

MIFIDPRU Annual Disclosures

RIA Capital Markets Limited (219706)

For the Financial Year Ended 31/12/2022

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1. Overview

Introduction

This Disclosure document sets out the risk management objectives and policies, governance arrangements own funds and own funds requirements of RIA Capital Markets Limited (“RIA”, “the Firm”), as required by MIFIDPRU 8.

Background

The Investment Firms Prudential Regime (IFPR) came into force on 1 January 2022 and applies to all MiFID investment firms authorised in the UK.

Under the IFPR’s firm categorisation, RIA is categorised as a non-small and non-interconnected firm (non-SNI).

The public disclosure is an important part of the IFPR because it increases transparency and confidence in the market and gives stakeholders and market participants an insight into how the Firm is run.

2. Risk Management Objectives and Policies

Risk management is implemented and overseen by RIA's Board of Directors. The Board of Directors is responsible for determining the Firm's business strategy and risk appetite, taking into account the risks that the firm is likely to meet.

The single area of the firm's business is institutional securities broking and as such risk is an inherent part of it.

RIA's risk management framework incorporates an analysis of the impact of each material risk on the firm, its clients and on the market, the probability of each risk occurring and the procedures in place for mitigation. The Internal Capital Adequacy and Risk Assessment ("ICARA") process provides periodic management information to Board of Directors focusing on business and operational risk management issues, and including any notification that the Firm is likely to breach an early warning indicator regarding the Firm's own funds and liquid assets requirements.

The Firm considers that the potential for harm associated with its business strategy is low. RIA does not engage in underwriting, placing, clearing or settlement activities, hold significant on balance sheet exposures, have tied agents or provide custody services or services to retail clients.

The Firm's business strategy reflects its low appetite towards risk. The Firm is remunerated by net revenue from fixed income and equity sales.

The firm has applied the following approach to dealing with material harms:

- **Identification:** of all material harms that could result from ongoing operations or winding down.
- **Monitoring and mitigating harms:** considering the systems and controls in place to mitigate material harms.
- **Additional own funds or liquid assets:** assessment of any additional financial resource required above controls to mitigate harms.

Please note the Firm's risk management objectives and policies for the categories of risk addressed by the below:

Own Funds Risks

The level of own funds required to be held by the Firm is driven by material harms that might be incurred by the firm, its clients and the markets it operates in. Material own funds risk identified in the ICARA process include:

Business Risk, Operational Risk, Concentration Risk, Credit Risk, Liquidity Risk, Market Risk and Other Risk

The likelihood of a risk crystallising, the financial impact if it materialises and the systems and controls in place to mitigate these risks are reflected in the assessment of own funds requirements in the ICARA process. This determines the own funds necessary for ongoing business operations or to wind down the business in an orderly manner. This assessment is refreshed at least annually or where material changes require and review.

Concentration risk

RIA is required to monitor and control all sources of concentration risk. The Firm has identified the following concentration risks and has put in place the control strategies discussed below.

The firm monitors its non-K-CON exposures on a daily basis, with forecasts made on a monthly basis.

- **Positions and Exposures**

The firm runs trades on behalf of clients and on behalf of itself through Pershing Securities Ltd. The firm therefore has exposure to Pershing through its deposit.

The firm holds investments in the form of UK Gilts, all maturing within 12 months, and therefore has exposure to the UK Government.

- **Intragroup Exposures**

The firm is not part of a group and consequently holds no intragroup exposures.

- **Client Money**

The firm does not hold client money, nor does it have permission to do so. Consequently, there are no concentrations in this context.

- **Client Securities**

The firm does not hold or safeguard client assets, nor does it have permission to do so. Consequently, there are no concentrations in this context.

- **Firm's own cash**

The firm's cash is deposited at Coutts & Company, a subsidiary of The Royal Bank of Scotland Plc

- **Earnings**

The firm's earnings is primarily from trading on behalf of clients and the firm seeks a diversified client base where possible

The Firm's assessment in relation to each concentration risk is that, given its control strategies, it does not present a material risk to the Firm, its clients or the market.

Liquidity Risk

This is the risk that the firm either does not have sufficient resources available to meet its obligations when they fall due or can only secure them at an excessive cost.

