RECORD PLC

CAPITAL REQUIREMENTS DIRECTIVE
PILLAR 3 DISCLOSURES – JULY 2019

Background

This document sets out the Pillar 3 disclosures on risk management, capital adequacy and remuneration for Record plc and all of its subsidiary companies (together ‘Record’ or the ‘Group’) as at 31 March 2019.

The disclosures were prepared in accordance with the Capital Requirements Directive (“CRD III”), the aim of which is to reduce the probability of consumer loss or market disruption as a result of prudential failure. It does this by seeking to ensure that the financial resources held by a firm are commensurate with the risks associated with its business profile and control environment.

The CRD III framework consists of three pillars:

- Pillar 1 sets out the rules-based minimum capital requirements;
- Pillar 2 requires the Group to assess capital adequacy in relation to actual risk profile in order to determine whether additional capital is required to cover the additional risks. This assessment is performed through the Group’s Internal Capital Adequacy Assessment Process (ICAAP); and
- Pillar 3 requires public disclosure of the Group’s risk profile, risk management, capital, and remuneration.

This document describes and discloses information in relation to Record unless such information has been determined as immaterial or of a proprietary or confidential nature, as follows:

1. Risk management;
2. Capital requirements;
3. Remuneration; and
4. Financial resources and capital adequacy.

The disclosures in this document are in accordance with the BIPRU rules and are intended to show the risks that are relevant to Record and the steps Record takes to manage such risks. In particular the document discloses how Record has satisfied itself that it has sufficient capital in respect of those risks. Record plc wholly owns a subsidiary, Record Currency Management Limited, which is authorised to undertake regulated business under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012 and 2016) and is regulated by the FCA. The Group is a UK consolidation group and is subject to consolidated supervision. The risk management and control framework is operated at the Group level. This report is therefore prepared on a consolidated basis for Record plc and all of its subsidiaries.

Basis of disclosures

The method of consolidation used for prudential purposes is the same as that used for the Group's consolidated financial statements.

Frequency

This report will be made at least on an annual basis. The disclosures will be as at the Accounting Reference Date (ARD) of 31 March, and will be published within four months of the ARD. These disclosures are made for the Group as at 31 March 2019.

Verification

The Pillar 3 disclosures are subject to internal review procedures consistent with those undertaken for unaudited information published in the Annual Report; they have not been audited by Record's external auditors.

The disclosures have been prepared purely for explaining the basis on which Record has assessed certain capital requirements and information about the management of certain risks and for no other purpose. They do not constitute any form of financial statement and must not be relied upon in making any judgement on Record.

1. Risk management

The Board has ultimate responsibility for risk and the oversight of the risk management process within the business. Recognising that risk is inherent in all of the Group's business dealings, and in the markets and instruments in which the Group operates, it places a high priority on ensuring that there is a strong risk management culture embedded throughout the Group, and accountability at all levels within the business.

Risk management framework

Effective risk management and strong internal controls are fundamental to the Group's business model and are reflected in the risk management framework adopted by the Board. The risk management framework defines risk management objectives, responsibilities and the process for identifying, assessing and controlling risks within acceptable limits that impact the Group.

Such limits are defined in the "risk appetite statement" approved by the Board and include full consideration of the following:

- the activities of the business, and the capabilities of the firm in each of these activities;
- the objectives for the business, and the plans in place to meet these objectives;
- the regulatory environment in which the firm operates; and
- external factors that may affect the business.

The Board has delegated certain responsibilities to various Board and executive sub-committees, as follows:

Audit and Risk Committee	Provides oversight and independent challenge in relation to internal controls, risk management systems and procedures, and external financial reporting.
Investment Committee	Responsible for assessing the risks associated with changes to the Group's investment processes or products and for ultimate approval prior to implementation.
Executive Committee	The decision-making body for the day-to-day operation of the business and responsible for the identification of strategic opportunities and business threats (i.e. business risks) to the Group.
Risk Management Committee ("RMC")	Continually reviews existing and new operational risks and maintains, reviews and updates the Group's comprehensive risk register. The RMC also reviews the nature and reasons for any operational incidents with the objective of ensuring adequate systems and controls are in place to minimise the possibility of similar incidents in future.

