

# Pillar 3 Disclosure 2020

Charles Stanley Group PLC



# Charles Stanley PLC - Pillar 3 Disclosure

For the financial year ended 31 March 2020

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## 1. EXECUTIVE SUMMARY

This document presents Charles Stanley Group PLC's ("Charles Stanley", "Group" or "CSG") risk management arrangements, capital requirements and remuneration disclosures.

As at 31 March 2020 the Group's:

- total capital resources were £94.1 million (2019: £82.9 million);
- this exceeds the Group's minimum Pillar 1 capital requirement of £24.7 million by 381%; and
- total capital ratio of 30.4% exceeded the own funds requirement of 8%.

This document should be read in conjunction with the Group's Annual report and accounts ("ARA") for the year ended 31 March 2020. Amongst other things these set out detail about the Group's business, the markets in which it operates and its strategy.

## 2. BACKGROUND

### Introduction

This document sets out the consolidated Pillar 3 disclosures of the Group and its subsidiaries as at 31 March 2020. The disclosures have been prepared in accordance with the Capital Requirements Directive ("CRD") and the Capital Requirements Regulation ("CRR"), together known as the CRD IV.

The Group therefore refers directly to the CRR, supplemented by the European Banking Authority ("EBA") technical standards and the UK Financial Conduct Authority ("FCA") Prudential Sourcebook for Banks, Building Societies and Investment Firms ("IFPRU").

The Basel Committee on Banking Supervision introduced the Basel framework with the primary goal of promoting the safety and soundness of the financial system. The framework consists of the following three pillars of regulation:

- **Pillar 1:** sets out minimum capital requirements firms are required to meet for credit, market and operational risk;
- **Pillar 2:** requires firms and their regulatory supervisors to consider whether a firm should hold additional capital against risks not covered in Pillar 1. In the UK, this is implemented through the Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by the Group and through the subsequent Supervisory Review and Evaluation Process ("SREP") undertaken by the FCA.
- **Pillar 3:** requires firms to disclose publicly certain details of their risks, capital and risk management arrangements. The Pillar 3 disclosure requirements can be found in Articles 431-455 of the CRR.

This document makes references to the Group's ARA. All figures in these disclosures are consistent with the basis used for prudential regulatory reporting.

## **Pillar 3 Disclosure Policy**

The Group is supportive of the overarching objectives of Pillar 3 disclosures which are to promote market discipline and improve comparability and consistency of these disclosures. As a complement to supervisory efforts, these objectives help to encourage firms to assess risk, maintain capital and develop and maintain sound risk management systems and practices. The Group has therefore developed a formal Pillar 3 Disclosure Policy which covers all of the disclosure requirements from the CRR.

## **Materiality**

The Group regards information as material in disclosures if its omission or misstatement would change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. The Group does not seek any exemptions from disclosure on the basis of materiality or on the basis of proprietary or confidential information. If the Group deems a certain disclosure to be immaterial, it may be omitted from the Pillar 3 disclosure.

## **Basis of Disclosure**

This document sets out the Pillar 3 disclosures of the Group in accordance with the requirements under CRD IV as laid out in Part 8 of the CRR (articles 431-455). The disclosures have not been audited and do not form part of the annual audited financial statements and should not be relied upon in making any judgement about the financial position of the Group.

Unless otherwise stated all figures are as at 31 March 2020, Charles Stanley's financial year end, with comparative figures as at 31 March 2019.

## **Frequency of Disclosure**

Pillar 3 disclosures are published annually and as soon as practicable after the publication of Charles Stanley's audited preliminary statement of results. The Group pays particular attention to the need to publish some or all disclosures more frequently than annually based on the relevant characteristics of the business.

## **Means of Disclosure**

This document has been published on the investor relations section of the Group's website. Where equivalent information has been published in the 2020 Annual Report and Accounts, this will be referenced within this disclosure document.

## **Scope of Application**

This disclosure is made with reference to Charles Stanley which, as at 31 March 2020, was the holding company for the following wholly owned authorised trading companies which are regulated by the FCA:

- Charles Stanley & Co Limited ("CSC") (IFPRU 125K Limited Licence Firm)
- Myddleton Croft Limited ("MYC") (BIPRU 125K Limited Licence Firm)

The disclosures are made on a fully consolidated basis for the Group. References to the "Board" is to the Board of CSG and to the "Boards" is to CSG, CSC and MYC.

### 3. GOVERNANCE STRUCTURE AND RISK MANAGEMENT

This section explains the Group’s risk management governance structure and covers its principal oversight committee structure; how information flows; the roles of the Group’s Risk and Compliance departments within this framework and what is meant by the three lines of defence model.

Risk governance refers to the processes and structures established by the Board of Charles Stanley (the “Board”) to ensure that risks are taken within the Board’s approved risk appetite level, with clear delineation between risk taking and oversight responsibilities.

Charles Stanley has established a structured approach to risk governance, ensuring an effective level of alignment between oversight and management responsibility for risk. The risk governance structure has clearly defined roles and responsibilities for Board and Control committees, control functions and the accountable executives. The risk based roles and responsibilities are organised in adherence to the ‘three lines of defence’ principle to ensure appropriate levels of segregation.

#### Governance

The CSG Board provides leadership to and is responsible for the long term success of the Group. Whilst the Board determines the Group’s strategy and oversees its implementation, it is important to recognise that CSC and MYC are the regulated entities within the Group Structure. CSC is the principal operating company. MYC’s activities are being transferred to CSC and once that process has been completed it is expected to be wound down. The Boards of CSC and MYC have oversight responsibilities which are driven by the nature of the business and the regulations for which they have permissions.

