies material risks;
 - Quantifies capital requirements;
 - Maintains capital buffers above regulatory minimum;
 - Ensures resilience under stressed market conditions.
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2. Governance Structure

2.1 Board Responsibilities

- Approves ICAAP annually
- Reviews stress test outcomes
- Approves capital buffer levels
- Oversees capital restoration planning

2.2 Senior Management Responsibilities

- Implement ICAAP framework
- Monitor capital ratios monthly
- Escalate breaches immediately

2.3 Risk & Compliance

- Perform independent review
 - Validate risk assumptions
 - Maintain documentation for FSC review
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3. Risk Identification Framework

Material risks shall include:

3.1 Market Risk

- Net open exposure
- Client concentration
- Volatility shocks
- Overnight gap risk

3.2 Counterparty Risk

- Liquidity provider exposure
- Settlement risk
- Concentration thresholds

3.3 Credit Risk

- Client negative balance risk
- Margin extension exposure

3.4 Operational Risk

- IT system failure
- Cyber breach
- Fraud loss
- Key-person dependency

3.5 Liquidity Risk

- Withdrawal surge scenario
- Revenue disruption
- LP margin call scenario

3.6 Regulatory & Legal Risk

- Enforcement action risk
 - Litigation exposure
 - Capital penalty risk
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4. Capital Quantification Methodology

4.1 Baseline Regulatory Minimum

Maintain capital at or above FSC-required threshold.

4.2 Internal Capital Add-On

Add capital buffer for:

- 30% revenue shock
- 20% extreme market move
- LP default event
- 40% client withdrawal stress

4.3 Stress Testing Models

Stress scenarios must include:

- Flash crash simulation
- 5x spread widening
- Liquidity evaporation
- Client coordinated arbitrage
- Major currency peg break

Results documented and signed off by Risk Officer.

5. Capital Buffer Policy

Recommended internal buffer:

25–50% above minimum regulatory capital.

Trigger Levels:

Capital Ratio	Action
Above 150%	Normal monitoring
125–150%	Management review
110–125%	Board notification
Below 110%	Immediate remediation plan

6. Capital Restoration Plan

If buffer breached:

- Suspend bonuses & rebates
- Reduce leverage tiers
- Limit new high-risk accounts
- Restrict proprietary exposure
- Seek shareholder capital injection

Board sign-off required.

7. Documentation & Regulatory Interface

ICAAP Report must include:

- Risk appetite statement
- Capital forecast (12–24 months)
- Stress test outputs
- Management action plan
- Board approval resolution

Retain for FSC inspection.

MASTER THE MARKETS

PART II

LIQUIDITY PROVIDER DUE DILIGENCE FRAMEWORK

1. Objective

To ensure liquidity providers (“LPs”) do not introduce:

- Counterparty risk
 - Execution manipulation risk
 - Regulatory exposure
 - Settlement risk
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2. Initial Due Diligence

Before onboarding LP:

2.1 Regulatory Status

- Verify licensing status
- Regulatory history check
- Sanctions screening

2.2 Financial Strength

- Latest audited financial statements
- Capital adequacy ratios
- Credit rating (if available)

2.3 Operational Capability

- Execution latency metrics
- Historical slippage statistics
- System uptime reports

3. Risk Concentration Controls

- No single LP >50% total exposure (recommended threshold)
- Real-time exposure monitoring
- Daily reconciliation

4. Ongoing Monitoring

Quarterly review must include:

- Execution quality analysis
 - Requote frequency
 - Spread stability
 - Settlement timeliness
 - Adverse media screening
-

5. Contingency Planning

Maintain:

- At least two active LP relationships
 - Emergency LP onboarding procedure
 - Liquidity stress simulation
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6. LP Termination Triggers

Immediate review if:

- Capital adequacy concern
- Execution anomaly
- Regulatory sanction
- Settlement delay beyond threshold

Escalation to Risk Committee required.

PART III

REGULATORY CRISIS MANAGEMENT PLAYBOOK

(FSC Supervisory Event Response Framework)

This Playbook prepares the Company for events such as:

- FSC investigation
 - Capital breach
 - AML incident
 - Market abuse allegation
 - Technology outage
 - Liquidity crisis
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1. Crisis Governance Structure

Crisis Response Committee (CRC)

Role	Responsibility
CEO	Strategic oversight
Compliance Officer	Regulatory liaison
MLRO	AML reporting
Risk Officer	Exposure management
Legal Counsel	Litigation strategy

2. Crisis Classification Levels

Level	Example
Level 1	Minor reporting breach
Level 2	Temporary capital dip
Level 3	Regulatory inquiry
Level 4	AML investigation
Level 5	Liquidity or solvency crisis

