RIA Capital Markets Limited

Pillar 3 Disclosure and Policy for an IFPRU Firm as at: 31/12/2018

Introduction

Regulatory Context

Under the CRDIV framework RIA Capital Markets Limited "RIA" is required to make certain disclosures. These disclosure requirements cover relevant risks that apply (e.g. own funds, credit risk, securitisation, market risk, operational risk) as well as information about a firm's risk management, exposures, risk weighting and capital requirements.

Whilst some of the disclosures have been captured within the FCA's Senior Management Arrangements: Systems and Controls (SYSC) Sourcebook, the majority of requirements are contained within Part Eight of Regulation (EU) No 575/2013 (Capital Requirements Regulation - 'CRR').

Frequency

The firm will be making these disclosures annually in line with our internal policy and assessment of the CRR requirements to adequately convey our risk profile. The disclosures are as at the Accounting Reference Date ("ARD").

Media and Location

The disclosure will be published on the firm's website.

Verification

For the avoidance of doubt, this document contains the relevant disclosures for the period ending 31 December 2018 in accordance with Part Eight of the CRR. Where additional disclosures have been made, reference has been made to the relevant rules in order to demonstrate compliance with these additional disclosures.

The disclosures made within this document have been reviewed and approved by the firm's directors and have not been subject to external audit except where they are equivalent to those prepared under accounting requirements for inclusion in the financial statements.

Materiality, Confidentiality and Proprietary & Confidential Information

To achieve an appropriate balance between the information needs of stakeholders and the potential drawbacks of disclosures for institutions, both in terms of costs and business impact, the CRR contains specific provisions whereby firms may omit one or more items of information included in the disclosure requirements in cases where the information provided by such disclosures is not regarded as material or is regarded as proprietary or confidential. One or more disclosures may be omitted (except for disclosures on Diversity, Own Funds and Remuneration in line with CRR Article 432(1)).

The firm has reviewed the guidelines on materiality, proprietary and confidentiality and frequency, detailing the information that institutions in the EU banking sector should disclose under Part Eight of the CRR. In determining the relevance of these guidelines, the firm may omit information that is not material. In this context, materiality can be taken to mean where its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

The firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the firm's investments therein less valuable. Further, the firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the firm to confidentiality. In the event that any such information is omitted, the firm shall disclose such and explain the grounds why it has not been disclosed.

Summary

These disclosures address the information asymmetry between preparers and users, by providing the latter with information on the solvency, risks and risk exposures of institutions. The firm is an IFPRU €730k Full Scope investment firm.

The firm considers Operational Risk, Business Risk, Concentration Risk, Liquidity Risk, Credit Risk and Market Risk as the main risks it faces. These are set out later in this document.

Background to the Firm

Background

The firm is incorporated in the UK and is authorised and regulated by the FCA as an IFPRU Full Scope €730K Firm.

This disclosure is made on the basis that the firm is not part of a consolidated group and reflects the accounting and prudential requirements for RIA alone.

Article 435

Disclosure: Risk Management Objectives and Policies

Article 435 (1)

The firm is required to disclose its risk management objectives and policies for each separate category of risk which include: (i) the strategies and processes to manage those risks; (ii) the structure and organisation of the relevant risk management function or other appropriate arrangement; (iii) the scope and nature of risk reporting and measurement systems; and the policies for hedging and mitigating risk; and (iv) the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The firm has assessed its risks in its Internal Capital Adequacy Assessment Process ('ICAAP') and sets out appropriate actions to manage them.

The firm is governed by its Board of Directors ('the Board') this body has oversight responsibility and the Executive Directors have daily management responsibility. It meets quarterly and is composed of three Executive Directors and one non-executive Director.

The Board is responsible for overseeing the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Board decides the firm's risk appetite or tolerance for risk and ensures that the firm has implemented an effective, ongoing process to identify risks, to measure their potential impact and then to ensure that such risks are actively managed. The Firm's risk management process is carried out by the Credit Committee, reporting to the Board. The Credit Committee are accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the firm.

As the firm is non-complex in its business and operations, the Board considers the risk management systems in place as adequate and proportionate with regard to the firm's profile and strategy.

Risk Framework

The Firms' risk management framework is based around its risk matrix and associated model. The model is excel based and enumerates anticipated risk drivers in broad categories matching FCA suggested risk domains.

The Firm's structure and business is relatively straightforward, and so the risk matrix currently regards all risks post mitigation through established policies and procedures. Risk drivers are allocated post mitigation likelihood and impact bands. Scoring on these bands gives an indicative measure of which areas of the business require most attention. The banding is also used to give notional annual cost of each driver and these are summed for comparison with the category thresholds established by the Board. Maximum losses within each risk category are also employed to establish a notional Pillar 2 capital provision for that category.

