



Pillar 3 Disclosures
(as at 31st March 2016)

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Redmayne Bentley LLP (“the Firm”)

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Overview

On 1st January 2014, the European Union established a revised framework governing the amount and nature of capital that credit institutions and investment firms must maintain. The Directive is commonly known as CRD IV and is directly binding on firms in the UK. The applicable resulting regulations are:

- The Capital Requirements Regulation – (“CRR”)
- Prudential sourcebook for investment firms – (“IFPRU”)

The framework consists of three pillars:

Pillar 1 - The minimum capital requirements of firms to cover credit, market and operational risk;

Pillar 2 - Designed to complement the existing Pillar 1 requirements by assessing the need to hold additional capital under a more risk based assessment; and

Pillar 3 - A set of disclosure requirements which enable the market to assess information on firm’s risks, capital and risk management procedures.

The detailed assessment of the requirements under Pillars 1 and 2 are carried out within the Internal Capital Adequacy Assessment Process (“ICAAP”).

This is the Pillar 3 disclosure for the Firm as at 31st March 2016 made in accordance with the Capital Requirements Regulation (“CRR”) and the Financial Conduct Authority (“FCA”) Prudential Sourcebook for Banks, Building Societies and Investment Firms (“IFPRU”) which is required to be made on an annual basis. As a limited license IFPRU 125k firm, the Firm is required to hold regulatory capital equal to the highest of:

- Pillar 1 x FCA Internal Capital Guidance (“ICG”), currently 169 per cent
- Pillar 2 Capital Requirements

Based on the Financial Statements for the year ended 31 March 2016, the Risk Framework, statement of Risk Appetite, and the results of conducted stress tests, the Firm has concluded that the minimum capital required to be held for 2016-17 is £6,867m (Pillar 1 plus ICG of 169 per cent).

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Corporate Structure

Redmayne-Bentley LLP consists of 5 equity members (1 is a limited company (Redmayne Capital Limited)) and the 4 fixed share members who form the Firm’s Operating Board. The Firm has principal offices in Leeds, Locksbottom and London, employing 222 people. Leeds continues to be the largest office with 154 staff.

There is a total of 129 non-employed staff throughout the network of branches in the UK and Ireland. These work within franchise, franchise associate or associate agreements.

There continues to be a small legal subsidiary which provides computer software and support services to other independent stockbroking firms. This business has not altered during the year and the income and direct costs from this source have been ignored as immaterial to this submission.

All of the Members (except Redmayne Capital Limited) continue to be involved in the day to day management of the business. They are assisted by a team of Senior Managers who run departments in Leeds, London, Locksbottom and other owned branches.

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Capital Resources and Requirements as at 31st March 2016

Tier 1 Capital Resources

Tier 1 Capital consists of Partnership Capital, divided between Members capital classified as equity and Members current accounts. Intangible assets and other intangibles (including trade investments) are deducted in full in accordance with FCA requirements.

| As at 31st March 2016 Tier 1 Capital was made up as follows: | £000's |
|---|---------------|
| Members' Capital | 7,001 |
| Members' Current Accounts | 4,547 |
| Less Intangible Assets | (1,590) |
| Plus other Tier 1 Capital | 954 |
| Total Tier 1 Capital | 10,911 |

Governance and Management Structure

Redmayne-Bentley LLP is required by the EU Capital Requirements Directive to make public disclosure of its risk management objectives and policies in accordance with the requirements of Pillar 3 of the Directive and the Internal Capital Adequacy Assessment Process (“ICAAP”) prescribed by the FCA.

The Firm’s strategy and overall direction is provided by the Partnership Board (consisting of the providers of capital). The Partnership Board meets formally every month and receives management accounts, reports from the Operating Board, and from Senior Managers regarding departmental performance. It also receives minutes from the Risk Management and Audit Committees. The Partnership Board reviews the effectiveness of the Firm’s system of internal control each year, assisted by an annual assurance report from the Audit Committee and also receives regular reports from the Risk Management Committee of the material risks which the Firm faces.