In order to facilitate effective oversight, the Boards of CSG, CSC and MYC, alongside the four key governing committees, are in place to oversee the running of the business. With the exception of the separate Nomination Committees of CSG and CSC, the committees are joint committees of each Board. The committees and their oversight responsibilities are:

- **Audit Committee:** responsible for monitoring the integrity of the Group’s financial and narrative reporting, reviewing the adequacy of the Group’s financial systems, internal controls and risk management framework, managing the relationship with the external auditor, ensuring corporate objectives are achieved and advising each Board on related matters.
- **Risk Committee:** responsible for ensuring an effective internal control and risk management environment is maintained in respect of the risks impacting the Group and advising each Board on related risk matters.
- **Remuneration Committee:** responsible for considering the Executive Directors remuneration arrangements and to ensure those arrangements are designed to promote the long-term success of the Company and any performance-related elements are transparent, stretching and rigorously applied, also responsible for determining and recommending to the Board the Group’s Remuneration Policy and advising each Board on related remuneration matters.
- **Nomination Committees:** each responsible for considering the balance of skills, experience, independence and knowledge, ensuring that there is strong and responsible leadership at the head of the Boards and advising on related matters.

In addition to the Boards and their standing committees, the Executive Committee (“ExCo”) is responsible for managing the business of the Group under the authority of the Chief Executive and is supported by a number of Control Committees (reporting into the Chief Executive). These provide for a review of key risks and for the development of risk management and mitigation strategies, in addition to managing the day-to-day operations of the Group.

Further details on the Board and its Committees can be found in the “Corporate Governance” section of the 2020 ARA.

In accordance with Article 435 of the CRR, the table below shows the number of directorships held by members of the management body as at 31 March 2020:

Table 1: Directorships

<b>Name</b>	<b>Position</b>	<b>Directorships<sup>(*)</sup> held</b>	<b>Principal group Board(s)</b>
Sir David Howard	Chairman	9	CSG
Marcia Campbell	Independent Non-Executive Director	6	CSG, CSC
Andrew Didham	Independent Non-Executive Director	7	CSG, CSC
Bridget Guerin	Independent Non-Executive Director	6	CSG, CSC
Hugh Grootenhuis	Independent Non-Executive Director	5	CSG, CSC
Paul Abberley	Chief Executive Officer	6	CSG, CSC, MYC
Ben Money-Coutts	Chief Financial Officer	7	CSG, CSC, MYC

(\*) Number active of Directorships held inside and outside of the Charles Stanley Group.

## Information flow at Board and Committee meetings

All Boards and their Committees use an electronic board portal to gain quick and secure access to meeting papers and other reference materials. The chart on this page describes the information flow before and after the Board meetings.

All Board Committees operate a similar cycle, planning forward agendas for the year to ensure that all important issues are addressed as part of the annual cycle. The Chairs of each Committee agrees every agenda with the Company Secretary and relevant members of senior management. Any Committee member can call for reports on additional matters of interest.

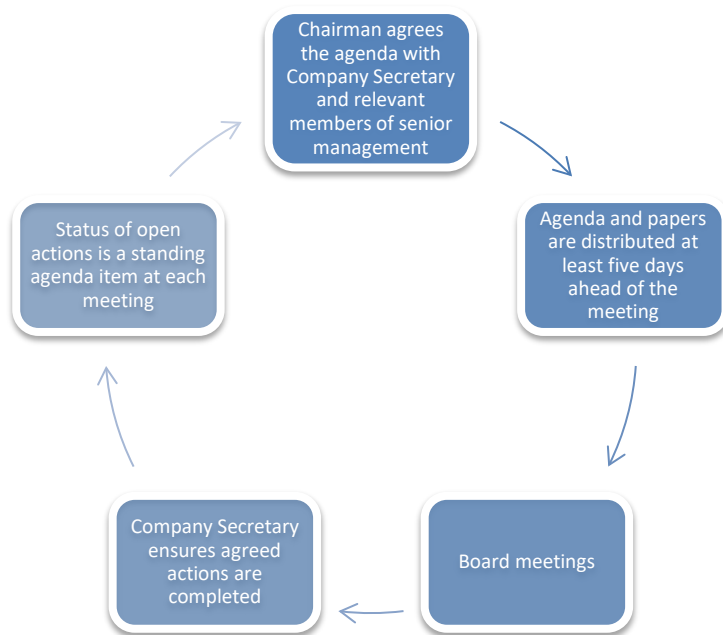


Figure 1: Information flow

## Risk Management Structure

### Risk and Compliance

This subsection describes the objectives of the Group’s risk management structure; how it articulates its risk appetite; and how it subsequently monitors and manages risk within this framework.

The Chief Risk Officer (“CRO”) has an independent reporting line to the Risk Committee and the Chief Executive Officer. The CRO is responsible for providing advice, oversight and challenge for the Group on their management of risk. The CRO is involved in the development of the strategy and in all material decisions to influence and provide objective challenge to management. The CRO is supported in his role by the Head of Compliance & MLRO.

The Risk function is responsible for the development and maintenance of the Group’s Risk Management Policy and Framework and associated systems and processes. It is also responsible for undertaking activities to provide assurance that the business lines are acting in accordance with the Group Risk Policy and Framework and that business practices are aligned to agreed risk appetites.

The Compliance function provides advice to Management and the Boards on regulatory matters, best practice, emerging guidance and industry trends. It monitors the effective implementation of the Group's regulatory compliance through regular monitoring.

Risk and Compliance work with the executives to ensure general risks and regulatory risks respectively are identified, assessed, prioritised, owned, recorded, reported and mitigated by the business. They provide independent challenge to help identify gaps in risk and control.

### **Three Lines of Defence**

Charles Stanley has implemented a three lines of defence model to manage risk and provide assurance to management and the Board with regards to the effectiveness of the Group's control environment.

