# Fiske plc

**Pillar 3 Disclosures**

20 August 2019
Based on Financial data as of 31 May 2019

**CONTENTS**

# 1. Introduction

## 1.1. Pillar 3 disclosures

The current regulatory capital framework, based on the provisions of the Basel III Capital Accord, is implemented in Europe through the Capital Requirements Directive IV. It affects banks, building societies and certain types of investment firms such as Fiske plc.

This framework consists of three 'pillars'.

- Pillar 1 sets out the minimum capital requirements firms will be required to meet for credit, market and operational risk;
- Pillar 2 requires firms and supervisors to take a view on whether a firm should hold additional capital against risks not covered in Pillar 1 and must take action accordingly;
- Pillar 3 requires firms to publish certain details of their risks, capital and risk management. This Pillar 3 disclosure arises from that requirement.

## 1.2. Implementation by Fiske

The disclosures in this document complement the processes undertaken internally by Fiske plc ("Fiske" or "the Company") in the assessment of its capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP).

Fiske first adopted the new approaches to credit risk on 1 January 2008. The Company makes a Pillar 3 disclosure on an annual basis, publishing its report on the Company's website. It is also available on request by writing to the Finance Director, Fiske plc, Salisbury House, London Wall, London EC2M 5QS.

This Pillar 3 disclosure document reflects financial and other information as at 31 May 2019, the Company's fiscal year-end. The Board of Fiske ("the Board") does not believe it is appropriate to make disclosure of all of the quantitative information under IFPRU at this stage.

Disclosures will only be subject to external verification to the extent they are equivalent to those made under accounting requirements. These disclosures explain how the Board have calculated certain capital requirements and information about risk management generally. They do not constitute financial statements and should not be relied upon in making judgements about Fiske.

# 2. Corporate background

Fiske is a private client and institutional stockbroker, authorised and regulated by the Financial Conduct Authority ("FCA"), providing investment management and corporate financial advice with an emphasis on providing a high quality personal service.

# 3. Risk appetite and risk management objectives at Fiske

The risk appetite of the Group is determined by the Board. A major proportion of the equity capital of the company is held by members of the board which, inter alia, seeks to avoid the necessity of raising debt or additional capital in adverse circumstances.

The Company's board of directors have historically sought to adopt a low risk approach: there is no current intention to change this stance. This is reflected in the Company's resultant business model and internal controls. This is also reflected in business activities which are either eschewed or only undertaken to a very limited extent.

It should also be noted that the firm's policy has been to not carry and bank debt or similar liability.

The small size of the company and the short chain of command assists the board in having this risk stance reflected in the culture and operational practice of the firm.

Monitoring of risks applicable to the business is delegated to the Risk Committee whose principal function is to identify and evaluate the key risk areas of the business and ensure those risks can be managed at a level acceptable to the Board. The firm's risk management processes is designed to be adequate for the purpose of monitoring and reacting to changes in the risk areas to which it is exposed. This takes into account the complexity of activities undertaken by the Company and its financial position.

## 4. Risk exposures

The risks faced by the Company are a reflection of the market in which the Company operates, its chosen business model (and appetite for risk) and the internal control systems in place. The internal control systems of the company have evolved over many years and are subject to continuous fresh input in the light of experiences, changing market conditions and threats.

The board of directors takes responsibility for the company's systems of internal control and for reviewing their effectiveness, and all executive staff are expected to contribute to this process.

### 4.1. Liquidity risk

Liquidity risk is the risk that the business will be unable to meet its financial obligations as they fall due.

The Company manages liquidity risk by maintaining adequate reserves of cash and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. In respect of:

- counterparty creditors, the amounts due are almost always due on T+2, with occasional T+10; and
- trade payables the amounts due are all normally payable between 0 and 30 days.

All of the Company's cash deposits are repayable on demand. Fiske is thus primarily affected as to liquidity risk to the extent that it trades as principal and thus holds investments.

### 4.2. Counterparty credit risk

Counterparty credit risk refers to the risk that a third party will default on its contractual obligations resulting in financial loss to the Company.

Third party receivables consist of market counterparties and a large number of customers, spread across institutional and private clients, and credit evaluation is performed on their trading history and financial condition. The Group does not have any significant credit risk exposure to any single third party or any group of third parties having similar characteristics– except the Company's bankers, National Westminster Bank.

The most likely occurrence is where a client instructs a purchase of stock and the market side is settled by the firm despite the client not remitting funds to cover the purchase and either:

- the client pays late and Fiske must meanwhile fund the transaction; or
- non-payment is such that Fiske must act to mitigate its exposure by selling in the market.

"Know your client" is a key element in controlling this risk, together with real-time monitoring of trades by senior, experienced staff and directors. There is a daily review of any late payments carried out at top operational level.

Historically the *average* level of outstanding debtors has been in the region of £30-100,000 and in the worst case scenario where such debtors defaulted on payment this would have a very manageable impact on the firm's cash flow.

In exceptional circumstances, the investee company may become bankrupt or otherwise cease to be traded on the Stock Exchange, precluding Fiske from selling stock in the market so as to mitigate its exposure to the client. Fiske monitors outstanding trades on a daily basis and the debtors are pursued where appropriate in order to mitigate any large exposures to the firm.

Whilst many likely scenarios do indeed occur within the normal bounds of trading and absorbed by the Company's ongoing profitability, an exceptional scenario, particularly given the current condition of the credit markets could be the failure of a market maker counterparty. This risk is mitigated by the market practice of DVP.