The Group's risk management framework is underpinned by the three lines of defence, as follows:

The first line of defence rests with Record's senior managers and business operations being responsible for the implementation and maintenance of an accountable risk and control environment adhering to quality standards and regulatory requirements.

The second line of defence is provided by oversight functions such as Finance, Legal, Compliance and Risk, and Front Office Risk Management monitoring activity against defined policies and procedures.

The third line of defence is independent assurance on the adequacy and effectiveness of the Group's risk management, control and governance processes, and is provided by Deloitte LLP as the Group's appointed internal auditor.

Additional external independent assurance for shareholders is gained through the annual statutory external audit and the service auditors report on internal controls, both of which are provided by PricewaterhouseCoopers LLP.

Risks are also mitigated by the recruitment and retention of highly trained staff, clear reporting lines, appropriate segregation of duties and clearly defined procedures and policies. Ownership of risks is clearly identified and the Board encourages a culture of transparency and openness in all activities. Further information on Record's risk management framework is included in Record's 2019 Annual Report at: https://ir.recordcm.com/reports-and-accounts.

Risk management process

All staff, line managers and senior management have a responsibility for identifying risks. Once identified, the risk must be clearly defined and ownership assigned and an assessment of the gross risk is made by considering the likelihood that the risk will materialise, and the impact should the risk materialise.

Following review by the relevant committee of the controls established to manage the risk, the risk assessment process is repeated incorporating the changes to the control environment to establish the net risk position, which is monitored against the Board's risk appetite.

The Group maintains a Risk Register which records identified risks, risk owners and the gross and net risk positions, which is reviewed regularly by management. Risk owners are also responsible for ensuring the timely escalation to the appropriate forum where the risks are exceeding, or in their opinion are likely to exceed the Board's approved risk appetite.

Senior management receive regular management information on the Group's principal risks via Key Performance Indicators (KPIs), the Management Information Pack (MIP), the Risk Monitoring Matrix, and regular reports and updates from the Compliance and Risk, HR and IT directors.

In the event of an incident arising as a result of a risk materialising, the reasons for the incident will be reviewed in accordance with the Incident Management Policy to identify whether management needs to take any additional mitigating activity to prevent recurrence of any such incident. Furthermore, analysis of trends in risks and incidents is regularly undertaken within the Compliance and Risk department to identify patterns of risk behaviour that may require further investigation.

Risk categories

All identified risks are set out in the risk register, and the exposures to key risks as identified by the Board are analysed in detail in the ICAAP document, which confirms the capital requirements in light of that analysis.

The risks assessed by the business and included within the ICAAP document include: capital adequacy, conduct, reputational, strategic, business, market, credit, operational, investment, interest rate, liquidity, residual, securitisation and pensions obligation risk, where applicable.

In respect of this Pillar 3 disclosure, the Board's assessment of the principal risks to the business are set out in brief below. Further detail can be found in Record's 2019 Annual Report at: https://ir.recordcm.com/reports-and-accounts.

Principal risks

Strategic risk	The risk that the Group is unable to meet its strategic objectives due to internal or external factors, such as poor business decisions, poor implementation, inadequate resourcing or failure to respond to changes in the business environment.
Business risk	The risk of failure of the business to generate fee income and control costs in line with business plans due to internal and external factors including concentration risk, people and employment risk, the risk of regulatory breach and market liquidity risk.
Operational risk	Operational risks are inherent in all activities and processes performed across the business and include the risk of loss or other impacts arising from operational flaws including fraud or error and weaknesses in systems and controls.
Investment risk	The risk that long-term investment performance is not delivered compared to benchmarks, objectives or competition.

