DAVY

J & E Davy (UK) Limited – **Pillar 3 Disclosures**

Donegall House, 7 Donegall Square North, Belfast BT1 5GB

1. Introduction

J & E Davy (UK) Limited ("the Firm") is authorised and regulated by the Financial Conduct Authority ("FCA") under Parts III and IV of the Financial Services and Markets Act 2000 (as amended); the FCA Firm Reference Number is 172140.

The company is a wholly owned subsidiary of J & E Davy Holdings and is part of the Davy Group of Companies (the "Group").

In the period from 31 December 2019 to 30 December 2020, the Firm was categorised by the FCA as a BIPRU Firm for prudential purposes and as a Flexible Portfolio, core SMCR firm for conduct purposes. The Firm holds permissions to carry on its regulated activities in the UK including managing investments, receiving and transmitting orders and giving investment advice (including advising on pension transfers and opt-outs). The Firm's permissions also include arranging deals in investments, making arrangements with a view to transactions in investments, and arranging safeguarding and administration of assets. It can control but cannot hold client money.

The Capital Requirements Directive ("CRD") established a regulatory framework across the EU, governing the amount of capital that must be maintained by investment firms.

The CRD consists of three "Pillars"

- Pillar 1 sets out minimum capital requirements that we must maintain
- Pillar 2 looks at the Internal Capital Adequacy Assessment Process ("ICAAP") that we undertake to satisfy ourselves that we hold sufficient capital to meet the risks associated with our business
- Pillar 3 requires us to disclose our policies and controls for managing risk and our capital requirements, as well as certain remuneration disclosures.

1.1 The Firm

This disclosure is for J & E Davy (UK) Limited (FCA Firm Reference Number 172140), which is categorised by the FCA as a BIPRU (Limited Licence) firm for prudential purposes and is for the period starting on 31 December 2019 and ending on 30 December 2020.

1.2 Disclosure

This disclosure has been prepared to fulfil our regulatory requirements under Pillar 3 and to provide information on our risk management environment and the implications for our capital requirements. The information is based on historical information and is updated on an annual basis. Whilst the disclosure has been reviewed by the Board of Directors, it has not been subject to an audit by the Firm's external auditors. Accordingly, this disclosure must not be relied solely upon when making any financial judgement on the Firm.

2. Risk management objectives

The risks facing the Firm are identified and considered both from the perspective of the likelihood of their occurring and their potential impact on the firm should they occur. This high-level risk management plan is reviewed annually.

Compliance with Group standards is supported by a programme of ongoing review by senior management, with appropriate reporting mechanisms to the Firm's board of directors and the board and board committees of the Group. In addition, the Chief Risk & Regulatory Officer chairs the Enterprise Risk Management Committee which is responsible for the identification, management and monitoring of Davy's material financial and non-financial risks, provides oversight and challenge of key components of Davy's risk and compliance frameworks, and reviews Davy's emerging risks.

The ICAAP is prepared by the Firm's Finance function in conjunction with the Compliance and Risk function and is overseen by the Firm's leadership team.

It is reviewed on an annual basis by the UK Head of Finance, Head of Compliance and Risk, and by the Managing Director; and is approved by the Firm's Board of Directors.

The ICAAP considers all risks outlined in BIPRU 11 of the FCA Handbook. The main risks for the Firm are as follows.

2.1 Operational risk

Operational risk is the risk of direct or indirect losses arising from a wide variety of causes associated with the Firm's processes, personnel, technology and infrastructure, and from external factors other than credit and market risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Firm has prepared a risk register in line with Group standards which outlines these operational risks and the controls in place to manage them. These fall under the categories as set out below:

- Financial Risk
- Legal & Regulatory Risk
- Brexit Risk
- Suitability Risk
- Other Operational Risk

The Firm's objective is to manage operational risk in order to minimise the risk of financial losses and damage to the Firm's reputation, with overall cost effectiveness.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirement for appropriate segregation of duties, including the independent authorisation of transactions
- Requirement for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirement for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, including insurance where this is effective
- Business continuity and disaster planning
- Information security including cyber/data loss related risk.

2.2 Credit risk

Credit risk is the risk that a customer or counterparty will be unwilling or unable to meet a commitment that it has been entered into and that available collateral does not cover the Firm's claims. Credit risk includes both settlement and delivery risk, or replacement risk. Credit risk is managed and controlled on the basis of established processes, within a framework of defined policies, underpinned by a system of independent review.

2.3 Liquidity risk

Liquidity risk is the risk that the ability to meet payment obligations cannot be achieved by the Firm at all times. The Firm is not reliant on borrowings to fund its operations. The business generates positive cash flows and the balance sheet has appropriate liquid resources amounting **to £3.0m**. The liquidity position of the Firm is monitored on a regular basis and management information on liquidity is provided on a regular basis to relevant senior management.

2.4 People risk

People risks are managed in conjunction with the People Department. The Firm is committed to attracting and retaining the best people and providing them with opportunities to achieve their full potential through a programme of learning and development activities. This ensures our people are equipped with the appropriate level of skills and knowledge related to their role. Each employee has a personal development plan and receives regular feedback and performance discussions which feed into their annual compensation review. This approach to employee reward recognises their contribution to the success of the business, ensuring alignment with the Firm's strategy together with appropriate risk and behavioural accountability. As part of our strategic priorities and to drive engagement with employees and understand their needs, and ultimately improve performance, the Firm participates in an employee engagement survey, covering a broad range of subjects.