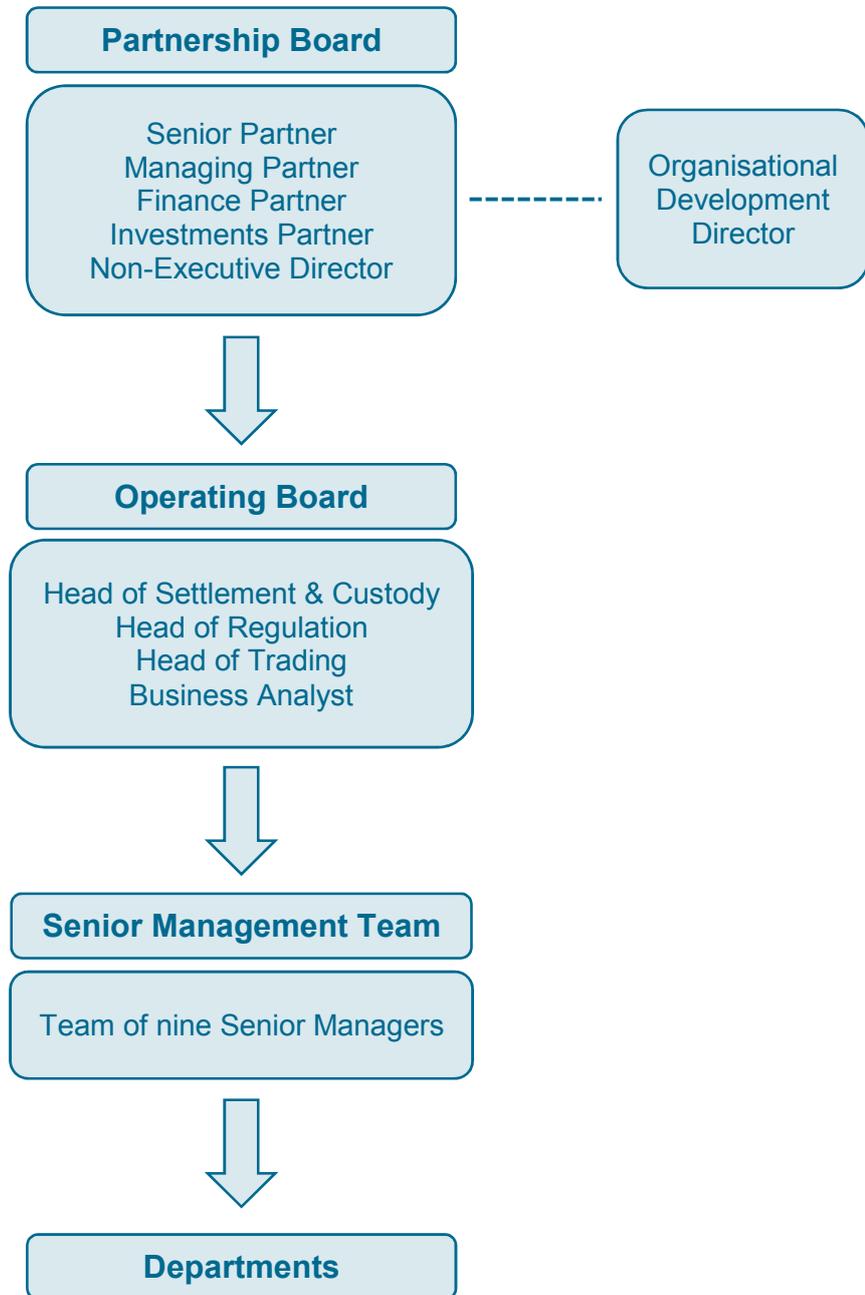
An Operating Board, which consists of four senior managers who are also fixed share members of the Firm, is responsible to the Partnership Board for the formulation and delivery of the Firm’s annual business plan.

Senior Managers who are not members of the Operating Board report directly to their reporting partners, but channel business planning issues through the Operating Board. The members of the Operating Board meet with the remaining Senior Manager Team monthly.

The Firm’s reporting lines are flat. This allows for prompt responses to issues, risk events, and regulatory breaches, with rapid but orderly levels of escalation as necessary. The Partners are confident that the Firm’s structure, together with the internal controls and policies which are in place are sufficient to contain losses from risks events within relevant risk tolerances.

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Risk Management & Oversight

The Firm has the following oversight committees:

The Risk Management Committee

The Risk Management Committee (RMC) is responsible for the management of the Firm’s risk framework in addition to ensuring compliance with FCA regulation and recommendations. The RMC reviews the Firm’s treasury management strategy, with particular reference to the credit ratings of the banking institutions involved.

