



cutting through complexity

Alpari (UK) Limited – in special administration

Valuation of Swiss currency pair trades

15 April 2015

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Avg	Average
CHF	Swiss franc
Client Agreement	Alpari client agreement governing the contractual relationship between the Company and Clients dated October 2014
Company / Alpari	Alpari (UK) Limited
Directors	Directors as at 19 January 2015
EUR	Euro
FX	Foreign exchange
GBP / £	Great British pound
GMT	Greenwich Mean Time
P&L	Profit and loss
SNB	Swiss National Bank
Special Administration	The Special Administration procedure in accordance with The Investment Bank Special Administration Regulations 2011
JSAs	Richard Heis, Samantha Bewick and Mark Firmin of KPMG LLP
USD / \$	United States dollar

On 15 January 2015 the SNB unexpectedly announced it would discontinue the maintenance of a minimum exchange rate.

Subsequent foreign exchange market volatility had significant impact on the value of many client and Company positions.

As a consequence of the volatility, the Company's financial position was heavily impacted resulting in the Company filing for Special Administration on 19 January 2015.

On 15 January 2015 at 9:30am GMT, the Swiss National Bank (“SNB”) announced it was discontinuing the minimum exchange rate of CHF 1.20 per euro with immediate effect and ceasing foreign currency purchases associated with enforcing it (SNB press release available [here](#)) (“the Announcement”).

This caused extreme volatility in CHF currency pairs for the subsequent 30-60 minutes as the market attempted to correct for this unexpected decision. Significant volatility remained a feature of the market for the following days although not at the levels immediately following the Announcement. While volatility was evident in non-CHF currency pairs, the impact was most pronounced in CHF currency pairs.

This market shock had a significant effect on client's positions and the ability of clients to trade. The Company's trading systems acted as designed, filtering out all pricing in CHF currency pairs soon after the Announcement due to the extreme volatility. Once this had occurred, no new trade orders were generated until 9:59 GMT, 15 January 2015. These filters were designed to avoid client trades being executed at off-market prices and are a standard feature in retail FX broking.

At 9:59am GMT, 15 January 2015, the Company altered the parameters of the filters for CHF currency pairs as they were too sensitive for the market conditions. This allowed some market pricing through, within the revised parameters of the filters, to the trading systems such that trading in CHF currency pairs resumed to some extent.

At 10:06am GMT, 15 January 2015, the Company switched off market pricing in CHF currency pairs. From this point on, no new trade orders could be generated in CHF currency pairs meaning client positions could not be opened or closed. Similarly, no margin calculations were possible and, therefore, no clients were then closed out due to lack of margin.

At 8:06am GMT, 16 January 2015, following a meeting of the Board of Directors, the Company began closing all client positions which remained open. In the case of CHF currency pairs, these close outs were executed by the Company in effectively all cases (a small number of MetaTrader 5 trades were executed on client instructions).

Below we give a more detailed explanation of the events that occurred on 15 and 16 January 2015 along with some data from the Company systems. We also explain the process undertaken to verify the reliability of the pricing which was received by clients given the market conditions at the time. This process has also taken in account client's contractual position per the Client Agreement.

Valuation of CHF trades

Significant volatility was experienced across all Swiss currency pairs following the SNB announcement at 9:30 GMT on 15 January 2015.