The firm monitors its liquid assets on a daily basis and runs cash forecasts continually. The firm maintains a core liquid asset balance in the amount, at a minimum, equal to three months operating expenses of the firm. Senior management is confident that the firm's LATR provision is sufficient to cover its liquidity risk at all times.

Within its wind-down simulation and planning, the firm has considered its liquidity position under its OFAR (LATR) requirements. Internally, the firm's liquidity policy maintains more than this amount for the prudent operation of the business, and senior management is confident that there would be no liquidity constraint on wind-down even from a financial position whereby wind-down triggers had been reached.

3. Governance arrangements

The Firm has governance arrangements, which include a clear organisational structure with appropriate lines of responsibility and effective processes to identify, manage, monitor and report the risks that it is, or might be, exposed to.

RIA is managed by its Board of Directors and its reporting lines are defined within the organisation structure. The Firm ensures that the members of the Board of Directors are of sufficiently good repute; possess sufficient knowledge, skills and experience to perform their duties (as well as a sound understanding of the Firm's activities and main risks). The Firm ensures that when applicable it dedicates sufficient human and financial resources to the induction and training of members of the Board of Directors.

The Board of Directors meets at least four times per calendar year.

Directorships

The table below relates to the appointments of [director/partners], in both executive and non-executive capacities, held at external commercial organisations as at 31/12/2022.

| Name | SMF / Role | Number Of Other External Directorships |
|-----------------|---|--|
| Stuart Dempster | SMF 1 CEO SMF 3 Executive Director | 5 |
| Ian Korvin | SMF 9 Chair SMF 3 Executive Director | 0 |
| Lorna Hay Smith | SMF 16 Compliance Oversight SMF17 Money Laundering Reporting Officer SMF 3 Executive Director | 0 |

Diversity

The Firm recognises that diversity of the Board of Directors improves the quality and objectivity of the decision-making process by bringing new voices to the table. It fosters innovation, creativity and a better understanding of customer insights through a greater variety of problem-solving approaches, perspectives and ideas.

The Firm approaches diversity in the broadest sense, recognising that successful businesses embrace diversity at all levels, including the Board of Directors and senior management. The Firm's Board of Directors considers diversity aspects including but not limited to:

- Ethnicity
- Gender
- Educational and professional background
- Age
- Geographical provenance

Conflicts of Interest

RIA has a Conflicts of Interest Policy which identifies the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more clients, whilst specifying the procedures to be followed and the measures to adopt to manage the conflicts. The Board of Directors reviews RIA's conflicts of interest register and policy periodically and at least annually.

4. Own Funds Disclosure

RIA's regulatory capital consists of Common Equity Tier 1 (CET 1) capital, which is comprised of share capital, other audited reserves and retained earnings.

RIA is required by MIFIDPRU 8.4 to provide a breakdown of its Own Funds instruments and to provide information on how these reconcile with the Firm's balance sheet. Furthermore, the Firm is required to disclose a description of the main features of the Own Fund instruments it has issued.

The firm does not hold any Additional Tier 1 (AT1) or Tier 2 (T2) Capital. The table below summarises the firm's capital and liquidity situation against its regulatory capital requirements as at 31/12/2022.

| | Composition of regulatory own funds | 31/12/2022 ('000s) |
|-----------|---|-----------------------|
| 1 | Own Funds Total | 1,915 |
| | | |
| 2 | T1 Total | 1,915 |
| | | |
| 3 | CET 1 Total | 1,915 |
| 4 | Paid up capital instruments | 76 |
| 5 | Share premium accounts | 127 |
| 6 | Retained earnings | 1,619 |
| 7 | Accumulated other comprehensive income | 0 |
| 8 | Other reserves | 210 |
| 9 | Adjustments to CET1 due to prudential filters | 0 |
| 10 | Other funds | 28 |
| 11 | (-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1 | 147 |
| 19 | CET 1: Other capital elements, deductions and adjustments | 0 |
| | | |
| 20 | AT 1 Total | 0 |
| 21 | Fully paid up, directly issued capital instruments | 0 |
| 22 | Share premium | 0 |
| 23 | (-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1 | 0 |
| 24 | Additional Tier 1: Other capital elements, deductions and adjustments | 0 |
| | | |
| 25 | T2 Total | 0 |
| 26 | Fully paid up, directly issued capital instruments | 0 |
| 27 | Share premium | 0 |
| 28 | (-) TOTAL DEDUCTIONS FROM TIER 2 | 0 |
| 29 | Tier 2: Other capital elements, deductions and adjustments | 0 |

