



## **Capital Requirements Directive: Pillar 3 Disclosure As at 31 December 2010**

### **RIA Capital Markets Limited**

#### **1. INTRODUCTION**

The Capital Requirements Directive (“CRD”) introduced a revised capital adequacy framework across Europe which seeks to reduce the probability of consumer loss or market disruption as a result of prudential failure. It aims to do so by seeking to ensure that the financial resources held by a firm are commensurate with the risks associated with the business profile and the control environment within the firm.

The new framework under the CRD consists of three ‘pillars’ of regulatory capital.

- 1) Pillar 1 sets out the minimum capital requirements firms are required to hold to meet credit, market and operational risk requirements.
- 2) Pillar 2 requires firms and their supervisors to form an opinion on whether they should hold additional capital against risks not adequately covered in Pillar 1, and to take action accordingly.
- 3) Pillar 3 is aimed to improve market discipline by requiring firms to publish certain details of their capital, risk exposures and management practices, and to have a formal disclosure policy in place which should assess the appropriateness, verification and frequency of the disclosure.

This document is RIA Capital Markets’ (‘RIA’) response to the Pillar 3 disclosure requirements and has been prepared by the firm in accordance with BIPRU 11.

RIA’s Pillar 3 disclosures are published annually. RIA has concluded that more frequent disclosure (under BIPRU 11.4.4) is unnecessary, because RIA’s business model and the services that it offers are unlikely to change materially during any one year. This conclusion will be reassessed annually prior to the annual disclosure and consideration will be given to the need to disclose some or all of the disclosure requirements on a more frequent basis. The disclosures are as at the accounting reference date, which for RIA is 31 December and are published as soon as practicable after the audit of the annual financial statements.

The disclosures are not externally audited, and do not constitute any form of financial statement.

## 2. RISK MANAGEMENT OBJECTIVES AND POLICIES

In general, the company has a low appetite for risk because of the cautious and prudent approach of senior management, second, because of the company's size relative to the individual trades it undertakes for clients, and third because of the stringent regulatory environment in which it operates.

RIA's business risk assessment was compiled as part of a bottom-up process, with the involvement of all staff at RIA. It was reviewed by the Executive Management Committee and approved by the Board.

The risk assessment includes key risks, magnitude of the risk, likelihood of them occurring, and the controls currently in place to mitigate those risks.

RIA's business procedures and compliance monitoring ensure that controls are monitored internally by RIA's staff and by RIA's Compliance Officer on an ongoing basis. Where controls are not operating effectively, or indeed not operating, or where actual loss has been incurred, these are reported via the Compliance Officer to the Executive Management Committee. Serious control issues or breaches are reported to the Board, and in any case the Board receive a copy of the issues log with the quarterly Board papers.

### RISK CATEGORIES

#### Credit Risk

Credit risk is the risk of financial loss arising from a client or other counterparty failing to meet its obligations to repay outstanding amounts as they fall due.

RIA does not deal with retail clients, and its trades are conducted on the basis of "delivery versus payment", which minimises the risk of exposure. In addition, RIA does not transact as principal. Deals are always matching, back to back transactions. This does not however eliminate risk entirely in the combination of circumstances in which the counterparty fails and the value of stock awaiting settlement against payment has changed adversely. To guard against this, RIA sets exposure levels for various counterparties and monitors these.

The exposure of RIA to credit risk relates principally to cash balances at bank and held by Pershing Securities Limited, RIA's settlement and clearing agent. Pershing Securities Limited is a wholly owned subsidiary of The Bank of New York Mellon Corporation.

As at 31 December 2010, RIA's total credit risk capital component was calculated as:

	£K
8% of risk weighted exposure amounts	136
Amount calculated under BIPRU 14.3	<u>0</u>
Total Credit Risk Capital Component	<u><u>136</u></u>

## Market Risk

Market Risk is the risk of an impact on RIA's financial position due to adverse market movements affecting the value of its trading book or any investments held.

RIA has no trading book and currently holds no investments, and thus does not attract a Pillar 1 requirement for market risk.

## Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. It includes legal and financial crime risks, but does not include strategic, reputational and business risks. RIA seeks to mitigate operational risk to acceptable residual levels, in accordance with its risk appetite policy, by maintaining a strong control environment. RIA is "limited licence" as specified by Article 20(2) of the CRD, consequently it is not required to calculate an operational risk capital requirement under Pillar 1 in accordance with BIPRU 6.

Operational risk is assessed under Pillar 2 and potential loss values considered in the compilation of RIA's internal capital requirements. RIA ensured that it is adequately insured against any major operational risk.

## CAPITAL ADEQUACY

### Capital Resources

The regulatory capital figures set out below are those of RIA Capital Markets Limited for the year ended 31 December 2010. These figures include the audited profit for year end 31 December 2010.

	<b>£ 000</b>
<b>Tier 1 Capital Resources:</b>	
Ordinary Share Capital	104
Audited Retained Earnings	2,262
Other Reserves	8
Capital Redemption Reserve	183
Share Premium	127
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<b>Total Tier 1 Capital Before Deductions:</b>	2,684
Less:	
Investment in Own Shares	61
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<b>Total Capital Resources After Deductions</b>	<b>£2,623</b>
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## **Pillar 1**

RIA is “limited licence” as specified by Article 20(2) of the CRD, and this dictates that its Pillar 1 capital requirement must follow the higher of: (a) the sum of the credit risk capital requirement and the market risk capital requirement; and (b) the fixed overheads requirement.

At 31 December 2010, RIA’s capital resources were in excess of its Pillar 1 minimum capital requirement.

Pillar 1 capital adequacy is included within RIA’s monthly financials pack which is reviewed by directors on a monthly basis, and is reviewed formally at quarterly Board Meetings.

## **Pillar 2**

RIA continually assesses its capital adequacy to support current and future activities.

In line with Pillar 2 requirements, RIA’s Individual Capital Adequacy Assessment Process ‘ICAAP’ identifies RIA’s internal capital requirements. RIA’s Pillar 2 requirements are assessed as being higher than its Pillar 1 requirements.

RIA uses a structured approach for its ICAAP. This involves setting the internal capital requirement at a starting point of zero and then building on capital due to all material risks and external factors.

RIA’s ‘ICAAP’ and the internal capital requirement it identifies is formally reviewed and signed off by the Board on an annual basis.

The ‘ICAAP’ is discussed at quarterly Board Meetings to ensure that no material changes to current and planned activities or risks require RIA’s internal capital requirements to be amended. Capital adequacy in light of RIA’s internal adequacy requirement is reviewed at RIA’s quarterly Board Meetings.

At 31 December 2010, RIA’s capital resources were in excess of its Pillar 2 internal capital requirement.