- **Level 1** – Business line management and staff are responsible for the identification, ownership and management of risk on a day-to-day basis.
- **Level 2** – The Risk function is responsible for the implementation and oversight of the framework reporting to the Board and Group level Committees and for overseeing and challenging the management of risk. The Compliance function is responsible for the oversight of regulatory compliance.
- **Level 3** – Internal Audit provides independent assurance that risks are effectively managed and that there is appropriate oversight.

### **Board Declaration - Adequacy of the Risk Management Arrangements**

The Board is ultimately responsible for the Risk Management Framework of the Group and has implemented an appropriate governance and risk management structure. The Board is responsible for reviewing the effectiveness of the Group's risk management arrangements and systems of financial and internal control. The risk appetite of the Group is clearly defined and monitored on a regular basis.

The Board considers that it has in place adequate systems and controls with regards to the Group's risk profile and strategy.



## **4. RISK MANAGEMENT OBJECTIVES AND FRAMEWORK**

### **Risk Management Objectives and Culture**

Risk is an inherent part of the Charles Stanley business. The Board recognises the need to understand the risks the Group faces in its businesses and the industry in which it operates and how to manage them effectively. The role of management is to balance these risks and make the best use of Charles Stanley's resources, both human and capital, so that the Group can deliver on its strategy. Charles Stanley needs to do this to deliver increased earnings, business performance and shareholder value, at the same time as maintaining its excellent reputation for customer service and operating in line with its values and culture, as well as laws and regulations. At the forefront of this is safeguarding Charles Stanley's clients' interests.

Managers need to have a positive attitude to risk so that they can:

- ensure that they take advantage of business opportunities;
- ensure that the Group hits its objectives;
- focus their control activity on the areas of the greatest risk to achieving the Group's strategic goals;
- act promptly to fix any weakness and failure in the Group's processes and systems;
- be satisfied that the capital held by Charles Stanley is sufficient to deal with risks that the business is exposed to; and
- above all, adopt a truly client-centric approach to the way the Group runs its business and manages risks.

The risk governance framework supports these outcomes, as it provides structure to ensure that the Group takes informed risks and makes decisions in the light of its overall strategic objectives.

### **Risk Framework**

Charles Stanley has developed and implemented its risk management framework to help bring together all the elements required to manage and ensure a consistent and effective approach to risk management across the Group. The key components of the framework are outlined below. Charles Stanley will continue to strengthen the framework and embed it in the fabric of the organisation over the coming year.

### **Risk Strategy**

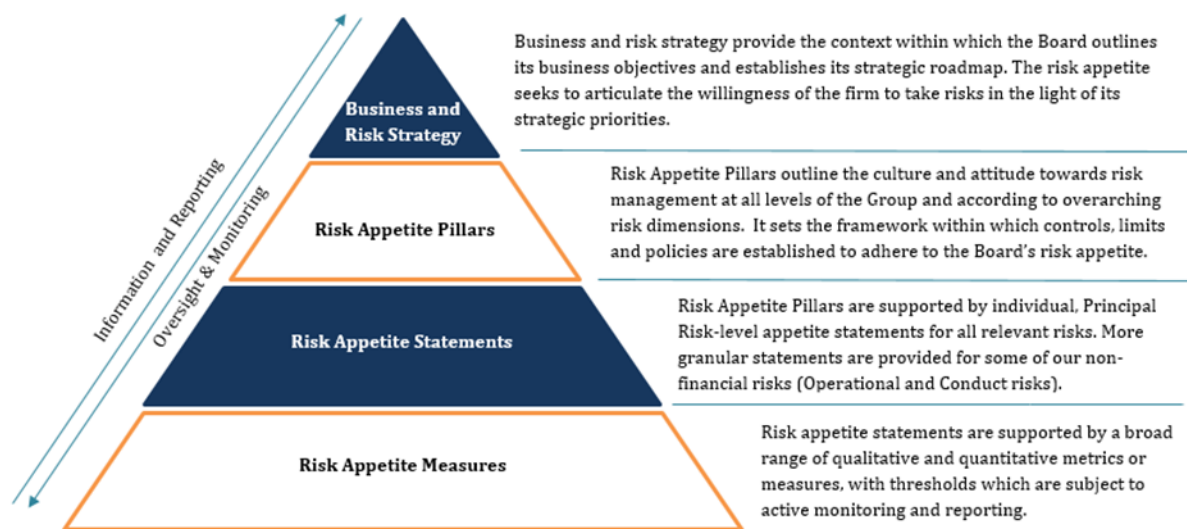
The objectives of the risk management framework are to align our business strategy and risk appetite. The CRO provides input in the setting and ongoing review of the Group's strategy and business plan. Any significant changes to the strategy are then considered by the business for their impact on the Group's risk profile and overall risk appetite. Future plans to improve the risk and control arrangements and to embed them across the business are defined in the Risk and Compliance annual plans which are approved by the Risk Committee.

## Risk Appetite

Charles Stanley’s risk appetite articulates the type and quantum of risk that the Group is able and willing to accept in pursuit of its strategy and business objectives. Risk appetite is based on qualitative statements which articulate the risk taking intent of the Group. It is supported by quantitative limits and controls.

The Risk Appetite Statement is reviewed and approved at least annually by the Boards and the Risk Committee recommends the risk appetite and monitors adherence to it. Management level committees review their respective risk profiles at a more granular level and operate within the defined limits, with operational support from the Risk and Compliance functions.