| Table 2 - Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements | | | |
|---|---|-------------------------------|-----------------------------------|
| | Balance sheet as in audited financial statements | Under regulatory scope | Cross reference to Table 1 |
| | 31/12/2022 ('000s) | 31/12/2022 ('000s) | |
| Assets | | | |
| Tangible Assets | 214 | | |
| Debtors | 1,341 | | |
| Investments | 1,504 | | |
| Cash at bank | 1,509 | | |
| Total Assets | 4,568 | | |
| Liabilities | | | |
| Creditors - due within one year | 1,712 | | |
| Creditors - due more than one year | 158 | | |
| Provisions | 51 | | |
| Total Liabilities | 1,922 | | |
| Shareholders' Equity | | | |
| Paid up capital instruments | 76 | | 1 |
| Share premium accounts | 127 | | 2 |
| Capital redemption reserve | 210 | | 8 |
| Profit and loss account retained | 1,619 | | 6 |
| Profit and loss account current year | 732 | | |
| Employee Benefit Trust | -119 | | 10&11 |
| Total Shareholders' Equity | 2,646 | | |

| Table 3 Own Funds: Main features of own instruments issued by the firm | |
|---|-----------------------------|
| Issuer | RIA Capital Markets Limited |
| Public or private placement | Private |
| Instrument type | Ordinary Share |
| Amount recognised in regulatory capital (GBP £000s) | 414 |
| Nominal amount of instrument (GBP £000s) | 76 |
| Issue price (GBP whole number) | 1 |
| Rights of redemption | None |
| Accounting classification | Shareholders' Equity |
| Dividends | Fully discretionary |

Note: The figure for Amount recognised in regulatory capital includes capital associated with the firm's issued shares which the company holds as a result of premiums paid on the shares above the nominal share price, and as a result of the company purchasing its own shares out of distributable profits

5. Own Funds Requirements

RIA must disclose its K-Factor requirement and Fixed Overheads Requirement amounts in relation to its compliance with the requirements set out in MIFIDPRU 4.3 (Own Funds Requirements).

| Own Funds Requirement | As at 31/12/2022 ('000s) |
|--------------------------------------|--------------------------|
| Permanent Minimum Requirement (PMR) | 750 |
| Sum of K-AUM, K-CMH and K-ASA | 0 |
| Sum of K-COH and K-DTF | 48 |
| Sum of K-NPR, K-CMG, K-TCO and K-CON | 0 |
| Fixed Overhead Requirement (FOR) | 527 |
| IFPR Capital Requirement | 750 |

Overall financial adequacy rule

RIA must at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:

- The firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
- The firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Risk of harms analysis

The Firm analyses its risk of harms to clients, market and itself through its risk assessment framework. Fundamental to this is the Firm's risk and harms matrix which identifies risks that the firm's business could give rise to. Each categorised risk holds a description of the harm that crystallisation of the risk event could visit on the three broad categories of entities interacting with the firm; clients, market and firm itself. Each categorised risk is then graded with measures of harm and severity of consequence before and after controls and mitigations are put in place.

This methodology also codifies a means of allocating capital provision at the risk category level in order to inform the Firm of its own analysis capital requirement in comparison to its Own Funds requirement.

The current methodology for capital allocation involves the allocation of impact bands on a per risk driver basis, alongside harm mitigation costs. Within each category of risk (i.e. group of drivers), the highest impact is taken as a basis for capital allocation.

Wind Down Capital Requirement

The firm has carried out wind-down simulation within its ICARA with the aim of establishing the amount of regulatory capital and liquidity needed to ensure the firm winds down in an orderly manner. As part of the wind-down simulation, the firm identifies the cost and time for the firm to effectively wind down its operations if a significant stressed event was to either breach the Own Funds requirement or, if for whatever reason, the firm's management body decided to cease operations.

6. Remuneration Policy and Practices

RIA is subject to the FCA Rules on remuneration as they apply to a Non-Small and Non-Interconnected (Non-SNI) MIFIDPRU investment firm. These are contained in the FCA's MIFIDPRU Remuneration Code located in SYSC19G of the FCA's Handbook.

Approach to Remuneration

RIA applies the same approach to remuneration to staff whether they are classed as Material Risk Takers or not (see below) in order to contribute to sound risk management and a healthy firm culture.