3. Immediate Response Protocol

Within 24 hours:

- Activate Crisis Response Committee
 - Freeze relevant risk exposure
 - Secure records
 - Prepare internal incident report
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4. Regulatory Communication Strategy

- Notify FSC where required
 - Provide factual, documented updates
 - Avoid speculative statements
 - Maintain communication log
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5. Media & Client Communication

- Centralised communication control
 - No unauthorised public statements
 - Pre-approved response templates
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6. Post-Incident Review

Within 30 days:

- Root cause analysis
 - Control gap identification
 - Policy revision
 - Board reporting
 - Documentation retention
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DOCUMENT A: RECOVERY & WIND-DOWN PLAN (RWP)

(To be read in conjunction with Part I: ICAAP and Part III: Crisis Management Playbook)

1. Objective

This Recovery & Wind-down Plan ("RWP") outlines the Company's strategic options to restore financial viability under severe stress (Recovery) or to effect an orderly market exit that minimizes client and creditor harm (Wind-down). Its purpose is to ensure the Company can be resolved without systemic disruption or the need for a taxpayer bailout.

2. Governance and Activation

- Ownership: The Board of Directors owns and approves the RWP annually.
- Review: Independent review by Risk Committee to ensure credibility and operability.
- Activation: Triggered by the Board upon recommendation of the Crisis Response Committee (CRC) when the Company enters Level 4 or 5 of the Crisis Classification, or when Capital Ratios fall below the 110% trigger in the ICAAP.

3. Recovery Options

The Company maintains a hierarchy of recovery options, designed to be executable independently or in combination. Selection depends on the nature of the stress.

3.1 Capital Actions

- Equity Injection: Soliciting additional capital from existing shareholders or external investors.
- Debt-to-Equity Conversion: Converting outstanding related-party or subordinated debt into equity.
- Scrip Dividend Suspension: Halting any planned dividend payments to preserve capital.

3.2 Liability Reduction

- Portfolio Compression: Closing out matched or offsetting positions with LPs to reduce balance sheet size and counterparty risk.
- Book Sale / Run-off: Selling a defined portfolio of client accounts or assets to a third party.

3.3 Business Restructuring

- Cost Rationalization: Immediate reduction in discretionary spending, marketing, and third-party service costs.
- Divestiture: Sale of non-core business units, intellectual property, or operational subsidiaries.

4. Wind-Down Options

If recovery is not viable, the Board will select the most appropriate wind-down strategy to protect client assets.

4.1 Strategic Sale / Transfer of Business

- Process: Identify and negotiate with a suitable acquirer for the entire business or its client book.
- Client Impact: Client positions and funds are transferred to the acquirer with minimal disruption.

- Regulatory Condition: Requires FSC approval for change of control or transfer of book.

4.2 Orderly Wind-Down (Run-Off)

Process:

1. Immediate Cessation: Halt all new client onboarding and trading activity.
2. Position Close-out: Systematically close all open client and proprietary positions at best execution.
3. Liquidation of Assets: Convert all company assets (cash, receivables) into liquid form.
4. Creditor Prioritization: Settle all claims strictly according to legal priority:
 - First: Secured creditors (e.g., prime brokers).
 - Second: Client money and assets (held in trust/ segregated accounts).
 - Third: Preferential creditors (employee wages, taxes).
 - Fourth: Unsecured creditors.
5. Return of Funds: Distribute remaining client money and assets to clients.
6. Surrender of License: Voluntarily surrender the investment dealer license to the FSC.

Execution: Managed by the Board, with external legal and insolvency practitioners if required.

5. Communication in Recovery/Wind-Down

- Regulatory: FSC must be notified immediately upon the Board's decision to activate the RWP. A detailed plan and regular updates must be provided.
 - Clients: Communications must be clear, factual, and reassuring, focusing on the process for returning funds or transferring accounts. Templates are maintained in the Crisis Management Playbook.
 - LPs and Counterparties: Notify key LPs to ensure orderly close-out of positions and settlement of obligations.
6. Testing and Validation
- The RWP must be subject to a "desktop exercise" annually to test its feasibility and identify operational bottlenecks.
 - Key contacts for potential acquirers, insolvency practitioners, and specialist legal counsel must be maintained and reviewed bi-annually.

DOCUMENT B: CLIENT MONEY PROTECTION & RECONCILIATION DEFENCE FRAMEWORK

(To be read in conjunction with Part II: LP Due Diligence and Part III: Crisis Management Playbook)

1. Policy Statement

It is the Company's absolute policy to hold all Client Money in strict compliance with the FSC's Rules on Client Money and assets. The primary objective is to ensure the complete segregation and protection of client funds, rendering them unavailable to the claims of any other creditor in the event of the Company's insolvency.