Figure 2: Risk Appetite



## Risk Appetite Statements

### Business and Strategic Risk Appetite Statement

Charles Stanley has an appetite for risks that are understood and are rewarded for, which are consistent with delivery of its strategic objectives. Changes to the wider business environment and business risks are monitored through the Executive Committee and the Enterprise Risk Committee and are reported to the Boards where required through the CRO and CEO reporting.

### Financial Strength Risk Appetite Statement

Charles Stanley is committed to maintaining the financial strength and business performance of the Group in order to support its business objectives, to meet its regulatory capital requirements and to provide shareholders with an acceptable return on their investments. To achieve this, limits are set for minimum profit margin (adjusted pre-tax), cash balances, regulatory capital and dividend cover.

## **Liquidity Risk Appetite Statement**

Charles Stanley incurs liquidity risk in respect of its business model to cover its payment obligations and the settlement of transactions, including the timing of corresponding cash inflows and outflows. Settlement risk is limited and incurred as it is an inherent risk in providing investment management services. Charles Stanley expects to be able to meet its payment and collateral obligations under extreme but plausible liquidity stress scenarios and maintains a Contingency Funding Plan in case such conditions are encountered.

## **Market Risk Appetite Statement**

Charles Stanley does not hold any proprietary positions other than those arising from incidental dealing errors. The Group hold some investments within model portfolios for the purpose of establishing and maintaining an auditable track record for these models; however this exposure is not seen as material and therefore reflects minimal market risk. Any Market risk arising from incidental dealing errors are captured as operational losses.

The Group has no appetite for significant losses or volatility from market risk and the majority of the Group's cash is kept in sterling, with limited foreign currency held to facilitate settlement and dealing activity on behalf of clients.

Whilst the Group does not seek proactively to take market risk, it is exposed to market risk relating to fluctuations in the level of income received from its Funds under Management and Administration.

## **Credit and Counterparty Risk Appetite Statement**

Charles Stanley does not offer any formal lines of credit to clients. The Group however has an exposure to counterparty failures and late payment and settlement. It therefore establishes clear risk appetite limits for client and Group cash placed and maintained with authorised institutions and for trading purposes, which must be adhered to by the business.

## **Pension Obligation Risk Appetite Statement**

Charles Stanley continues to support a defined benefit pension scheme, which is closed to new members and ceased accruing for existing members in April 2016. It is reviewed regularly for viability and progress toward achieving solvency. The latest triennial valuation was carried out on 13 May 2017.

## **Operational Resilience and IT infrastructure Risk Appetite Statement**

Although Charles Stanley accepts a degree of exposure to operational resilience and infrastructure risks where such exposures arise as a result of core strategic activity, it has very limited tolerance for large operational or infrastructure issues due to the likely customer impact, reputational damage and opportunity costs. However, the Group recognises that complete elimination of operational risk is unlikely and would be economically prohibitive. The Group actively manages its residual operational risks in the context of its wider risk appetite.

## **IT Security and Cyber Security Risk Appetite Statement**

Charles Stanley has limited appetite for unauthorised or inappropriate access to its IT systems due to the potential disruption to its business operations, adverse customer impacts and damage to its reputation. Similarly the Group wishes to minimise the threat to its business activities from third party actions such as denial of service attacks.

Alongside setting a framework to prevent and detect unauthorised access attempts to its business systems, Charles Stanley seeks to ensure that the systems are resilient to current and emerging threats and maintains a rolling programme of activities which is informed by the day-to-day experience, threat intelligence and any emerging vulnerabilities identified.

## **People and Conduct Risk Appetite Statement**

The Group recognises that its reputation and financial success are dependent on the performance and conduct of its staff. Charles Stanley's client-centric culture is founded on the Group's core values of being Caring, Fair and Progressive. It is committed to delivering good outcomes for clients by communicating effectively and providing products and services that meet their needs throughout the customer journey. It acts with integrity in the market, and operates in line with the agreed strategy and within the risk appetite.

## **Legal and Regulatory Risk Appetite Statement**

The Legal and Regulatory risk is monitored and managed by emphasis on compliance with all aspects of relevant regulation, including those of the FCA. As the pipeline of regulatory change continues to be significant, the Group will continue to ensure all policies, operating procedure and processes are compliant with all new regulatory requirements.

## **Risk Policies**

The risk policies define the Group's approach to monitoring and controlling risk, so as to ensure it is only exposed to risks that are within the Board's risk appetite. There are two layers to the risk policies as follows:

- The Group Risk Policy - sets out the overarching policy in relation to risk management and the risk governance framework for the Group.
- Group Level Risk Policies – sets out the risk management strategy and framework for the management and oversight of specific risk types.

## **Risk Identification and Assessment**

All staff are responsible for identifying and assessing the risks in their respective areas. There are a number of risk management tools and processes available to aid them in this task, including risk event reporting, risk and control self-assessments, deep-dive business reviews, and scenario workshops as well as raising issues directly with the Risk team.

## **Risk Monitoring and Management**

The business and support functions are responsible for monitoring and managing the risks within their areas as well as developing management information to monitor their exposure to those risks.

During the past year, we have focused on the alignment and aggregation of all risk-related data into a single application, to enable further enhancement of our risk monitoring and reporting.

The Group deploys a range of risk management techniques to manage and mitigate risks, so as to control exposures in line with risk appetite limits. For example, the Group's framework of controls includes controls around data security, segregation of duties around key processes and approval authorities. The Group also seeks to transfer significant aggregation and concentration of risks as part of its corporate insurance programme.

## **Risk Reporting**

Risk and Compliance also provide regular management information ("MI") on the principal risks being run by the business, including credit and counterparty risk, market risk, liquidity risk, and operational risk. This MI is provided to the appropriate Executive and Control Committees, the Risk Committee and the Boards. Risk and Compliance also use the insights gained in the collection and reporting of this information to advise the business on its management of risks.