Further information on capital adequacy, conduct and reputational risks is given below:

Capital adequacy risk

Capital adequacy risk is the risk that the Group is unable to support its strategic business objectives due to its minimum regulatory capital restrictions. The Group has a capital and dividend policy, which seeks to ensure that capital retained is broadly equivalent to one year's worth of estimated future overheads (excluding variable remuneration), in addition to capital assessed as required for regulatory purposes, for working capital purposes and for investing in new opportunities for the business. This policy ensures a significant capital buffer over regulatory requirements, and consequently capital adequacy risk is not considered a significant risk in terms of the principal risks noted above.

Conduct risk

The business is also exposed to more wide-ranging risks being conduct risk and reputational risk. Conduct risk is defined as the risk of causing detriment to a client or damaging the integrity of the market because of poor systems or processes, or inappropriate judgement by staff in execution of the Group's business. The conduct of our staff and the strength of our internal control systems and processes are fundamental to the effective operation of the Group's risk management framework. Conduct risk is therefore evident and managed within each individual category of risk, and when combined equates to the overall conduct risk of the Group. Consequently, conduct risk is not considered as a separate risk category within the principal risks noted above.

Reputational risk

Reputational risk is the risk of loss or adverse impact arising from an unfavourable perception of the Group on behalf of clients, counterparties, employees, regulators, shareholders or other stakeholders. Reputational risk can manifest as a consequence of an occurrence of any of the Group's principal risks, either in isolation or together with other risks, and is therefore considered to form an integral part of each of the Group's principal risks. For this reason, reputational risk is not considered as a separate risk category within the principal risks noted above.

2. Capital Requirements

The Group consists of nine legal entities with UK regulated activities conducted through Record Currency Management Limited ("RCML"), the Group's FCA regulated subsidiary. The US subsidiary is registered with the SEC and CFTC in the US although regulatory compliance systems, procedures and processes are controlled centrally and supervised from the UK. Record generated £8.0m in pre-tax profits from revenue of £25.0m for the year ended 31 March 2019. Further details on the group subsidiaries are included in Note 13 of the financial statements section of the 2019 Annual Report.

Record's overall approach to assessing the adequacy of internal capital is set out in the Internal Capital Adequacy Assessment Process ("ICAAP") document. The ICAAP process involves separate consideration of risks to capital, combined with stress testing using scenario analysis. Record's regulated subsidiary is a BIPRU €50k Limited Licence firm which is subject to FCA rules under BIPRU/GENPRU, and subject to the capital requirements under CRD III. The Group is a UK consolidation group and is subject to consolidated supervision.

The Group's overall regulatory capital requirement is calculated as the highest of:

1. The Pillar 1 capital requirement; or
2. The Pillar 2 capital requirement; or
3. The estimated wind-down cost.

Pillar 1 capital requirement

Record's Pillar 1 capital requirement is the higher of:

1. €50k; or
2. the fixed overhead requirement; or
3. the sum of credit and market risks.

The fixed overhead requirement is calculated as one quarter of the fixed overhead costs of the preceding year.

Pillar 1 – Market risk

The Pillar 1 market risk requirement is calculated in accordance with CRD III and relates to the foreign currency position risk requirement in respect of its balance sheet exposures denominated in foreign currencies. Record's Pillar 1 Market Risk requirement at 31 March 2019 was £0.5 million.

Pillar 1 – Credit/Counterparty risk

Credit/counterparty risk is the risk that a counterparty will not meet its obligations leading to a financial loss to the Group. The Group's exposures to credit risk arise from its trade receivables, deposits with banks, seed investments and derivatives used for hedging. Record's Pillar 1 Credit Risk requirement at 31 March 2019 was £1.4 million.

Pillar 1 Capital requirement		**As at 31 March 2019** **£m**
Market risk	A	0.5
Credit risk	B	1.4
Sum of Market and Credit risk	C	1.9
Fixed Overhead Requirement[1]	D	3.3
Pillar 1 capital requirement (higher of C and D)		**3.3**

The Pillar 1 Capital for Record is the fixed overhead requirement, being £3.3 million as at 31 March 2019.

Pillar 2 capital requirement

Through the ICAAP, the Pillar 2 requirement uses a risk-based approach focused on more specific risk exposures identified by the business, including risks not covered by Pillar 1.