Employees have the opportunity to share in the success of the Company in years of good performance and also accept reduced levels of variable (bonus) pay in times of poor performance or losses.

The decisions of the governing body on setting remuneration are based on, amongst other things, risk management, supporting business strategy, objectives, values and interests and avoiding conflicts of interest, governance, control functions, and measurement of performance.

Objectives of financial incentives

RIA's Remuneration Policy provides a framework to ensure all staff are fairly and competitively rewarded in return for a high level of service to the firm and its clients. In setting remuneration levels RIA recognises the importance of attracting and retaining experienced staff. The amount of fixed remuneration paid to an employee will be based on market rates relevant to the employee's role and their knowledge, experience, and competencies. Discretionary bonuses are made to employees to reward them for good performance with a view to increasing and maintaining their productivity. The principal objective in determining variable bonus awards is to reward individual contribution to the firm whilst ensuring that such payments are warranted given business results.

Decision Making

Senior management shall be responsible for the implementation of this policy as well as the monitoring of compliance risks associated with it. This policy will be reviewed and approved by the management body at least annually to ensure it continues to remain fit for purpose with the input from the firm's Compliance Officer.

Characteristics of Remuneration Policy and Practices

Remuneration typically comprises of fixed and variable elements. Fixed remuneration consists of base salary, pension contribution and other benefits such as defined contribution pension, private medical insurance, death in service insurance which constitutes the fixed payment made to an employee for their services.

The firm has defined variable pay as discretionary bonus, which is awarded based on company performance, departmental performance and individual performance. The Firm's policy on variable remuneration is to set aside a proportion of the firm's profits to form a bonus pool out of which awards will be made. The total bonus pool amount is determined by reference to the firm's risk-adjusted criteria, which include both quantitative and qualitative measures.

RIA will ensure that remuneration and similar incentives will not be solely or primarily based on quantitative commercial criteria. Consequently, the Firm will take into account appropriate qualitative criteria which shall encompass adherence with relevant regulations, fair treatment of clients and the quality of services provided to clients.

The Firm will ensure it always maintains a balance between fixed and variable components of remuneration, so as to mitigate any conflicts of interest between the firm, its staff and its clients.

The following remuneration characteristics have also been applied:

- Ex-ante and ex-post risk adjustment of remuneration

The firm does not have open positions, swaps, forwards and has no residual financial risks on its books. Given the low risk nature of its business model, the risk of future unexpected losses is negligible, but clawback provisions are in place should such an unexpected event occur and this is in place for MRTs and all sales managers.

- Guaranteed Variable Remuneration

Guaranteed variable remuneration is only awarded in exceptional cases when new employees are guaranteed a joining bonus when they join the firm. The Firm ensures that such awards of guaranteed variable remuneration are discussed and approved by the Firm's management Board.

- Severance Pay

RIA does not offer non-standard forms of variable remuneration in relation to severance pay

Material Risk Takers

The firm has identified Material Risk Takers (MRTs) in accordance with the criteria set out in SYSC 19G.5.3 for the definition of material risk takers for remuneration purposes. The firm has developed and applied internal qualitative and quantitative assessments against the defined criteria to identify those individuals that have a material impact upon the firm's risk profile.

For the performance year 2022, there were 4 MRTs identified in RIA.

Remuneration for year ending 31/12/2022

| Senior Management remuneration | | (GBP £'000s) |
|--|--|--------------|
| Fixed remuneration | | 488 |
| Variable Remuneration | | 1,404 |
| Total Remuneration for Senior Management | | 1,892 |

| Other MRTs remuneration | | (GBP£'000s) |
|-----------------------------------|--|-------------|
| Fixed remuneration | | 0 |
| Variable Remuneration | | 0 |
| Total Remuneration for other MRTs | | 0 |

| Other Staff remuneration | | (GBP £'000s) |
|------------------------------------|--|---------------------|
| Fixed remuneration | | 666 |
| Variable Remuneration | | 610 |
| Total Remuneration for other staff | | 1,275 |

The total amount of guaranteed variable remuneration awards made during the financial year was £0K and the total number of material risk takers who received those payments was 0.

The total amount of the severance payments awarded during the financial year was £0k and the number of material risk takers who received those payments was 0.

The amount of the highest severance payment awarded to an individual material risk taker was £0k.