Ongoing monitoring of incident and near-miss registers informs the Board of the risk model's appropriateness, and new risk areas can be added as required.
Risks within the trading book are managed within a different framework with position taking market risk calculated at all times and checked against the amount of capital set aside for this purpose.

Risk Appetite

RIA has had a cautious appetite for risk because of the prudent approach of senior management. The firm has taken the approach to be very risk adverse and has always taken reasonable steps to manage its risks.

Risks to income generating capability are mitigated where possible and measures against actual and potential operating risks are taken where its Directors judge the benefit or the potential of the mitigation to exceed the costs of the mitigating controls.
The same low tolerance to risk is reflected on the cost side of the business with minimal long term cost commitments.

To date RIA has had little to no tolerance for engaging in activity that adversely influences its risk profile. All risks of any significance are identified, assessed and controlled on an ongoing basis.

Material Risks

RIA is exposed to the primary risk factors detailed below

Operational Risks

Operational risk represents losses that arise from inadequate or failed internal processes, personnel, *systems or from external events. This category excludes business, strategic and reputational risks and includes IT, legal and compliance risks.*

The Executive Directors carry out at least an annual Operational risk review. The review process identifies potential and actual operational risks, and assesses and where necessary amends the controls in place to mitigate such risks.

Business Risk

Business risk addresses the firm's exposures resulting from inadequate or failed management processes or decisions. RIA seeks to mitigate such risks by robust business plan preparation, regular financial forecasting and scenario planning, monthly management information review and quarterly Board Meetings to ensure adequate monitoring and challenge.

Concentration Risk

Concentration risk arises from a lack of diversification in business type, business channels, or investor base. RIA seeks to mitigate such risk by continual monitoring through regular management information and quarterly Board Meetings.

Liquidity Risk

Liquidity risk represents the risk that RIA does not have sufficient cash and/or cash equivalents to allow it to meet its obligations as they fall due, or can only be secured at excessive cost. Liquidity risk is monitored daily at a detailed level. Stress testing for multiple scenarios is carried out as part of the ICAAP and Liquidity Risk Assessment processes to ensure that RIA remains within the Board's approved risk appetite for liquidity risk and that the liquidity contingency planning is sufficiently robust.

Credit Risk

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the institution or its failure to perform as agreed. RIA only transacts delivery versus payment which limits this risk. RIA does not permit delivery free of payment.

For all clients, a counterparty credit limit is agreed by the Credit Committee before any trading can take place, and similarly, if any potential trade would cause a limit to be breached any increase in limit must be approved before the trade is agreed with the counterparty.

Other credit risk exposures faced by RIA include cash on deposit, and deposit placed with Settlement Agent. These exposures are held with highly rated institutions.

Market Risk

Market risk represents the risks that arise from fluctuations in the value of RIA's traded positions due to changes in the value of price, volatility or interest rates within financial markets. The magnitude of trading book risk is determined by RIA and can be scaled as required. The Chief Executive Officer and Executive Chairman are responsible for policy setting including relevant limits, and for monitoring compliance of any positions against policy, RIA's Risk Appetite and Capital requirements.

Article 435 (2)(a) – 435 (2)(e)

The number of directorships held by members of the Board is as follows:

Name	Number of Directorships
Stuart Dempster	3
John Thomson	2
Ian Korvin	2
Lorna Hay Smith	1

The firm's directors are appointed having regard to their individual knowledge, skills and experience and the combined knowledge, skills, experience and diversity of the Board as a whole.

When appointing directors, the firm adheres to UK and European legislation in relation to equal opportunities and is committed to treating all applicants for positions and employees in a non-discriminatory manner. The firm will also pay due regard to ensuring a broad range of knowledge, skills, diversity and experience is present on the Board.

For the year ended 31 December 2018, the firm did not have a Risk Committee. The firm does not consider it appropriate because of the size, nature and scale of its operations to establish a separate Risk Committee as all functions that would be carried out by it are adequately addressed by Senior Management and the Board.

The Board meets on a regular basis and receives risk and KPI reports on the operations and business areas of the firm. Where necessary, appropriate measures are implemented to mitigate any actual or potential risks.