The CRO provides assurance to both the Group PLC and regulatory Boards and Board Committees through regular reports which assesses both strategic and business risks.

## Risk and Capital Management

The ICAAP is the process under which the Board oversees and regularly assesses:

- The Group's processes, strategy and systems;
- The major sources of risks faced by the Group that may impact its ability to meet its obligations;
- The results of internal stress testing of these risks;
- The amounts and types of financial resources and internal capital, including own funds and liquidity resources, and whether these are adequate both as amount and quality to ensure that there is no significant risks that its liabilities cannot be met as they fall due.

Charles Stanley undertakes an ICAAP annually or more frequently if required. Scenario analysis and stress testing is performed as part of the ICAAP to assess the Group's exposure to extreme events for the relevant major sources of risk and to ensure that appropriate mitigating factors or plans are in place. Any residual risk is then mitigated by setting aside capital based upon the output of the Group's Internal Capital Model.

The outcome of the ICAAP is formally approved by the Board of both CSG and CSC at least annually, with more frequent reviews if there is a fundamental change to the business or the operating environment. The ICAAP determines the amount of any risk-based capital resources requirement (Pillar 2) that we identify over a three year planning horizon, in addition to the Pillar 1 requirements. The regulatory capital requirement is the higher of its Pillar 1 requirement, Pillar 2 requirement and its Wind Down costs.

The ICAAP is monitored and reviewed on an ongoing basis by the Risk Committee to ensure that all Group-wide changes to the Group's risk profile are assessed and reported to the Boards.

## 5. OWN FUNDS

### Tier 1 Capital

The Group's Tier 1 capital is set out in Table 2 below. An explanation of what the Group's Tier 1 capital comprises is given underneath the table.

Table 2: Tier 1 Capital

	31 March 2020 £'000	31 March 2019 £'000	CRR article
<b>Equity per Balance Sheet</b>			
Called up share capital	12,784	12,692	26, 27, 28,29
Own shares	(334)	(201)	
Share premium	5,170	4,625	26, 27, 28,29
Revaluation reserve	4,333	2,436	26
Merger relief reserve	15,167	15,167	26
Retained earnings	80,194	72,134	26
<b>Equity attributable to owners of the Company (i)</b>	<b>117,314</b>	<b>106,853</b>	
	31 March 2020 £'000	31 March 2019 £'000	CRR article
<b>Regulatory adjustments</b>			
Intangible assets (net of deferred tax liability)	(20,013)	(18,339)	36, 37, 472
Deferred tax assets that rely on future profitability	(203)	(155)	26, 68, 472
Regulatory adjustments relating to unrealised gains and losses	-	(2,436)	467, 468
Foreseeable dividends	(3,050)	(3,046)	26
<b>Total regulatory adjustments (ii)</b>	<b>(23,266)</b>	<b>(23,976)</b>	
<b>Own funds (i) + (ii)</b>	<b>94,048</b>	<b>82,877</b>	

The Group's Tier 1 capital comprises ordinary shares, which in some cases have been issued at a premium, a merger reserve arising from a placing in April 2015, retained earnings and the Group's revaluation reserves.

Regulatory adjustments refer to deductions of intangible assets (goodwill, customer relationships and internally generated software), deferred tax assets that are dependent on future profitability, and dividends once they have been declared by the Board.

The retained earnings figure in the table above is the audited figure as disclosed in the ARA.

## 6. CAPITAL REQUIREMENT

The Group’s overall regulatory capital requirements are determined after performing Pillar 1 capital calculations, assessing Pillar 2 capital requirements and taking into account any Individual Capital Guidance (“ICG”) or fixed add-ons issued by the FCA.

The calculation of Pillar 1 and Pillar 2 capital requirements allows the Group to determine, and subsequently monitor, the appropriate amount of capital to be held based on its risk profile. The Group’s capital requirement is determined by taking the sum of:

- i) the higher of Pillar 1 and Pillar 2 capital requirements;
- ii) plus ii) if applicable, any additional ICG or fixed add-on proposed by the FCA.

During the financial year ended 31 March 2020, the Group maintained surplus capital resources at all times to satisfy minimum capital resources.

### 6.1. Pillar 1 capital requirement

The Pillar 1 requirement is calculated by taking the higher of: i) the sum of credit, counterparty and market risk; and ii) the Fixed Overhead Requirement (“FOR”) (as defined in the FCA handbook under GENPRU 2.2).

A summary of these figures and the basis of their calculation are set out below and in Sections 7 and 8.

Table 3: Pillar 1 requirement

	As at 31 March 2020 (£'000)	As at 31 March 2019 (£'000)
Credit and Counterparty risk	13,997	10,384
Market risk	-	20
i) Total Credit and Market risk	13,997	10,404
ii) Fixed Overhead Requirement	24,713	22,837
Pillar 1 Requirement (higher of (i) and (ii))	24,713	22,837

The increase in the FOR compared to the previous year is driven by the increased expenditure incurred in the FY20.

### 6.2. Pillar 2 Regulatory Capital Requirement

Pillar 2 requires firms to calculate the internal capital they consider necessary to cover all risks that they are, or are likely to be exposed to. It also requires firms to consider the costs associated with winding the Group down (Orderly Wind Down) and various stressed scenarios (market-wide, firm-specific and combinations).

The Pillar 2 capital requirements are outside the scope of this disclosure document.



### 6.3. Common Equity Ratios

As per CRR Article 92, the Group must at all times satisfy the following own fund requirements:

- Common Equity Tier 1 capital ratio of 4.5%;
- Tier 1 capital ratio of 6%; and
- Total capital ratio of 8%.