Audit Committee

The Audit Committee is chaired by a non-executive director, and has terms of reference which include the review of Redmayne-Bentley branch assessments and responsibility for the internal audit programme covering the Firm’s principal accounting and management processes.

CASS Committee

The CASS Committee is responsible for the Firm’s ongoing compliance with the FCA CASS rules. It does so by ensuring that the Firm maintains adequate systems and processes relating to CASS, identifying and improving controls surrounding payments to clients and reporting any breaches to the Partnership Board. It is also responsible for making recommendations to the Risk Management Committee on the mitigation of key CASS risks.

Remuneration Committee

Redmayne-Bentley has a remuneration policy which ensures that the Firm is fully compliant with the FCA remuneration code for the Firm’s level 3 category. This has no implications for the Firm’s capital resources.

Risk Appetite

Redmayne-Bentley aims to be the independent investment manager and stockbroker of choice, providing professional, personal and client-focussed access to investment management and share dealing expertise.

In order to achieve its aim, the Firm will take risks needed to fulfil its goals, but only if those risks:

- Complement our strategy and can be understood and managed;
- Do not risk harm to our brand;
- Do not expose us to any one-off big losses; we will not ‘bet the bank’.

Redmayne-Bentley’s Risk Appetite Statement is the primary means used to communicate how the Firm defines risk and determines the acceptable level of risk exposure for each major risk category/type. In defining its risk appetite, the Firm takes in to account its vision, mission, strategy, values, risk philosophy (i.e. cautious) and capacity to bear risk.

Redmayne-Bentley considers current conditions, identified risks, and the prospect of emerging risks in developing and applying its risk appetite. Adherence to overall risk appetite is managed and monitored across the Firm, and is informed by the Risk Appetite Statement and a broad spectrum of principles, policies, processes and tools. Redmayne-Bentley’s Risk Appetite Statement describes, by major risk category, the Firm’s risk principles and establishes both qualitative and quantitative measures with key indicators, thresholds and limits, where and as appropriate.

Risk Categories & Definitions

Strategic Risk

- **Definition** - Strategic risk is the potential for financial loss or reputational damage arising from ineffective business strategies, improper implementation of business strategies or a lack of responsiveness to changes in the business environment.
- **Statement** - We aim to minimise the potential for financial loss or reputational damage arising from ineffective business strategies, improper implementation of business strategies or a lack of responsiveness to changes in the business environment.

The Partners manage strategic risk supported by the Operating Board and the Risk Management Committee. The Operating Board are responsible for implementing the strategy in to business operations, ensuring that targets are achieved and that business operations align with overall strategy and risk appetite.

The Risk Management Committee oversees the identification, assessment, and measurement of current and emerging strategic risks and ensures that controls are implemented where required.

Conduct Risk

- **Definition** - Conduct risk is the risk that detriment is caused to the Firm, our clients or counterparties because of the inappropriate execution of our business activities.
- **Statement** - We strive to avoid any potential detriment caused to the Firm, our clients, or counterparties due to the inappropriate execution of our business activities. The firm’s low tolerance to conduct risk is informed by the fact that crystallised conduct risks can cause further liquidity, regulatory, reputational and strategic risks resulting in financial, customer based, brand or regulatory losses.

Business activities that are designed in a way that directly causes detriment to the Firm, our clients or counterparties are classified under conduct risk. The Firm has minimal appetite for conduct risks and seeks to minimise the opportunity for them to arise by aligning strategy and operations.

The Partners manage Conduct risk supported by the Operating Board, the Senior Management Team and the Risk Management Committee. The Operating Board plays a vital role in ensuring that, in reviewing operational procedures, that they align with strategy and conduct risk appetite.

Operational Risk

- **Definition** - Operational risk is the risk of loss, to clients or the firm, resulting from inadequate or failed internal processes or systems or from external events.
- **Statement** - We endeavour to operate robust processes and controls in order to conduct our business and take remedial action where issues are identified. The Firm does not seek operational losses, and has no appetite for individual operational losses above £25,000 and cumulative losses above £750,000 within a 12 month period.

The Firm’s senior management is responsible for day-to-day management of operational risk following the Firm’s established processes, controls, and code of conduct. Any errors or near-misses are escalated to risk management for data collection so that trends and root causes can be analysed. This is overseen by the RMC who will help in recommending any remedial action.