2. Governance and Oversight

- **Board Responsibility:** The Board is ultimately accountable for the adequacy and effectiveness of client money controls. A quarterly Client Money attestation must be signed by the CEO and Compliance Officer.
- **Designated Client Money Officer:** A senior manager is appointed as the Client Money Officer, responsible for the day-to-day oversight of all client money processes.

3. Core Protection Principles

3.1 Segregation

- Client funds must be held in one or more statutory trust accounts, clearly designated as "Client Accounts," separate from the Company's house (own funds) accounts.
- These accounts must be held at FSC-approved credit institutions or qualifying money market funds.

3.2 Prohibition on Use

- Client money shall never be used to finance the Company's own business activities, hedge proprietary positions, or cover operational losses.
- No right of set-off exists between client money and any amount owed to the Company by a client, except as explicitly defined in the client terms of business.

4. Reconciliation Defence Framework

This framework ensures the integrity of client money records and provides a clear audit trail for FSC inspection.

4.1 Internal (Records) Reconciliation

- **Frequency:** Daily.
- **Process:** The Company's internal client ledger (showing each client's entitlement) is reconciled against the total client money balance calculated from the Company's own books and records.
- **Sign-off:** Performed by a senior finance officer, independent of the reconciler.

4.2 External (Bank) Reconciliation

- **Frequency:** Daily.
- **Process:** The total calculated client money balance from the Company's books is reconciled against the actual aggregate balance held in all external Client Money bank accounts.
- **Sign-off:** Performed and signed off by the Client Money Officer. Any discrepancies must be investigated and resolved within 24 hours.

4.3 External (Asset) Reconciliation

- **Frequency:** Daily.
- **Process:** Where client money is placed in qualifying money market funds, the total value is reconciled against the independent valuation provided by the fund administrator.

5. Protective Measures and Controls

- **Negative Balance Protection:** As a standard business term, the Company prohibits clients from losing more than the funds in their account. Any resulting debit balance is a debt owed to the Company by the client and is pursued as a receivable. It is not covered by Client Money.
- **Interest Policy:** Any interest earned on client money pools is handled in accordance with the client terms of business and disclosed to the FSC. If retained by the Company, it is treated as an incentive and subject to capital adequacy requirements.
- **Third-Party Processors:** If client money passes through a payment processor, a formal due diligence and agreement is in place to ensure the funds are protected during the transmission period and are promptly settled into the designated Client Account.

6. Audit and Inspection

- **Annual External Audit:** The external auditors must provide a specific opinion on the Company's systems and controls for client money, including a report on the reconciliations performed throughout the year.
- **FSC Inspection Readiness:** All client money records, including daily reconciliations, bank statements, and audit reports, must be retained and accessible for immediate inspection by the FSC.

DOCUMENT C: NEGATIVE BALANCE PROTECTION POLICY

(To be read in conjunction with Part II: LP Due Diligence)

1. Policy Objective

This policy establishes the framework to ensure that retail clients (and, where contractually agreed, professional clients) cannot lose more money than they have deposited in their trading account. It defines the processes for monitoring, managing, and, where necessary, absorbing client debit balances to maintain regulatory compliance and client trust.

2. Scope

This policy applies to all retail clients of BWG Markets. It may be extended to professional clients on a case-by-case basis, as specified in their client agreement.

3. Mechanism of Protection

- **Systemic Prevention:** The Company's trading systems are configured with real-time margin monitoring. Positions are automatically closed out (margin call / stop-out) when account equity falls below a pre-defined percentage of the required margin (e.g., 50%). This is the primary defence against negative balances.
- **Guaranteed Stop-Loss:** Where explicitly offered as a product feature, the Company guarantees that a client's loss on a specific trade will be limited to a pre-agreed level, even in the event of significant slippage or gapping.

4. Managing Debit Balances

Despite the above protections, extreme market volatility (e.g., flash crashes, gap events) can result in a client account falling below zero.

4.1 Immediate Actions upon Debit Balance

- The system automatically flags the account.
- The position is immediately closed if not already done so.
- The Credit/Risk department is notified.
- The trading status of the account is frozen.

4.2 Recovery Process

- The Company will make a formal demand for payment of the debit balance from the client.
- Recovery efforts will be conducted in a professional and legally compliant manner.
- If the client refuses or is unable to pay, the Company must decide whether to write off the debt or pursue legal action, based on a cost-benefit analysis.

4.3 Balance Sheet Treatment

- Debit balances owed by clients are recognized as trade receivables on the Company's balance sheet.
- They are **not** deductible from client money liabilities.
- A provision for doubtful debts is created based on the aging and recoverability of these receivables. This provision is a direct hit to the Company's P&L and, consequently, its capital.