These ratios are applied to the total risk exposure amount, which is 12.5 times the Pillar 1 requirement, being £308.9m for the Group (2019: £285.5m). As at 31 March 2020, the Group's total capital ratio was over the minimum requirement at 30.4% (2019: 29.0%). Please see the table below for details of the Group's capital ratio.

Table 4: Common equity ratios

	<b>As at 31 March 2020 (£'000)</b>	<b>As at 31 March 2019 (£'000)</b>
Own Funds (i)	94,048	82,877
Pillar 1 requirement (ii)	24,713	22,837
Risk Weighted exposure (ii)/8%=(iii)	308,913	285,463
Total capital ratio (i)/(iii)	30.4%	29.0%

## 7. CREDIT RISK

Charles Stanley is exposed to credit risk through the potential failure of its clients or counterparties to fulfil their contractual obligations. The most significant risk to the Group is either a client or market counterparty failing to settle a trade. Given the wide range of retail clients of the Group it is not considered that a material default by connected counterparties would arise.

Other credit risks, such as Free Delivery of stock or cash, are not deemed to be significant as the Group has an effective credit control department to recover any monies or stock owed through default.

### Credit lines

Although many brokerages offer credit lines to their clients, Charles Stanley does not offer any formal lines of credit to its clients, and therefore does not have any client lending credit exposures. In the ordinary course of business the Group will be required to front client cash and stock shortfalls as a result of timing differences on settlement and late payments.

### Credit risk Pillar 1 calculation

Pillar 1 capital for credit risk represents the minimum level of regulatory capital resources a financial organisation has to set aside in order to cover the potential impact of credit risks crystallising. The amount of Pillar 1 capital requirement calculated below far exceeds any historical credit losses ever experienced by the Group.

Table 5: Reconciliation of Group balance sheet to credit risk capital requirement

Balance sheet item	Balance sheet (£'000) (i)	Credit risk adjustment (£'000) (ii)	Credit Risk exposure (£'000) (i)+(ii)=(iii)	Risk weight factor (%) (iv)	Risk Weighted Exposure (£'000) (iii)x(iv)
Intangible assets	20,013	(20,013)	-	N/A	-
Property, Plant & Equipment	18,175	-	18,175	100	18,175
Net deferred tax asset	1,182	(203)	979	250	2,448
Investments	11,478	(5,504)	5,974	100	5,974
Trade and other receivables	203,838	(78,351)	125,487	100	125,487
Current tax assets	71	-	71	100	71
Cash and cash equivalents	88,477	(31)	88,446	20	17,689
<b>Total</b>	<b>343,234</b>	<b>(104,102)</b>	<b>239,132</b>		<b>169,844</b>
Credit Risk Capital Requirement					13,588
Counterparty Risk Capital Requirement					409
Market Risk					-
<b>Total Credit Risk Capital Requirement</b> (see analysis in table below)					<b>13,997</b>

Table 6: Analysis of Credit Risk Capital Requirement by exposure class

	Exposure (£'000) (i)	Pillar 1 weighting (%) (ii)	Total (£'000) (i)x(ii)
<b>Credit risk exposure class</b>			
Central governments or central banks	979	20	196
Institutions	88,445	1.6	1,415
Corporates	18,716	8	1,497
Collectives investments undertakings	103,872	8	8,310
Equity	5,977	8	478
Other items	21,143	8	1,692
<b>Sub-total</b>	<b>239,132</b>		<b>13,588</b>
Counterparty risk capital component	5,111	8	409
Market risk	-	8	-
<b>Total Credit risk capital requirement</b>			<b>13,997</b>

### Banking Counterparty Risk

Banking counterparty risk refers to the risk associated with the default of a banking counterparty. Within the Group this risk is managed by ongoing monitoring of market news, perceived market sentiment, the credit rating and CDS spreads of the Group's banks.

Concentration risk to one institution is a secondary risk to Counterparty risk. The Group take the following aspects into account to reduce the effects of concentration risk:

- the Group is of the view that the failure risk of its principal bank is very low;
- the Group considers that if a problem developed with its principal bankers, this would occur over a period of time, during which the Group would be in a position to take appropriate action (e.g. transfer funds to another bank); and
- in view of the low risk of the bank failure, the operational benefits of using a single bank for day to day operations outweigh the concentration risk concerns. However, the Group looks to diversify both its own and client monies with well-regarded banks as far as possible.

**Other credit risks***Trade and other receivables*

Accounts receivables result from various services provided, including investment management services. In addition, these receivables may include underlying client losses recoverable from the originating investment manager. The credit risk is that the debtor may default on the payment owed to the Group.

Outstanding debts, which can include delayed payment of fees, are monitored daily by investment managers. Discussions are held with the relevant investment managers to determine the recoverability of the debt. If necessary the outstanding debt is escalated to management.

The levels of other debtors, such as accrued fee income, are reviewed monthly by the Finance department as part of the management accounts process. Income expectations are calculated using current market prices and fee rates set on client portfolios. There are no bad debts to write off for accrued income as expectations are adjusted on a monthly basis.

*Financial investments*

The Investment Management Services division manages a portfolio of financial investment assets that are accounted for on the balance sheet as available for sale assets. These instruments are subject to issuer risk (e.g. the risk that the credit worthiness of the issuer will fall or if the issuer will fail and as a result the instrument falls in value or becomes worthless).

The accounting value is based on the mark to market value of the instruments, and so any fluctuation in value will be reflected within the accounting balance.

*Financial assets*

These arise from dealing errors and settlement mismatches, and are subject to issuer default in the same manner as the available for sale assets covered above. The balance of these items remain relatively low, as they only arise out of errors and settlement mismatches, and the assets themselves are disposed of as soon as possible as there was no intention to hold them in the first place. This also means that the instruments will be subject to any short term market risk fluctuations in price. There is no trading intent with regard to the disposal of these items merely correcting the original error/mismatch, and the Pillar 1 credit risk capital set aside for this type of exposure is considered to be adequate in order to cover such risk.

