Southey Capital

Southey Capital Ltd
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www.southeycapital.com

PILLAR 3 DISCLOSURERS

Date of Document 31/12/2019

Southey Capital Ltd – Pillar 3 and Remuneration Disclosure

The Capital Requirements Directive ('CRD') (Directive 2013/36/EU) and the Capital Requirements Regulation ("CRR") (Regulation (EU) No 575/2013) of the European Union establish the regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain.

In the United Kingdom, the CRD has been implemented by the Financial Conduct Authority ('FCA') in its rules through the Prudential Sourcebook for Investment Firms ("IFPRU").

The CDR consists of three 'Pillars':

- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk capital requirement;
- Pillar 2 requires the firm to assess whether its capital reserves, processes, strategies and systems are adequate to meet pillar 1 requirements and further determine whether it should apply additional capital, processes, strategies or systems to cover any other risks that it may be exposed to; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position to encourage market discipline.

The CRR sets out the provisions for Pillar 3 disclosure. This document is designed to meet our Pillar 3 obligations under Part Eight of the CRR (articles 431-455).

The Pillar 3 disclosure document has been prepared by the Firm') and is verified by the senior management. Unless otherwise stated, all figures are as at the 31 December 2019 financial year-end.

Pillar 3 disclosures will be issued on an annual basis after the year end and published as soon as practical.

We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information for the purpose of making economic decisions about the firm.

Omissions

Southey Capital Ltd may omit certain required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

Southey Capital may also omit certain required disclosures if we believe that the information is immaterial and that such omission would be unlikely to change or influence the decision of a reader relying on that information.

Southey Capital has not made any omissions on the grounds that it is immaterial, proprietary or confidential.

Scope and application of the requirements

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The Firm is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Firm is categorised as an '**BIPRU 50k limited license firm**", by the FCA for capital purposes.

It is licensed as an investment management firm and as such has no trading book exposures. The Firm's primary business activity is to provide a platform offering sophisticated institutional sales.

The Firm is a member of a group and so is required to prepare consolidated reporting for prudential purposes. The firm foresees no impediments to the prompt transfer of capital between group entities should the need arise and there are no differences in the basis of consolidation for accounting and prudential purposes.

Governance arrangements, the management body and competence

The Firm is governed by its directors ("Principals") who determine its business strategy and risk appetite. They are also responsible for establishing and maintaining the Firm's governance arrangements along with designing and implementing a risk management framework that recognises the risks that the business faces.

The Principals also determine how the risk that the business faces may be mitigated and assess on an ongoing basis the arrangements to manage those risks. The Principals meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, and business planning and risk management. The Principals manage the Firm's risks business though a framework of policy and procedures having regard to relevant laws, standards, principles and rules (including FCA principles and rules) with the aim to operate a defined and transparent risk management framework. These policies and procedures are updated as required.

The Firm considers that appropriate policies are in place to ensure the fitness and properness of all staff, including the members of the senior management body. The firm is run by experienced industry professionals and any senior appointments are subject to the approval of the management body with due consideration to the reputation, fitness and experience of the candidate as well as the long term strategic goals targets of the business.

All senior members of management are full time / and or have disclosed any outside business interests.

Initial on ongoing assessments of the competence of staff are conducted, and all members of the senior management team and other FCA approved persons are required to attest to their ongoing compliance with the fitness and properness obligations of the FCA approved persons' process.

Risk management

The Principals have identified that business, operational, market and credit risks are the main areas of risk to which the Firm is exposed. Annually the Principals formally review their risks, controls and other risk mitigation arrangements and assess their effectiveness. Where the Principals identify material risks they consider the financial impact of these risks as part of our business planning and capital management and conclude whether the amount of regulatory capital is adequate.

Business Risks

Specific risks applicable to the Firm come under the headings of business, operational, credit and market risks.

Operational risk

The Firm places strong reliance on the operational procedures and controls that it has in place in order to mitigate risk and seeks to ensure that all personnel are aware of their responsibilities in this respect.

The Firm has identified a number of key operational risks to manage. These relate to systems failure, failure of a third party provider, key man, potential for serious regulatory breaches, market abuse, dealing errors, IT security breach, money laundering, breach of regulatory rules, fraud and theft. Appropriate polices are in place to mitigate against these risks, and the firm has no significant history of operational failures which have resulted in unidentified costs being incurred. The Firm uses external auditors to sign off on accounts and carry out annual audits of procedures, external IT providers and advisors to advise on IT security.

Credit risk

The Firm is exposed to credit risk in respect of its commission fees billed and cash held on deposit.

The number of credit exposures relating to the Firm's clients is limited to receivables as a result of commissions due on executed trades. The Firm considers that there is little risk of default by its clients. All bank accounts are held with large international credit institutions.

Given the nature of the Firm's exposures, no specific policy for hedging and mitigating credit risk is in place. Overall, the Firm does not believe that Credit Risk is a material risk to the firm.

Market risk

The Firm takes no market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP.

No specific strategies are adopted in order to mitigate the risk of currency fluctuations.

Liquidity risk

The Firm is required to maintain sufficient liquidity to ensure that there is no significant risk that its liabilities cannot be met as they fall due or to ensure that it can secure additional financial resources in the event of a stress scenario.