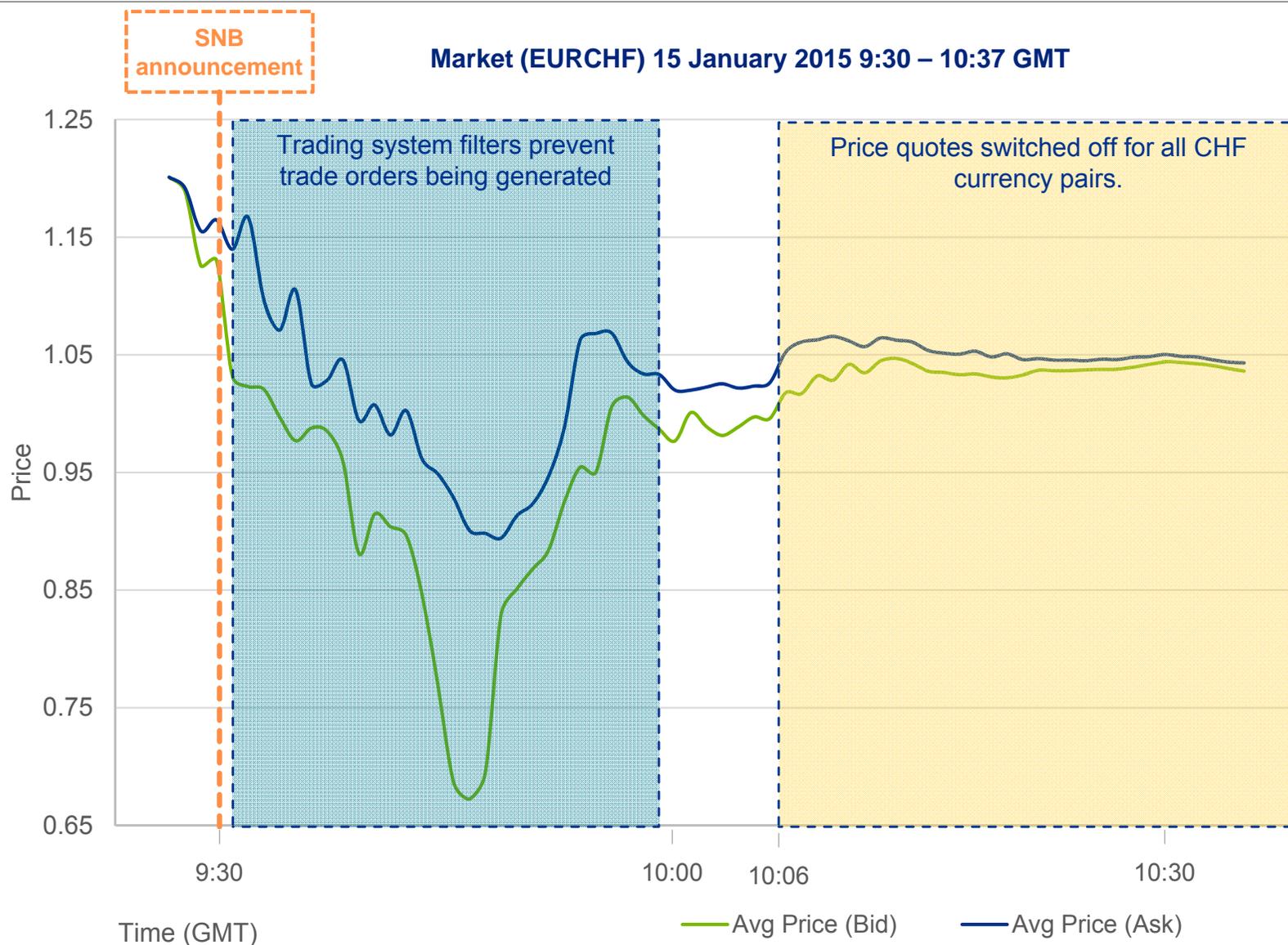
The Company's systems reacted, as designed, by filtering out certain prices from the market within two minutes of the SNB announcement.

This effectively caused trading in CHF pairs to cease for 27 minutes.

At 9:59am GMT the filter settings were broadened to allow pricing from the market through again and hence, trading to resume.

At 10:06am GMT real time quotes were switched off for all CHF pairs. From this point on, new trade orders in CHF pairs could not be generated.

Remaining positions were closed out on 16 January.



Source: Company records and the JSAs' analysis – basis used: quote data from Company liquidity providers.

Note: EURCHF data is shown for illustration purposes

Valuation of CHF trades

The volatility in the market and resulting manner in which the systems operated resulted in disparities in the prices at which trades were executed.