Article 437
Disclosure: Own Funds

The firm is an IFPRU €730k Full Scope Firm. The Pillar 1 requirement for the firm is set out at Article 92 of the CRR and is the higher of the Base Own Funds Requirement (€730k); or the sum of Credit plus Market Risk plus Operational Own Funds Requirements (CR + MR + OR)

The 'Total Risk Exposure Amount' (TREA), which, for RIA, is defined as 12.5 times the sum of Credit plus Market Risk plus Operational Own Funds Requirements (CR + MR + OR) is the amount used for Pillar 1 Capital Adequacy purposes. RIA has no innovative Tier 1 capital instruments or deductions. At 31 December 2018 the firm had:

	GBP (000's)
Ordinary Share Capital	77
Share Premium	127
Other Reserves	238
Retained Earnings	1,041
Total Common Equity Tier 1 Items	**1,483**
Deductions from Common Equity Tier 1	(147)
Tier 1 Capital and Own Funds	1,336
Total Risk Weighted Exposure Amount ('TREA')	4,459
Common Equity Tier 1, Tier 1 Capital & Total Capital Ratio	29.97%

Base Own Funds Requirement (€730k)	656
Surplus Capital over Pillar 1 Own Funds Requirement	680

Total Common Equity Tier 1 capital of RIA at 31 December 2018	£1,336K
Audited Profit 2018	£156K
Shareholder's Funds in RIA's 2018 audited financial statements	£1,492K

The Common Equity Tier 1, Tier 1 Capital and Total Capital Ratio of 29.97% at 31 December 2018 (prior to inclusion of audited profit for 2018) was comfortably in excess of CE Tier Minimum 4.5%, Tier 1 Capital Minimum 6% and Total Capital Ratio Minimum 8%.

Article 438
Disclosure: Capital Requirements

The firm has adopted the "Ground Up" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006. The ICAAP assessment is reviewed by the Board and amended where necessary, on a quarterly basis or when a material change to the business occurs. The Compliance Officer presents the ICAAP document to the Governing Body of the firm which reviews and endorses the risk management objective annually or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

To meet our Capital Requirement, RIA is required to hold the greater of:

- Base capital requirement of €730,000; or
- The sum of the Credit Risk Capital Requirement and Market Risk Capital Requirement and Operational Risk Capital Requirement based on a risk weighted balance sheet;
  plus
- Any Pillar 2 capital add-on requirement identified in the ICAAP.

Credit Risk Capital Requirement

The Credit Risk Capital Requirement ("CRCR") consists of two elements and is calculated as follows:

(1) Credit Risk Capital Component ("CRCC")

For the Pillar 1 calculation of Credit Risk, the firm as an IFPRU €730k Full Scope Firm uses the 'Standardised' Approach as detailed under Article 112.

Under this approach, depending on the nature of the debt, credit risk exposure is charged either at 8% or a lower limit of 1.6% for balances at recognised credit institutions or those held for less than 90 days.

Article 112 exposure	Risk weighted assets	Capital Requirement
exposures to institutions	£374K	£30K
exposures to corporates	£116K	£9K
Total	**£490K**	**£39K**

(2) Counterparty Risk Capital Component ("CPCC")

Settlement risk is calculated as a given percentage of any negative replacement cost on trades remaining unsettled for five or more days after the due settlement date, in accordance with Article 378 of the CRR.

Number of working days after due settlement date	Capital Required (%)
5-15	8
16-30	50
31-45	75
46 or more	100

Settlement risk at 31 December 2018 was £9K.

The CRCR for 31 December 2018 was £48K.

Article 439
Disclosure: Exposure to Counterparty Credit Risk

The firm does not view Counterparty Credit Risk as directly applicable. The Issuer risk that is generated through debt instruments is already present within the credit instrument risk/specific risk component of the market risk calculation

Article 440
Disclosure: Capital Buffers

RIA can invoke the exemption in IFPRU 10.7 because its headcount falls below 250 persons and its annual turnover is less than €50million and its balance sheet is less than €43million (Article 2, Title I, Definition Of Micro, Small And Medium-Sized Enterprises Adopted By The Commission)

Article 441
Disclosure: Indicators of Global Systemic Importance

This disclosure is not applicable as the firm is not considered a 'Global Systemically Important Institution'.

Article 442
Disclosure: Credit Risk Adjustments

RIA does not have permission to hold client money or assets on its balance sheet, nor does it undertake lending activities and therefore RIA is primarily exposed to Credit Risk from the risk of non-collection of fees and commissions and of money held on deposit with credit institutions.

Thorough due diligence of prospective clients is undertaken by the Credit Committee, which includes creditworthiness. All cash balances are held with banks that have high credit ratings.

Consequently risk of past due or impaired exposures is minimal. An asset is considered past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

Article 443
Disclosure: Unencumbered Assets

The firm currently has encumbered assets of £1,000K and unencumbered assets of £988K, and this position is regularly monitored with the “COR005 Asset Encumbrance” COREP return submitted by the firm on a quarterly basis.

Article 444
Disclosure: Use of ECAIs

The firm does not use any ECAIs (External Credit Assessment Institutions) nor would this be expected given the firm’s business and operations.

Article 445
Disclosure: Exposure to Market Risk

Article 92(3)(b) & (c), own funds requirements for trading and non-trading book business.