The Firm retains an amount it considers suitable for providing sufficient liquidity to meet the working capital requirements under normal business conditions. The firm has always had sufficient liquidity within the business to meet its obligations and there are no perceived threats to this given the cash deposits it holds and support it receives from the parent company. Additionally, it has historically been the case that all fee debtors are settled promptly, thus ensuring further liquidity resources are available to the firm on a timely basis. The cash position of the firm is monitored by the Senior Management on a regular basis, and the Firm could potentially call on its shareholder for further capital as required.

The Firm maintains a Liquidity risk policy which formalises this approach.

Other

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In addition to the above risks, the Firm' considers the cost of an orderly wind-down and the Fixed Overheads Requirement ("FOR"). The FOR is based on annual expenses net of variable costs deducted, which include cost of sales, remuneration charged as an expense and other non-recurring expenditure. The Firm monitors its expenditure on a monthly basis and takes into account any material fluctuations in order to determine whether the FOR remains appropriate to the size and nature of the business or whether any adjustment needs to be made intra-year.
This is monitored by the sensor management on a monthly basis

Unencumbered assets

In accordance with Article 443 of the CRR, the below table provides details of encumbered and unencumbered assets. As asset is considered encumbered if;

- it has been pledged, or
- it is subject to any form of arrangement to secure, collateralise or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn.

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets				
Equity instruments			0	0
Debt securities			10,838,204	488,346
Loans and advances				
Other assets			3,491,464	99,008

Regulatory capital

The Firm is a Limited Liability Company, its share capital of £50,000 (in excess of the €50,000 requirements) is fully paid up and is the basis for the capital requirements, additions are made from the profit and loss account, there is no Share Premium account:

	31 December 2019
Tier 1 Capital, fully paid up shares	£50,000
Profit and Loss account	£487,094
Core Tier 1 and Total Capital Ratio	1707%
Surplus capital over minimum requirement	£610,600

The main features of the Firm's capital resources for regulatory purposes are as follows:
The Firm is small with a simple operational infrastructure. Its market risk is limited to foreign exchange risk on its accounts receivable in foreign currency, and credit risk from fees receivable and cash held at bank. The Firm follows the standardised approach to market risk and the simplified standard approach to credit risk.

Limited Licence - The Firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

The FOR is calculated, in accordance with the EBA regulatory technical standards, based on the firm's previous years audited expenditure. The firm has adopted the standardised approach to credit and market risk and the above figures have been produced on that basis. The firm is not subject to an operational risk requirement.
It is the Firm's experience that the Fixed Overhead Requirement x 12.5 establishes its Total Risk Exposure.

Capital requirement

The Firm's Total Risk Exposure Amount ("TREA") has been determined by reference to the Fixed Overheads Requirement ('FOR') and calculated in accordance with Article 95 and the EBA regulatory technical standards. The requirement is based on the FOR since this exceeds the total of the credit and market risk capital requirements it faces and also exceeds its base capital requirement of €50,000.
The Firm is required to have a minimum of €18,620 for the Fixed Overheads Requirement

Remuneration Code Disclosure

Southey Capital Ltd is authorised and regulated by the FCA as a limited licence firm and so, it is subject to FCA Rules on remuneration. These are contained in the FCA's Remuneration Code located in the SYSC Sourcebook of the FCA's Handbook. The Remuneration Code ("the RemCode") covers an individual's total remuneration, fixed and variable. Southey Capital Ltd incentivises staff through a combination of the two.
Southey Capital Ltd's policy is designed to ensure that we comply with the RemCode and our compensation arrangements:

- Are consistent with and promotes sound and effective risk management;
- Do not encourage excessive risk taking;
- Include measures to avoid conflicts of interest; and
- Are in line with the Firm's business strategy, objectives, values and long-term interests.

Proportianality

The FCA applies proportionality by categorising firms into three levels. Southey Capital Ltd falls within the FCA's proportionality level three and as such this disclosure is made in line with the requirements for a Level three firm.

Application and Requirements

We are required to disclose certain information on at least an annual basis regarding our Remuneration policy and practices for those staff whose professional activities have a material impact on the risk profile of the Firm. Our disclosure is made in accordance with our size, internal organisation and the nature, scope and complexity of our activities.

- Summary of information on the decision-making process used for determining Southey Capital Ltd's remuneration policy including use of external benchmarking consultants where relevant.
  - Southey Capital Ltd's policy is agreed by the Senior Management in line with the RemCode principles laid down by the FCA.

  - Due to the size, nature and complexity of Imperial Capital (International) LLP, we are not required to appoint an independent remuneration committee.
  - Southey Capital Ltd's policy will be reviewed as part of annual process and procedures, or following a significant change to the business requiring an update to its internal capital adequacy assessment.
- Summary of how Southey Capital Ltd links between pay and performance.
  - Individuals are rewarded based on their contribution to the overall strategy of the business.
    - Business generation
    - Sales
    - Operations
  - Other factors such as performance, business development and contribution to the business are taken into account when assessing the performance of the senior staff responsible for the infrastructure of the Firm.
- Aggregate quantitative information on remuneration, for staff whose actions have a material impact on the risk profile of the Firm are being omitted due to the limited number of Code Staff.

Code Staff	**Aggregate compensation expense in [2019 / fiscal year]**
Senior Management	£25,000
Others (if applicable)	-

We may omit required disclosures where we believe that the information could be regarded as prejudicial to the UK or other national transposition of Directive 95/46/EC of the European Parliament and of the Council of 24 October 1995 on the protection of individuals with regard to the processing of personal data and on the free movement of such data.