Market Risk

- **Definition** - Market risk is the risk in revenue streams and value of assets under management arising from fluctuations or adverse movement in market factors such as interest and exchange rates, prices, economic recessions and depressions, or volatilities.
- **Statement** - The Firm will seek to minimise its exposure to market risk through diversifying its revenue streams and taking relevant measures to reduce the impact of unforeseen circumstances outside of its control.

Market Risk is inclusive of Interest Risk. Interest Risk is the risk associated with fluctuations in the country’s interest rate. Although the Firm’s interest income is significantly reduced from previous periods due to a steady decrease in the rates obtainable, this risk focuses on the possibility of further deterioration of interest income in future periods.

The Treasury Management function regularly reviews the Firm’s balance of funds. In doing so it ensures the Firm’s treasury policy is adhered to. As this policy is intended to minimise risk, the Firm’s exposure to any single institution is restricted, as is the ability to place money on anything but the highest rated institutions. For this reason the Firm may not always be able to achieve the highest return on its funds.

Liquidity Risk

- **Definition** - Liquidity risk is the risk of the firm having insufficient cash or collateral to meet financial obligations without raising funding at unfavourable rates or selling assets at distressed prices. This includes Capital Adequacy risk.
- **Statement** - The Firm will undertake a sound and prudent approach in order to ensure it has sufficient collateral in order to meet any financial obligations.

The Treasury Management function regularly reviews the Firm’s balance of funds and surplus cash via a monthly report. The policy is recommended to, and approved by the RMC annually.

The Firm’s Tier 1 capital after deductions is £10m, this therefore is the Firm’s maximum exposure to this risk. The Firm also has a contingency funding plan which is reviewed and approved by Partners annually.

The Firm’s liquidity risk is predominantly short term in nature and arises from the settlement of trades within the stockbroking business. In accordance with the firm’s risk appetite, it is policy to pay stockbroking creditors on settlement day or when the stock is delivered, whichever is the later. The policy is also to pay suppliers in accordance with their credit terms.

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Credit Risk

- **Definition** - Credit risk is the risk of loss if a client or counterparty defaults on its payment obligations in a transaction.
- **Statement** - We will only engage with counterparties who are creditworthy and manage exposure by setting appropriate limits.

Front Office staff, overseen by Senior Management, take control of the initial credit checks and subsequent reviews of clients; this sets the level of collateral that the Firm requires.

The Accounts Manager monitors overdue accounts and recommends mitigating action and recovery, in discussion with the Head of Finance and, where necessary, the Finance Partner.

The Firm only transacts with counterparties authorised by the FCA and regular credit and trading checks are carried out.

Regulatory Risk

- **Definition** - Regulatory risk is the risk associated with the failure to meet the firm’s legal obligations from legislative, regulatory or contractual perspectives. This includes risks associated with the failure to identify, communicate and comply with current and changing laws, regulations, rules, regulatory ‘guidance’, and codes of conduct. It also includes anti-money laundering and terrorist-financing risks.
- **Statement** - The Firm will ensure compliance with regulatory requirements and industry practice to avoid supervisory intervention and protect our reputation and relationship with the regulator. The Firm has minimal appetite for regulatory and legal risks and seeks to operate with the highest ethical and legal standards, and integrity.

All employees are responsible for managing day-to-day legal and regulatory risks, while Compliance and Anti-Money Laundering functions assist by providing advice and oversight. This is further enhanced by Audit Committee oversight, which oversees the establishment and maintenance of processes and policies, in form of department manuals, which ensure the Firm is in compliance with laws and regulations.

The Firm’s Code of Conduct sets the ‘tone from the top’ for a culture of integrity throughout the Firm. This means that every decision and action has to be assessed in light of what is right, fair, legal and ethical. This is supported by policies and procedures as set out in department manuals.

Whilst it is not possible to eliminate regulatory risk, the Compliance department works closely with all other departments to ensure that legal and regulatory risks are reduced to a minimum through an ongoing review system.

Reputational Risk

- **Definition** - Reputational risk is the risk that stakeholder's impressions, whether true or not, regarding the firm's business practices, and actions or inactions, will cause a decline in Redmayne-Bentley's value, brand, liquidity or customer base, and may require costly measures to repair.
- **Statement** - We will ensure that we conduct ethical practices at all times, complying with laws and regulations, and following the Firm's policies and procedures in order to protect the Firm's brand and reputation.