For Fiske, much of Counterparty risk is connected to Liquidity and Market risks given the circumstances in which such risks crystallise into events, and the normal loss mitigation processes. This broadly reflects

- Exposure to price differences between the amount due from the client and the market value of stock thereunder for all overdue trades
- Exposure to long positions where clients have dealt on terms longer than normal market terms (T+2)

The credit risk on liquid funds is limited because the third parties are banks with high credit-ratings assigned by international credit-rating agencies, and are assessed internally at Fiske. In addition, Fiske's principal bank, National Westminster is perceived as too important to be allowed to fail by HM Government.

### 4.3. Market Risk

The Group is mainly exposed to market risk in respect of its trading as agent in equities and debt instruments with the volume of trading and thus transaction revenue retreating in market downturns. Market risk also gives rise to variations in asset values and thus management fees and variations in the value of investments held by Fiske, acting as principal.

Market risk in relation to variations in the level of activity on the London Stock Exchange (thus transaction revenue for Fiske plc) and variations in asset values (thus management fees as well as the value of transaction fees) are addressed under operational risk below.

Variations in the value (and liquidity) of investments held by Fiske, acting as principal are primarily mitigated by limiting the quantum of capital committed to the market in this way. This is subject to regular review by the board. By value, the majority of investments held by Fiske, acting as principal and designated as available for sale are held for strategic rather than trading purposes and not actively traded.

The Company has very limited exposure to any foreign currency risk.

### 4.4. Operational Risk

**Operational Risk** - is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

For the purposes of this document, operational risk is taken to include business risks, insurance risks and concentration risks. It is understood that a significant but non-catastrophic operational loss could affect its reputation possibly leading to impairment of its business and organisation.

The Company seeks to mitigate operational risk to acceptable residual levels, in accordance with its risk appetite policy, by maintenance of its control environment, which is managed through the Company's operational risk management framework.

The Company's controls include disciplines of segregation of duties when authorising and processing transactions, reconciliations, cross-checks and rotation of staff roles. Responsibility for specific controls is allocated to members of staff with appropriate seniority and experience.

The Company has a business continuity and disaster recovery plan which provides, inter alia, back-up premises and back-office systems and which is regularly reviewed.

Staff are a key asset in the businesses and retaining the services of key staff is essential to ongoing revenue generation and development of the businesses. All directors are shareholders in the business with longstanding commitment to its prosperity.

There are some risks to which the Board does not feel that the Company has exposure to:

**Securitisation Risk**: The Company does not securitize assets nor invest in securitised assets.

**Pension Risk**: The Company does not offer defined benefit pension schemes to staff.

## 5. Remuneration Disclosures

The Company feels that its Remuneration Policy appropriately addresses potential conflicts of interest and that the Company's staff are not rewarded for taking inappropriate levels of risk. Under the Remuneration Code, the Company is classified as a Tier Three firm, which allows the Company to disapply some of the technical requirements of the Code and proportionately apply the Code's rules and principles in establishing the Firm's policy.

*The Decision Making Process*

In formalizing its Remuneration Policy, the Company uses established processes and controls. The Remuneration Committee makes recommendations to the Board as to senior executive remuneration.

*The link between pay and performance*

Remuneration seeks to fairly compensate employees in view of skills provided, work performed and responsibility undertaken. Overall remuneration can include participation in a Bonus pool the size of which reflects the Company's overall performance.

*Quantitative Remuneration Data*

Quantitative information on remuneration is set out in the Company's Annual Financial Statements.

## 6. Capital adequacy assessment

The ICAAP is a key element of the Company's implementation of the EU Capital Requirements Directive ("CRD"). It is a process that formalises and integrates the Company's risk management framework with its financial framework. Fiske reviews its ICAAP at least annually in conjunction with the annual budget process.

During the year, key regulatory ratios are reviewed regularly as part of the Company's financial controls and in support of its regular reporting to the FCA.

Not all material risks can be mitigated by capital but where capital is appropriate the Board has adopted a "Pillar I plus" approach to determine the level of capital that needs to be held. This method takes the Pillar I capital formula calculations (for credit, market and operational risk) as a starting point and then considers whether each of these calculations delivers an adequate capital sum to cover the actual risk incurred. Risks are individually assessed and weighted by perceived impact and probability in arriving at measures of capital adequacy. Where the Board considers that the Pillar I calculations do not adequately reflect the risk, additional capital has been added on in Pillar II.

## 7. Capital Resources

The Company's capital resources as at 31 May 2019 comprised the following:

| | | |
|---|---|---|
| **Tier 1** | | |
| Ordinary share capital | | 2,904 |
| Share premium | | 2,029 |
| Profit and loss account and other reserves at 31 May 2019, being audited accounts | (1,488) | |
| Profit and loss account and other reserves | | (1,488) |
| **Total Tier 1 capital before deductions** | | 3,445 |
| less: | | |
| Intangible assets: goodwill | | (395) |
| Intangible assets: customer relationships | | (1,050) |
| Intangible assets: software | | (97) |
| Impact of Cost Cap on Euroclear | | (470) |
| **Total Tier 1 capital after deductions** | | 1,429 |
| **Additional capital resources** | | |
| Revaluation reserve - available for sale assets | 1,515 | |
| Capital allowable on fully phased-in basis | | 1,515 |
| Deductions | | 0 |
| **Total Tier 1 capital on a fully phased-in basis** | | 2,944 |
| **Total Capital resources** | | **2,944** |

Fiske is full scope IFPRU 730k Investment firm. As such its Base Capital requirement is some £640,000. The firm has adopted the Basic indicator approach to credit, market and operational risk and under its ICAAP process, a capital requirement of £605,000 has been assessed, compared to Financial Resources assessed at £2,944,000.

In a CoRep filing at March 2019, the most recent date thereof before the May 31, 2019 year-end date, the Capital ratio of the firm was assessed as being 9.5% versus a target of CET 1: 4.5%, own funds: 8.0%.