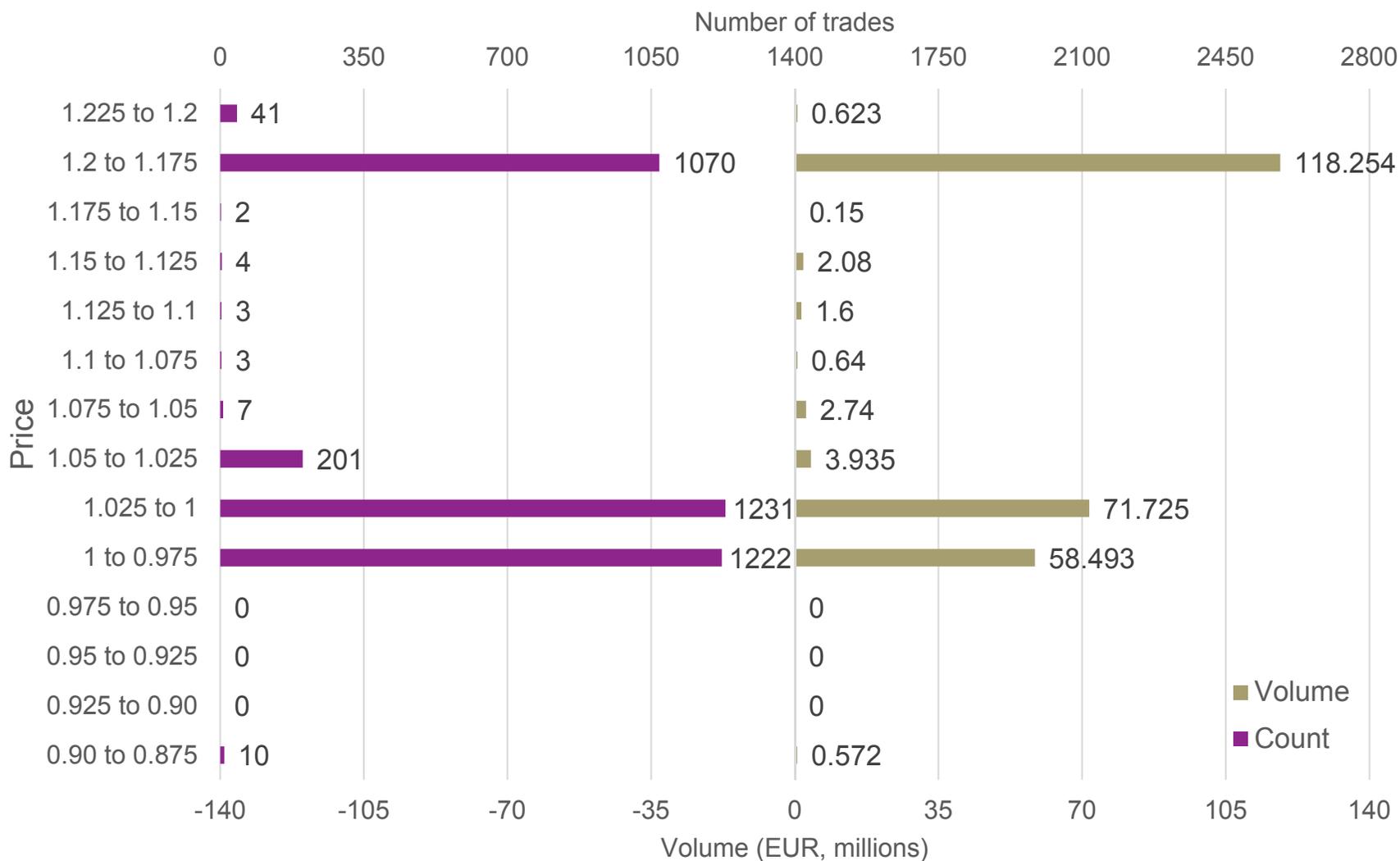
Margin limits were hit for many clients causing “stop outs” of positions.

Due to the magnitude of the volatility in the market, stop outs were generated in an arbitrary order with the system’s capacity limiting the number of orders generated.

Due to the filters, very few trades were executed, and no new trade orders were generated, during the period of most significant volatility.