As at 31 March 2019, the Pillar 2 capital requirement was assessed to be £9.1 million. However, following the ICAAP review process in April 2019, this was increased marginally to £9.3 million and since this is the higher requirement has been assumed as the Pillar 2 requirement for the purposes of this Pillar 3 disclosure.

Since the Pillar 2 capital requirement is higher than the Pillar 1 requirement and the estimated wind-down costs, this forms the basis for the Group's overall capital requirement.

Further information on Record's capital management is included in Record's 2019 Annual Report at: https://ir.recordcm.com/reports-and-accounts.

[1] The FOR is based on the audited expenditure attributable to the financial year ended 31 March 2019.

3. Remuneration

Remuneration Committee

The Remuneration Committee is responsible for agreeing the remuneration policy for the Group, including the Group Profit Share Scheme, the Share Scheme, the Share Incentive Plan and the principles for salary awards and performance related pay. The Committee considers these factors when determining Directors' remuneration.

Remuneration Policy - overview

The Group has a well-established approach to remuneration which has evolved over a number of years and has been published and communicated explicitly to shareholders.

Our Group's culture, governance and risk management processes underpin our principles of reward, which are aligned with providing the best possible client service and supporting the creation of long-term shareholder value.

Our remuneration structure links reward with performance in a straightforward and transparent way and is designed to incentivise our colleagues to work as a team, delivering sustained business and investment performance consistent with the Company's strategic goals.

The three-year remuneration policy in place on 31 March 2019 was approved by shareholders at the AGM in 2017. It was designed to act in the interests of all our key stakeholders: our clients, shareholders, employees and regulators.

The vast majority of our colleagues are shareholders and have a personal and vested interest in the long-term success of Record through equity ownership and the majority of shares in Record are currently owned by employees.

It remains our policy to discuss any material changes proposed to Executive Directors' remuneration with major institutional shareholders in advance of any implementation.

Remuneration and Risk Management

The Group has a prudent approach to risk management and meets the required standards under the FCA Remuneration Code. In accordance with the Code the Group has a remuneration policy statement and has defined a Remuneration Code Staff List. The remuneration policy promotes effective risk management and incentivises sustained long-term value creation consistent with the Group's strategic goals and does not encourage excessive short-term risk taking. All staff defined as Code Staff are required to take a significant proportion of variable remuneration in share-based payments that are required to be held for up to three years (except for the Chairman, Neil Record who already has a significant shareholding in Record plc and does not receive variable remuneration). Furthermore, the links between conduct risk, conflicts of interest and remuneration are reflected in the Group's Conduct Risk framework.

Differences in remuneration policy for Executive Directors compared to other employees as at 31 March 2019

There are common remuneration structures for Executive Directors and employees, those being base salary, benefits, pension, Group Profit Share Scheme and the Share Scheme. There are, however, different performance conditions and different requirements for share deferral and clawback provisions.

Remuneration Policy as at 31 March 2019 – Code Staff

The following disclosures should be read in conjunction with the Remuneration Report on pages 53 to 65 of the 2019 Annual Report and Accounts (available of the Group's website: http://ir.recordcm.com/reports-and-accounts).

BIPRU 11.5.18 requires disclosure of remuneration policy and practices for those categories of staff whose professional activities have a material impact on a firm's risk profile in a manner that is appropriate to the size, internal organisation and the nature, scope and complexity of its activities. Record deems such personnel to be the Code Staff within the business (including, but not restricted to, Board Directors and other Executive Committee members). The main elements of the remuneration policy for Code Staff are given below.

Fixed Pay

Base Salary/Fees – all Code Staff receive either a salary (for employees and the Chairman) or fees (for non-Executive Directors), which are commensurate with the incumbent's role, responsibilities and experience and with reference to competitive market rates in the industry.