The Firm has minimal appetite for reputational risks and seeks to operate with the highest ethical and legal standards, and integrity.

Ultimate responsibility lies with Senior Management and the Partners for the Firm's reputation. They ensure that the strategy does not put the Firm's reputation at risk.

At the same time, every employee and representative has a responsibility to act within the Firm's reputational risk appetite, and that their actions contribute in a positive way to the Firm's reputation. This means following ethical practices at all times, complying with laws and regulations, and following the Firm's policies and procedures. Reputational risk is most effectively managed when everyone works continuously to protect and enhance Redmayne-Bentley's reputation.

Additionally, the Firm adheres to the Treating Customer's Fairly (TCF) initiative as a core part of its regulatory framework, and as a continuous process. The following has been embedded in to the Firm's culture:

- Consumers can be confident that they are dealing with a firm where the fair treatment of customers is central to the culture.
- Products and services are designed to meet the needs of identified consumer groups and are targeted accordingly.
- Consumers are provided with clear information and are kept appropriately informed before, during and after the point of sale.
- Where consumers receive advice, the advice is suitable and takes account of their circumstances.
- Consumers are provided with products that perform as firms have led them to expect, and the associated service is of an acceptable standard and as they have been led to expect.
- Consumers do not face unreasonable post-sale barriers imposed by the firm to change product, switch provider, submit a claim or make a complaint.

ICAAP Governance

As required under FCA rules, the Firm maintains an ICAAP, which includes performing a range of stress tests to determine the appropriate level of regulatory capital and liquidity that the Group needs to hold to provide reasonable assurance that the Firm is sufficiently capitalised to withstand the material risks to which it is exposed. The current basis of calculation of capital requirement has been adopted in the stress tests, including the FCA ICG requirement of 169 per cent of pillar one capital set in December 2009.

The ICAAP report has been reviewed by the Risk Management Committee, and was approved by the Partnership Board at its meeting held in September 2016. Updates on ICAAP and risk management issues form regular agenda items at the monthly partnership board meetings, which are recorded.

Remuneration Policy

As the firm is regulated by the Financial Conduct Authority (FCA) it is subject to the FCA Remuneration Code. The obligations under the code are proportionate to the size, nature, scope and complexity of a firm and Redmayne-Bentley, as a firm with limited activity, has been categorised as Level 3.

Level 3 firms can dis-apply the requirement

- to establish a remuneration committee;
- for variable remuneration to be paid partly in shares;
- to defer variable remuneration
- for performance adjustments
- on leverage (ratios between fixed and variable remuneration); and on multi-year frameworks for remuneration.

The Firm reviews the Remuneration Policy annually as part of governance arrangements. The following are the key elements of its approach to ensuring that it meets good governance principles and to ensure that any potential conflicts of interest which could arise from remuneration schemes are minimised.

- The firm has a remuneration committee which is responsible for ensuring there is a greater alignment between risk and individual reward to discourage excess risk taking and to deliver the objective of the Remuneration Policy. The committee report to the Partnership Board. The policies are reviewed annually or if there is a significant change to the business requiring an update to its internal capital adequacy assessment.
- Employees are rewarded for added value and performance. Other considerations are the impact on the achievement of business goals.
- Salaries are reviewed annually in October by reference to salary bands which are regularly reviewed and updated through job evaluation processes. Recommendations on salary reviews are made by Senior Managers and considered by the Remuneration Committee, and then considered by the Partners, who hold a specific meeting to act on this information. The Firm's remuneration arrangements represent a combination of fixed salaries and variable remuneration including bonus payments, commission and management fees. The process is designed to align the interest of the firm and its employees with those of its clients and other stakeholders to ensure the firm's continued long term profitability.
- Bonus payments are made on a fully discretionary basis, determined by a fixed formula linked directly to the overall profits of the firm each half year and based on performance against core competencies. Commission is also based on a pre-determined formula.
- Franchisees and their associates are rewarded by a fixed flat rate share of revenue with no target thresholds. These are agreed contractually.

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Code Staff

It has been determined that only those Approved Persons performing Significant Influence Functions and any other Controlled Function excluding CF30's are to be classified as Code Staff.

The Firm considers that all its activities form one business division of stockbroking and investment management. All Code staff are Partners or Senior Managers.

Individual performance, development and progression are managed by annual appraisal processes.