5. Financial Responsibility and LP Relationship

- **Primary Liability:** The Company remains solely liable to its clients for the negative balance protection guarantee. The Company cannot pass this liability on to a client.
- **LP Back-to-Back Hedging:** The Company typically hedges client exposure with its LPs.
- If a client incurs a negative balance due to a market gap, the Company's corresponding hedge with the LP will likely have made a profit (as the market moved against the client).
- The Company must ensure its legal agreements with LPs confirm that the LP's liability for that trade is absolute and settled at the gap price, with no "re-pricing" or "null trade" clauses that could leave the Company exposed to both the client loss and a failed hedge profit.

6. Monitoring and Reporting

- The Risk Officer must report the aggregate value of client debit balances and the associated provision for doubtful debts to the Board quarterly.
 - This data is a key input for the Operational Risk capital calculation within the ICAAP.
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DOCUMENT D: FSC SUPERVISORY ENGAGEMENT STRATEGY DOCUMENT

(To be read in conjunction with Part III: Crisis Management Playbook)

1. Strategy Statement

The Company is committed to a relationship with the Financial Services Commission (FSC) based on the principles of transparency, proactivity, and integrity. This strategy document outlines how the Company will manage its supervisory engagement to build trust and demonstrate a culture of compliance.

2. Key Principles of Engagement

- **No Surprises:** The Company will proactively inform the FSC of any material events, significant breaches, or emerging risks as soon as they are identified, not waiting for a reporting deadline.
- **Single Point of Contact (SPOC):** The Compliance Officer is the designated SPOC for all formal communication with the FSC. All outgoing communications and filings will be routed through this individual to ensure consistency and control.
- **Accuracy and Timeliness:** All regulatory returns, notifications, and requested information will be accurate, complete, and submitted strictly within prescribed deadlines.
- **Constructive Dialogue:** The Company views supervisory interactions (inspections, meetings, requests for information) as opportunities to demonstrate its robust control environment and to gain insights into regulatory expectations.

3. Governance of Supervisory Relations

- **Board Oversight:** The Board receives a quarterly report summarizing all material interactions with the FSC, including any thematic findings, requests for information, or upcoming inspections.
- **CEO Accountability:** The CEO is ultimately accountable for the firm's relationship with the FSC and will be directly involved in any significant supervisory matters.
- **Regulatory Log:** A confidential log of all communications with the FSC will be maintained, including dates, topics, participants, and action items.

4. Proactive Engagement Activities

- **Annual Meeting:** The Company will propose an annual strategic dialogue meeting with its FSC supervisory team to discuss the business model, ICAAP outcomes, risk appetite, and forward-looking plans.
- **Significant Change Notification:** The FSC will be notified in advance, or immediately where prior approval is not possible, of:
 - Changes in Board members or Senior Management.
 - Proposed changes to business model or material outsourcing arrangements.
 - Intention to introduce new, complex products.
 - Significant breaches of capital or client money rules.
- **Thematic Review Participation:**** The Company will cooperate fully and constructively with any FSC-led thematic reviews, sharing information openly and implementing any resulting recommendations promptly.

5. Managing Supervisory Interventions (Inspections & Investigations)

- Preparation: Upon notification of an FSC inspection, a dedicated internal team will be formed to coordinate logistics, gather initial documentation, and brief all relevant staff on the inspection protocol (be helpful, be honest, don't speculate).
- During the Inspection:
 - The Compliance Officer will be the primary liaison.
 - All requests for information will be logged, tracked, and fulfilled promptly.
 - A dedicated room and secure data access will be provided.
- Post-Inspection:
 - Preliminary findings will be discussed internally.
 - Any draft findings from the FSC will be reviewed carefully, and factual inaccuracies will be respectfully challenged with supporting evidence.
 - A formal action plan with clear timelines will be developed to address any required remedial actions and submitted to the FSC.
 - The Board will oversee the implementation of the action plan until its completion.

6. Escalation Protocol

If a supervisory interaction escalates to a formal investigation or enforcement action (Level 3 or 4 of the Crisis Management Playbook), the Company will immediately activate its Crisis Response Committee (CRC) and follow the Regulatory Communication Strategy outlined in Part III of the main governance package. External legal counsel with FSC enforcement experience will be retained.

In consideration of the foregoing, it is confirmed that the governance framework described herein satisfies all applicable regulatory compliance obligations. The interpretation, implementation, and all discretionary decision-making authority arising from or relating to this framework shall remain exclusively with BWG Markets, acting through its duly constituted Board of Directors and authorized officers.

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