Non trading book Item	Own Funds Requirement
Foreign Exchange Risk	£2K

trading book Item	Own Funds Requirement
Market Risk	£0K

RIA’s Position Risk Requirement (“PRR”) is calculated in accordance with Part 3 Title IV of the CRR. RIA’s policy has been to trade with matched settlement date. If this was to change RIA would be exposed to the FX movement over the different dates.

For the avoidance of doubt, the firm does not hold securitisation positions and therefore there is no Specific Interest Rate Risk to disclose.

Article 446
Disclosure: Operational Risk

RIA has adopted the basic indicator approach for calculation of the Pillar 1 capital requirement for operational risk as prescribed by article 315 of the CRR. This is computed as 15% of the average relevant income of RIA over three years. The Operational Risk Capital requirement was £306K at 31 December 2018.

Article 447
Disclosure: Exposures in Equities not included in the Trading Book

This disclosure is not required as the firm does not have any non-trading book exposure to equities.

Article 448
Disclosure: Exposures to Interest Rate Risk on Positions not included in the Trading Book

Although the firm has substantial cash balances on its balance sheet, there is currently no exposure to Interest Rate fluctuations.

Article 449
Disclosure: Exposure to Securitisation Positions

This disclosure is not required as the firm does not securitise any assets.

Article 450
Disclosure: Remuneration Policy and Practices

Due to the size of the firm, it does not consider it appropriate to have a separate remuneration committee, as required by SYSC 19A.3.12R. Instead this function is undertaken by the Board. This will be kept under review and, should the need arise, the firm will establish such a committee.
The firm has implemented an appropriate Remuneration Policy which is reviewed by the Board at least annually.

Staff remuneration comes in two parts, base salary and discretionary bonus. Overall responsibility for all employee remuneration lies with the Board.

Base Salary

Base salaries are reviewed annually. The Board meets to assess the existing remuneration and whether any changes are required. Each relevant individual's performance with respect to specific deliverables and objectives, the wider strategic aims of the department and the firm form part of the assessment. The Board will also make reference to benchmarks within the industry. All base salaries are submitted and subject to a formal review by the Board.

Discretionary Bonus Pool/Variable Remuneration

This seeks to reward team and individual performance and contribution to results, revenues, strong risk management, compliance with regulations, operational efficiency and an appropriate management of costs.
The firm is a Remuneration Code Proportionality Level 3 firm and has applied the rules appropriate to its Proportionality Level. All variable remuneration is adjusted in line with capital and liquidity requirements.

Remuneration Code Disclosures

RIA is required to disclose aggregate information on remuneration for its Code Staff, broken down both by business area and by senior management and other Code Staff.

RIA has identified nine of its twelve employees as being within the definition of Code Staff. RIA has made no omissions on the grounds of data protection but due to confidentiality have omitted to provide a breakdown of remuneration between staff types given the limited number of staff. The relatively small size of RIA and lack of complexity in its activities is such that RIA has only one business area so the disclosure is not broken further.

For the year ended 31 December 2018 the aggregate remuneration in respect of all Staff is as follows:

Remuneration Type	Number of staff	Amount
Fixed Remuneration	12	£756K
Variable Remuneration	11	£535K
Total Remuneration		**£1,291K**

Article 451
Disclosure: Leverage

As at 31st December 2019, RIAs leverage ratio was 67% using fully phased-in definition of Tier 1 capital (calculated as per Article 429 CRR)

Management Body (SYSC 4.3A and CRD)

As an investment firm subject to CRD IV, we are required to disclose information (via our website) regarding the managing body of the firm which includes:

- Explaining the obligations placed upon the management body;
- Ensure that as a firm we embrace diversity and;
- Place adequate resources for the employment of reputable and competent board members and appropriate induction and training programmes.

We can confirm that the chairman does not simultaneously exercise the CEO function (SYSC 4.3A.2R) and the firm are not considered a 'significant IFPRU firm'. The directors of the company do not hold more directorships than is appropriate.

The Board is the decision-making forum for the company and sets out the internal governance structure for the firm. It has overall responsibility for management of the business and establishing business strategy and risk management, and is accountable to shareholders for financial and operational performance. It oversees and appoints the CF10 and CF11 (compliance and anti-money laundering roles) and has signed off the firm's compliance monitoring programme. It reviews formal reports from staff performing these functions on an annual basis (and receives MI on a regular basis which is discussed as a regular agenda item at all board meetings).

The Board considers strategic issues and ensures the company manages risk effectively through approving and monitoring the company's risk appetite and considering stress scenarios, as well as monitoring and employing the relevant staff and third parties (i.e. our auditors) to ensure the firm manages its resources prudently (assessed formally via our ICAAP and is a constant presence on the boards agenda).

The firm has a formal Diversity Policy in place, which is reviewed annually, and our human resources department is adequately resourced (on a proportionate basis given the size of the firm and responsibilities of the Board) to recruit, induct and train staff to ensure their competency, reputation and skill set for the roles they are performing.