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# COUNTERPARTY RISK POLICY

– Walbrook Capital Markets Limited



Counterparty risk is the risk that a counterparty (the other party with whom a foreign exchange or CFD contract is made with Walbrook Capital Markets Limited to offset or hedge positions entered into by Walbrook Capital Markets Limited with its clients) will fail to perform contractual obligations in whole or in part under a contract.

Foreign exchange contracts and CFD contracts offered by

Walbrook Capital Markets Limited to clients are over-the-counter transactions and are not undertaken on a licensed financial market. Therefore, similar protections afforded to trades conducted on licensed markets (such as having the benefit of a central clearing house to guarantee Walbrook Capital Markets Limited obligations to clients) are not available to clients trading foreign currencies and/or CFD contracts.

## RISK MITIGATION

Counterparty risk is managed as follows:

1. All counterparties used by Walbrook Capital Markets Limited are reviewed in advance. Prospective counterparties are subject to a review which addresses all pertinent factors such as:
  - i. Market Reputation
  - ii. Legal power of counterparty to enter into the contract;
  - iii. Sufficient or enforceable legal documentation;
  - iv. Compliance with regulatory requirements;
  - v. Management and security of documents;
  - vi. Financial standing of counterparty.
2. Walbrook Capital Markets Limited will be the counterparty to each foreign exchange contract and/or CFD contract with a client, and as a consequence, if either entity were to become insolvent then there is a possibility it may not be able to meet any or all of its obligations under the foreign exchange contracts and/or CFD contracts with clients. This means clients could suffer a loss if Walbrook Capital Markets Limited was unable to pay amounts owed to clients in respect of foreign exchange and/or CFD contract transactions (note that this is subject to client money protections afforded to retail clients under FCA client money regulations - CASS 7).
3. Similarly, with regards to foreign exchange contracts, **Walbrook Capital Markets Limited are reliant on the performance of Forex Capital Markets LLC "FXCM LLC" and FXCM Markets Ltd "FXCM Markets" (affiliated companies)**, as the entities with which foreign exchange contracts are hedged. **Whilst Walbrook Capital Markets Limited may offset their foreign exchange positions with FXCM LLC, FXCM LLC will only use major banking counterparties and will seek to utilise the services of a select number of counterparties rather than being solely reliant on one. The insolvency or collapse of a counterparty used by Walbrook Capital Markets Limited, or inability of a Walbrook Capital Markets Limited counterparty to meet its obligations under foreign exchange contracts with FXCM LLC may have an adverse impact on FXCM LLC to meet its obligations to FXCM Ltd and FXCMS. Also the insolvency or collapse of FXCM Markets would affect its ability to meet its obligations to clients of FXCM Ltd and FXCMS. This could therefore affect FXCM Ltd and FXCMS' abilities to meet their obligations to clients** (note that this is subject to client money protections afforded to retail clients under FCA client money regulations - CASS 7).
4. With regards to Share CFD contracts, Walbrook Capital Markets Limited is reliant on the performance of a sole offsetting counterparty. Walbrook Capital Markets Limited is reliant on the performance of this counterparty, and therefore counterparty risk will still exist for Walbrook Capital Markets Limited in the event that the counterparty was to become insolvent or otherwise be unable to meet its obligations under Share CFD contracts with Walbrook Capital Markets Limited. If this were to occur, it may have an adverse impact on Walbrook Capital Markets Limited and its abilities to meet obligations to its clients (note that this is subject to client money protections afforded to retail clients under FCA client money regulations - CASS 7).
5. With regards to Share CFD contracts, Walbrook Capital Markets Limited is reliant on the performance of a sole offsetting counterparty. Walbrook Capital Markets Limited is reliant on the performance of this counterparty, and therefore counterparty risk will still exist for Walbrook Capital Markets Limited in the event that the counterparty was to become insolvent or otherwise be unable to meet its obligations under Share CFD contracts with Walbrook Capital Markets Limited. If this were to occur, it could have an adverse impact on Walbrook Capital Markets Limited and its abilities to meet obligations to its clients (note that this is subject to client money protections afforded to retail clients under FCA client money regulations - CASS 7).
6. With regards to Index/Commodity CFD contracts, Walbrook Capital Markets Limited is reliant on the performance of a select number of counterparties. Walbrook Capital Markets Limited is reliant on the performance of these counterparties, and therefore counterparty risk will still exist for Walbrook Capital Markets Limited in the event that these counterparties were to become insolvent or otherwise be unable to meet their obligations under Index/Commodity CFD contracts with Walbrook Capital Markets Limited. If this were to occur, it could have an adverse impact on Walbrook Capital Markets Limited and its abilities to meet obligations to its clients (note that this is subject to client money protections afforded to retail clients under FCA client money regulations - CASS 7). Counterparty exposure checks are undertaken in relation to limits specified by Walbrook Capital Markets Limited.
7. Walbrook Capital Markets Limited also face counterparty risk

with respect to both client money and firm money. Both entities hold client money and firm money with major banks. If these counterparties were to become insolvent or fail to meet their obligations it may impact the ability of clients to access their funds, and also impact the ability of Walbrook Capital Markets Limited to access firm money. To reduce the risk of holding funds with an insolvent banking counterparty, Walbrook Capital Markets Limited completes a daily reconciliation of client and firm money. The policy is that:

i. The Firm shall deposit 75% of all funds (client and operational money) with third parties with credit rating equivalent to the

FCA's credit quality step 3 and above. Our counterparty credit ratings are checked monthly to ensure they continue to meet our requirements.

ii. The Firm shall manage the risk of default or failure of a third party by keeping no more than 40% of cash (client and operational money) balances at a single third party.

iii. The Firm deposits of cash (client and operational money) at any single third party that does not have credit ratings equivalent to the FCA's credit quality step 3 and above shall be no greater than 10% of all cash (client and operational).



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