## **Credit risks arising on other assets**

### *Deferred tax*

Under the IFPRU rules, deferred tax assets are deducted from capital resources in full when the asset is dependent on future profitability. Accordingly, £203,000 has been deducted in full. The remaining deferred tax assets, which arise from timing differences, are subject to a capital charge of 8%. No further capital allocation is considered necessary.

### *Other assets*

The Group makes loans to staff – the majority for season tickets. As of March 2020, the total loan value is just under £292,000, with Season tickets totalling £289,000. These are monitored by the HR department.

Although other balance sheet assets do not have a “counterparty credit” as such, there is a future potential risk that the value of these balances would have to be written down (e.g. non-recoverability of the asset or obsolescence of fixed assets), which would in turn lead to a charge to the P&L reserve and hence a reduction in regulatory capital resources.

This risk is covered by the Pillar 1 credit risk capital requirement attached to these items and therefore, the Group does not consider these could lead to a material future loss.

## 8. MARKET RISK

This is the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates. The Group only trades as principal for the purposes of executing client orders. Other positions may arise from dealing errors.

All position limits are monitored daily in accordance with policies determined by the Board.

### Foreign Exchange Risk

The Group has a low level of currency exposures. It runs positions in a variety of currencies, principally the US dollar, to support client dealing activities. Group policy requires any significant net exposures to be hedged using forward currency contracts as soon as a commitment is made.

The Group's activities are primarily denominated in British Pounds and it does not enter into forward exchange contracts for hedging anticipated transactions on its own behalf. The risk of adverse currency movements for settlement of non-GBP trades on behalf of clients is not borne by the Group. The Group is exposed to currency risk for settlement of non-GBP trade suppliers and miscellaneous income streams. At 31 March 2020 these totalled £25,000 (2019: £25,000) and comprises billed in non-GBP currencies.

### Equity risk

The Group is exposed to equity market risk through its equity holdings. These comprise:

- unlisted financial investments designated at fair value through other comprehensive income;
- listed financial assets held for trading at fair value through profit or loss; and
- impact of market movement on investment management fees.

The Group has performed sensitivity analysis assessing the impact of a 10% increase or decrease in underlying equity prices.

#### *Unlisted investments*

75% of the Group's equity investments are unlisted. A 10% increase or decrease in the Group's investments would have an impact on reserves of £0.4 million (2019: £0.4 million).

#### *Listed investments held for trading*

The Group's exposure to market risk on its FVTPL assets is minimal and only arises from incidental dealing errors that are reported as operational risk events. These are reported to the Enterprise Risk Committee.

A 10% increase or decrease in equity prices would increase or reduce profit before tax by £0.2 million (2013: £0.2 million).

#### *Investment Management fees*

It is estimated that a 10% increase or decrease in equity prices would increase or decrease profit on investment management fees in the consolidated income statement by £6.0 million (2019: £5.7 million).

**Interest Rate Risk**

The Group holds interest-bearing assets, principally cash and cash deposits, sovereign debt securities at amortised cost and loan notes accruing interest at fixed rates. The Group views such exposure to interest rate fluctuations as immaterial. If interest rates had been 200 basis points higher, profit for the year would have been £1.7 million higher (2019: £1.4 million). If interest rates had been 200 basis points lower, profit for the year would have been £0.5 million lower (2019: £0.5 million).

Market risk is assessed primarily within Pillar 1, using the "Standard Method", as prescribed. Any further capital allocations are decided by the Enterprise Risk Committee within the framework of the Risk Matrix.

The Group monitors its exposure to Pillar 1 Market Risk regularly as required under FCA regulations.

Market risk, as determined under Pillar 1, was less than the level considered material as at 31 March 2020 and therefore, not included in the calculation above as it remains below the 2% threshold.

## 9. REMUNERATION DISCLOSURE

The Remuneration Disclosure provides aggregated information on all staff that have a material impact on the Group’s risk profile. For these purposes, Material Risk Takers (“MRTs”) are defined as all Directors of CSG and its regulated operating subsidiaries, together with members of the Executive Committee and the Senior Management team, which includes all employees designated as holding ‘Significant Influence Functions’ and all staff earning over €750,000 (total of fixed and variable remuneration). This has had an impact on the high earners we can report, as although some high earners receive amounts similar to senior management, they present no material risk impact on Charles Stanley’s risk profile.

### Governance

The Remuneration Committee is chaired by an independent non-executive director, Bridget Guerin, and comprises two other independent non-executive directors, Andrew Didham and Hugh Grootenhuis. None of the Committee members has any personal financial interest in the Group, conflict of interest arising from cross-directorships or day-to-day involvement in the running of the business.

The Remuneration Committee took independent external advice in the financial year 2019 to 2020 initially from FIT Consultants (“FIT”), and, following a rigorous review and selection process, from AON UK Limited’s Rewards Solutions team (“AON”). Both FIT and AON are members of the Remuneration Consultants Group (the professional body for such consultants) and adhere to its code of conduct. Neither FIT nor AON provided other services to the Group (although AON Rewards Solutions’ sibling company, McLagan, part of AON Hewit’s Reward Data Services business, undertakes an annual Financial Services salary benchmarking survey in which Charles Stanley participates and both the Investment Management and Distribution divisions have used the strategy and insights consultancy Scorpio Partners, which is also part of the AON group). The Committee is satisfied that the advice provided by both FIT and AON remains objective and independent.