Therefore most clients received prices near the prevailing pricing pre-announcement or close to levels at which the market reset.

EURCHF – Trade Value (Bucketed)



Source: Company records and the JSAs' analysis.

Note: EURCHF data is shown for illustration purposes

Valuation of trades overview

With respect to the prices clients received, consideration was given to: the design and operation of the systems; actions of the company; actions of clients; contractual position; and the market behaviour.

The only significant system failure identified was stale price feeds affecting a group of close outs on 16 January 2015.

The Company did not run a matched principal book as a matter of course. Some market risk was hedged under various strategies.

At 8am GMT on 16 January 2015, following a meeting of the Board of Directors, the Company closed all remaining open trades.

Majority of clients had positions closed out due to lack of margin (15-16 January) or decision to close the book (16 January)

- Due to the market conditions following the SNB announcement, many clients hit margin limits.
- Board took the decision to close out all remaining open positions on 16 January.

Determine whether all transactions were executed in accordance with contractual rights and applicable regulations

- The contractual position between the company and clients is governed by the Client Agreement.

Make any necessary change to prices

- Examine all fact patterns to ascertain whether the prices received in any of the close out transactions need to be amended for the above, or any other, reasons.

Account statements and client balances issued

- Clients will receive notification when they are able to agree their claims in the Claims Portal.

Clients with open trades – 15 / 16 January 2015

We undertook a thorough review of trades executed between 9:30am GMT 15 January and 6:40pm GMT 16 January 2015 when the last positions were closed out.

The review included: the analysis of the transactions executed; an examination of the systems; and significant scenario analysis to understand the effects on clients.

We consider that all transactions were executed within the parameters of the Client Agreement and in accordance with regulatory requirements other than those identified in the footnotes.

Therefore we have decided to value client claims by reference to the prices received for the original transactions subject to those trades referred to in the footnotes.

	CHF	Non - CHF
Thursday 15 January 2015	Market ⁽¹⁾	Market
Friday 16 January 2015	Market ^(1,2)	Market

- Market - prices received by clients per Company records on 15 / 16 January 2015.
- Clients with no CHF trades have been given access to the Claims Portal to agree their claims subject to any other individual client issues.

Notes:

- 1) A very small number of transactions have been identified which we consider to have been executed at an incorrect price. The valuation of these transactions will be accordingly adjusted on the basis of quotations in the market and available to the Company at the time of execution.
- 2) A group of CHF currency pair trades were closed out at incorrect prices. This was due to stale pricing being held in the system at the time of the close out being initiated. Again, these will be corrected on the basis of market data available to the Company at the time of execution.
- 3) The stale pricing in the system resulted in the conversion of the profit or loss from the quote currency to the account currency being performed at the incorrect rate where the quote currency was CHF. This also affected accounts where the account currency was CHF. This has been corrected as appropriate and affects a large proportion of CHF trades.

Trade pricing remains unchanged for the majority of CHF trades.

Conversion of P&L from underlying transactions is being recalculated for most CHF trades and CHF accounts as stale pricing resulted in incorrect conversions of this P&L into account currencies.

We have concluded that, in the majority of cases, clients received pricing that was appropriate under both the Client Agreement and the Company's regulatory obligations.

Adjustments will **only** be made in the following instances:

1. Trades where stale price feeds were used to close out client positions. This does not systematically improve or worsen all affected positions, the outcome being specific to the given position.
2. Client positions that are deemed to have been executed at prices that exceed reasonable "best execution" limits. These positions are being adjusted to bring them within a fair assessment of best execution.
3. Where stale CHF currency pair pricing has resulted in the profit or loss being converted at the incorrect rate when either the quote currency or account currency was CHF. Therefore, account balances are being adjusted so this conversion is completed at the correct rate given the time of the transaction.

The basis on which account balances will be adjusted has been carefully considered and the JSAs do not foresee any further adjustments to any accounts.

Clients with both positive and negative client balances have been subject to identical treatment in relation to the valuation of their trades and client balances.



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