Benefits and Pensions – all salaried Code Staff are entitled to receive a range of benefits, which are provided in line with all other employees across the Group. Similarly, all salaried Code Staff are entitled to join the Group Personal pension scheme, with the choice of receiving their employer pension contributions as cash if they elect not to make contributions into the scheme. Non-salaried Code Staff do not receive any additional benefits and are not entitled to join the pension scheme.

Variable Pay

Short-Term Incentives

With the exception of the Chairman, all salaried Staff are entitled to join the Group Profit Share Scheme, which rewards individual and collective performance and is set within a range of 25% to 35% of pre-profit share operating profit. Code Staff are required to take a proportion of their payment in shares, with the option to elect a further proportion in shares – all shares are subject to a lock-up restriction for up to three years. The Group Profit Share Scheme rules contain clawback provisions which allow for the repayment of profit share payments in the event of a material breach of contract, material misconduct or a restatement of financial accounts which would have led to a reduction in any Profit Share award.

Long-Term Incentives

All salaried staff are eligible to participate in the Record Share Scheme, which allows the Remuneration Committee to grant options over up to 2% of the market capitalisation of Record plc per annum. Of this total 1% can be made to Executive Directors.

Performance conditions applicable to options granted to Executive Directors differ from those granted to other Code Staff and employees. The former are subject to performance conditions based on Record's annual cumulative Earnings Per Share (EPS) growth and vest on a stepped basis from three to five years, and are also subject to clawback provisions. For other employees and Code Staff, performance conditions for options are based on the employee being in employment on the relevant vesting date and to the extent personal performance conditions have been satisfied. All awards made to staff other than Executive Directors vest between one and four years from grant, subject to the performance conditions being met and are not subject to clawback provisions.

Non-salaried Code Staff and the Chairman are not entitled to join the Share scheme.

Quantitative information on remuneration of Code Staff (for the Year Ended 31 March 2019)

The aggregate remuneration for Code Staff analysed by business area (under BIPRU 11.5.18 (6)) and by senior management and members of staff whose actions have a material impact on the risk profile of the firm (under BIPRU 11.5.18 (7)) are shown in the table below:

Business Area	Senior Management	Other staff members	Aggregate Fixed Remuneration (£m)	Variable Remuneration		Aggregate Variable Remuneration (£m)	Total Remuneration (£m)
				Cash (£m)	Shares (£m)		
Governance and risk management	13	0	2.10	1.03	0.54	1.57	3.67

The analysis of deferred remuneration in terms of share options and deferred share awards made during the year to Code Staff and outstanding at the end of the financial year is as follows:

	Share options (unvested)		Interest in restricted shares - vested
	Awarded	Outstanding	
Senior Management	0	7,378,335	2,100,033
Other staff members	0	0	0

4. Financial Resources and capital adequacy

The table below summarises the composition of regulatory capital for the Record Group based on the audited financial statements as at 31 March 2019 The capital comprises share capital, share premium, profit and loss and other reserves – the Group does not hold additional Tier 1 or Tier 2 capital. Further information on Record's capital management and financial resources is included in Record's 2019 Annual Report at: https://ir.recordcm.com/reports-and-accounts.

Financial Resources: 31 March 2019	**£m**
Issued share capital	0.1
Share premium account	2.2
Retained earnings[1] and other reserves	25.0
Tier 1 Capital before deductions	27.3
Deductions from Tier 1 Capital	(0.3)
Tier 1 Capital after deductions	**27.0**

Capital adequacy – Pillar 1	**£m**
Tier 1 Capital after deductions	27.0
Pillar 1 capital requirement	(3.3)
Pillar 1 (rules-based) surplus	**23.7**

Capital adequacy – Pillar 2	**£m**
Tier 1 Capital after deductions	27.0
Pillar 2 capital requirement	(9.3)
Pillar 2 (risk-focused) surplus[2]	**17.7**

[1] Retained earnings include those audited earnings attributable to the year ended 31 March 2019.

[2] Final and special dividends totalling £3.6m for the year ended 31 March 2019 were paid on 31 July 2019. These had not been proposed or approved as at 31 March, and so were not deductible as 'foreseeable' as at that date.