The formal terms of reference of the Remuneration Committee can be found on the Group’s website. The Remuneration Committee met seven times over the past year. A report on its activities is set out in the Annual Report and Accounts.

The formal terms of reference of the Remuneration Committee can be found on the Group’s website. The Remuneration Committee met five times over the past year. A report on its activities is set out in the Annual report and accounts.

### Remuneration Policy and Strategy

The Remuneration Committee regularly reviews the Remuneration Policy to ensure compliance with the principles of the Remuneration Code of the UK financial services regulator, as applicable to Charles Stanley.

Remuneration is considered within the overall context of the Group’s sector and the markets in which it operates. The Remuneration Policy is designed to be consistent with the conservative management of risk and the sustained, long-term performance of the Group. The Committee believes that the remuneration approach and Policy neither encourage, nor reward, inappropriate risk-taking.



## Remuneration Structure and the link between pay and performance

Remuneration Structure and the link between pay and performance The Remuneration Committee continues to seek to ensure that the Executive Directors' remuneration is aligned with the interests of shareholders. This is achieved by a significant proportion of Executive Director remuneration being performance-related, with a clear link to areas that impact shareholder value; it is competitive, but not excessive in relation to other relevant peer companies (indeed the CEO pay ratio is lower than most within the Wealth Management sector and significantly lower than most Financial Services businesses); Executive Director remuneration comprises a salary with benefits including pension and a number of bonus or profit sharing arrangements; taking into account Group-wide pay and employment conditions; and not encouraging the taking of risks which fall outside the Group and regulatory Boards' (CSC and MYC) risk appetite.

A more detailed table highlighting the entitlement to shares, options and other non-cash benefits can be found in our Annual report and accounts. In summary, Executive Directors are entitled to:

<p><b>Base salary</b></p> <p>This is the core element of pay and reflects the individual's role and position within the Group, with some adjustment to reflect their capability and contribution.</p>	<p><b>Benefits</b></p> <p>The Group provides other benefits that are consistent with market practice. We have introduced new benefits and widened the scope of existing ones to further enhance the overall benefits offering.</p>
<p><b>Pension</b></p> <p>Designed to aid retention and remains competitive within the marketplace. A cash alternative is available to those who have reached statutory limits.</p>	<p><b>Annual cash bonus</b></p> <p>To continually incentivise Executive Directors to deliver against annual performance targets. Bonus sums in excess of 50% of salary continue to be converted to shares with a requirement for retention.</p>
<p><b>Long-term incentives (LTIPs)</b></p> <p>To incentivise delivery of sustained performance over the long-term, the Company operates the Charles Stanley Performance Share Plan (PSP).</p>	<p><b>Shareholding guidelines</b></p> <p>To encourage share ownership by the Executive Directors and ensure their interests are aligned with investors. This includes shareholding requirements for two years after employment ends.</p>
<p><b>Share Incentive Plan and Save as you Earn schemes</b></p> <p>To encourage share ownership by employees, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.</p>	

## **Aggregate quantitative information**

CSC and MYC fall into proportionality level 3 under the FCA Remuneration Code.

In accordance with Commission Delegated Regulation (EU) No 604/2014, identification of MRTs, defined as those staff who are deemed to have a material impact on an institution's risk profile, Charles Stanley has undertaken both qualitative and quantitative assessments. As at 31st March 2020, MRTs were defined as all Directors for CSC and MYC, members of the Executive Committee, employees designated as holding Significant Influence functions and all staff earning over €750,000 (total of fixed and variable remuneration).

Charles Stanley had a total of 32 members of staff classified as MRTs. It should be noted that, as of December 2019 Charles Stanley came under the regulations of the Senior Managers Regime, not all the MRTs are Senior Managers ("SMs") under the Regime, but all current SMs are MRTs. The total aggregate remuneration paid to all employees for the financial year ended 31 March 2020 was £64.9m. A total of £14.0m (21.6%) was paid to MRTs. This figure includes a sum of £5.9m, which was paid to six individual MRTs who are Self-employed Investment Managers. These individuals' income has been classed as variable.

The amount paid to MRTs equates to 21.6% of the total aggregate remuneration paid to all employees, but the remuneration paid to the employed and Management Body MRTs (i.e. excluding self-employed) equates to 12.6% of the total.

The total remuneration paid to MRTs can be detailed by role as follows:

Table 7: MRT total remuneration

<b>Business area</b>	<b>£m</b>
Senior management (including Management body)	6.0
Other MRTs	8.0
<b>Total</b>	<b>14.0</b>

The total remuneration paid to MRTs can be broken down further:

Table 8: MRT remuneration by division

<b>Business unit</b>	<b>£m</b>
Senior management (including Management body)	6.0
Investment Management (Employed)	2.2
Investment Management (Self-employed)	5.8
<b>Total</b>	<b>14.0</b>

\*This figure includes information relating to MRTs who resigned/joined ExCo during the year ended 31 March 2020.

The percentages of fixed to variable remuneration are further analysed as:

Table 9: Fixed and variable remuneration

Remuneration	£m	% of total rem
Fixed remuneration <sup>1</sup>	4.4	31.4%
Total variable remuneration <sup>1</sup>	9.6	68.6%
Variable remuneration paid in cash <sup>1</sup>	9.2	65.7%
Variable remuneration deferred	0.4	2.9%

1. These figures include information relating to full year remuneration for the majority of MRTs; three MRTs, all ExCo members and one of whom was also a Director, ceased working for Charles Stanley during the year; and pro-rated amounts are included for those who joined Exco, as well as the entire payments paid to six Self-employed Investment Managers.

## 10. FURTHER INFORMATION

If you have any questions or require further information please contact [info@charles-stanley.co.uk](mailto:info@charles-stanley.co.uk)