3. Capital resources

As at 30 December 2020, J & E Davy (UK) Limited had total capital resources of £6M. The table below details its composition:

	Pillar 1	ICAAP
	Minimum capital (£000's)	Firm's Pillar 2 capital (£000's)
Shareholder Funds	12,409	12,409
Intangible Assets	(6,366)	(6,366)
	-	
Total Capital Resources	**6,043**	**6,043**
Capital requirement	2,341	1,119
Capital surplus	**3,702**	**4,924**

The capital requirements of the Firm are monitored on an ongoing basis to ensure that there is sufficient capital in place at all times. The Pillar 1 requirement at 30 December 2020 was £2.3M. It is calculated as the higher of the sum of (a) the credit risk capital requirement and market risk capital requirement and (b) the Fixed Overhead Requirement (the "FOR"). The FOR is calculated as being one quarter of the Firm's estimated annual fixed overheads. As the FOR was the higher in this case, we took the capital requirement as being £2.3M. Regulatory capital after deductions was £6M, resulting in a significant surplus.

4. Capital adequacy

The Firm's capital management objectives are as follows:

- To comply with the regulatory capital requirements of the FCA at all times
- To maintain a strong capital base to support the strategic development of the business.

Formal procedures are in place to monitor and manage capital resources on an active and timely basis. Responsibility for day-to-day monitoring of capital adequacy rests within the Finance function. Regular reports are produced to monitor regulatory capital and forecasts are distributed to the Board and senior management on a regular basis.

The total capital requirement is £2.3M. Regulatory capital after deductions was £6M, resulting in a significant surplus.

The methodology used to compute each of the components which make up the total capital requirements (being operational risk, non-trading book risk and legal risk) is described in more detail below:

4.1 Operational risk

The operational risk requirement under Pillar 1 is calculated based on a 3-year average at 15% of historic revenue and is considered a crude measure with no account taken of the quality of risk mitigants and controls.

4.2 Non-trading book risk

Under Pillar 1, this is calculated at 8% of prepayments, non-trading debtors and intercompany debtors along with 20% of the cash and cash equivalents.

5. Remuneration code disclosure

The Firm is subject to the BIPRU Remuneration Code in SYSC 19C of the FCA Handbook. This section provides information on our remuneration policy.

5.1 BIPRU remuneration code staff

We have identified and maintain a record of 10 'BIPRU Remuneration Code Staff' in 2020 – i.e. staff to whom the BIPRU Remuneration Code applied during 2020. BIPRU Remuneration Code Staff are senior management and members of staff whose actions may have a material impact on a firm's risk profile.

All of our Code Staff, including heads of support and control functions, fall into the "senior management" category of Code Staff for the purposes of the BIPRU Remuneration Code.

5.2 Decision making

J & E Davy (UK) Limited does not have a separate Remuneration Committee. The Directors of J & E Davy (UK) Limited are responsible for the Firm's Remuneration Policy, and decisions about employees' remuneration are in line with the policy, which is reviewed by the Remuneration Committee of the Firm's sole shareholder, J & E Davy Holdings. The Directors of J & E Davy (UK) Limited are responsible for:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk taking
- Agreeing any major changes in remuneration structures
- Reviewing the terms and conditions of any new incentive schemes and, in particular, considering the appropriate targets for any performance related remuneration schemes
- Considering and recommending the remuneration policy for the senior employees taking into account the appropriate mix of salary, discretionary bonus and share based remuneration.

- In determining remuneration arrangements, the Directors will give due regard to best practice and any relevant legal or regulatory requirements, including the BIPRU Remuneration Code.

5.3 Link between pay & performance

Market rate salaries and employer pension contributions form the basis of the Firm's remuneration package. In addition, there is an element of variable pay for all staff which is based on firm-wide and individual performance. While variable rewards are awarded to employees across the firm, the structure, balance and amounts will differ. Where warranted by individual and company performance, variable remuneration is awarded annually and may be in the form of cash and/or employer pension contributions. Awards in excess of an amount that is set at Group level are paid in shares.

When assessing individual performance, we use a robust performance review process, and a range of qualitative and quantitative criteria are applied. Variable remuneration may be withdrawn or considerably reduced in the event of subdued or negative financial performance of the firm or the Group as a whole, or where warranted by individual conduct.

5.4 Quantitative information on remuneration

The FCA rules require certain firms to disclose aggregate information on remuneration in respect of its BIPRU Remuneration Code Staff.

The Firm only has one business area - investment management (advisory, discretionary and execution-only).

During 2020, the Firm had 4 Executive Directors, 2 Non-executive Directors and 4 other Senior Managers. Board meetings are chaired by a Non-executive Director.

Directors' remuneration is set by J & E Davy Holdings, taking advice from its Remuneration Committee; and there is a link between individual contribution to the successful achievement of the Firm's business objectives and total remuneration; however, the Davy Group's performance management and risk frameworks manage any risks.

The aggregate quantitative remuneration for the Firm's BIPRU Remuneration Code Staff is as follows:

Business Area	Total Remuneration for the year ended 2020
Investment Management	£1,438,859

6. Conclusion

J & E Davy (UK) Limited is a well-managed business with a liquid balance sheet and surplus capital.

Preparation of the ICAAP has provided an opportunity to reassess the inherent risks of the business, recalibrate our capital adequacy under Pillar 2 to reflect the impact business areas, and capture and assess new or emerging risks and growing risks such as cyber related risks and potential data breaches.

On an overall basis, the Pillar 1 (£2.3M) requirement is higher than the Pillar 2 requirement (£1.1M) and we conclude, based on the ICAAP, that the Company continues to hold a level of regulatory capital that is more than adequate in the context of the current and future planned business requirements.