PILLAR 3 DISCLOSURES

Background

The Capital Requirements Directive ('the Directive') of the European Union is the regulatory capital framework used across Europe governing how much capital financial services firms must retain. In the United Kingdom, this is supervised by the Financial Conduct Authority ('FCA') using rules and guidance as outlined within the General Prudential Sourcebook ('GENPRU') and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU'). The FCA framework consists of three 'Pillars':

- Pillar 1 – sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk;
- Pillar 2 – requires firms to take a view on whether additional capital should be held against any risks not covered by Pillar 1; and
- Pillar 3 – requires firms to publish certain details of its risks, capital and risk management process.

This document contains the Pillar 3 disclosure for Gale and Phillipson Investment Services Ltd ('the firm'). This Pillar 3 Disclosure has been subject to internal review procedures. The information has not been audited by the firm's external auditors as there is no requirement to do so.

Scope and application of directive requirements

The disclosures in this document are made in respect of Gale and Phillipson Investment Services Ltd ("the Firm") which is regulated by the FCA, FCA register number 431387, and provides Independent Financial Advice and Investment Management services. The Firm is a limited licence firm as defined by the FCA.

Disclosure policy

The rules in section 11 of BIPRU provide that a firm may omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criteria of whether the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions.

Where the Firm considers a disclosure to be immaterial, this will be stated in the relevant section.

A firm is also permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the firm's competitive position. Information is considered to be confidential where there are obligations binding the firm to confidentiality with its clients and counterparties.

Where the Firm has omitted information for any of the above reasons, a statement explaining this will be provided in the relevant section.

Unless stated as otherwise, all figures contained in this disclosure are based on the Firm's audited annual reports for the year ending 31 May 2020.

Frequency

These Pillar 3 Disclosures are reviewed on an annual basis as a minimum. The disclosures are be published as soon as is practical following the finalisation of the firm's Internal Capital Adequacy Assessment Process (ICAAP) and the publication of its annual reports.

The Firm's Pillar 3 Disclosure reports are published on the website, www.galeandphillipson.co.uk.

Risk management objectives and policies

The Firm's risk management framework reflects the FCA requirement that it must consider a number of different categories of risk. These include liquidity risk, operational risk, credit risk, reputational risk, business risk, market risk, interest rate risk and concentration risk. The firm undertakes a detailed analysis of the risks it is exposed to as part of the annual Internal Capital Adequacy Assessment Process (ICAAP) report and has processes in place to identify and mitigate risks as they arise. A summary of the risks is as follows.

Liquidity risk

This is the risk that the Firm may have insufficient liquid assets to meet its obligations as they fall due. The Firm generates cash from its operations and holds sufficient cash reserves to meet the continued operating needs of the business. This is supported by a robust cashflow monitoring process which has the full involvement of the Board.

Operational risk

Operational risk is defined as the potential risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems. Major sources of operational risk include outsourcing of operations, IT security, internal and external fraud, implementation of strategic change and regulatory non-compliance.

Whilst it is not possible to remove operational risk completely, the Firm mitigates operational risk in a number ways appropriate to its size and complexity. These include a split site / homeworking ability to ensure the Firm is not overly reliant on any one office, robust delivery of systems via a third party IT specialist with a particular focus on resilience of the systems, clear documentation of procedures to ensure staff are clear on what is required of them, rigorous checking processes to ensure the procedures are followed and robust systems for tracking work.

The Firm does not handle client money and uses 3rd party custodians, all regulated by the FCA.

All senior management bear responsibility for internal controls and the management of business risk as part of their accountability to the Board as part of the statements of responsibilities.

Credit risk

The Firm does not undertake any lending activity other than to other companies within the Gale and Phillipson group. The major assets on the Firm's balance sheets are bank deposits or intercompany loans to other companies within the group. The majority of income expected by the Firm each period is paid via firms regulated by the FCA such as investment platforms and fund managers and so the credit risk from these entities should be negligible.

Business risk

The Firm's Pillar 2 business risk principally takes the form of a fall in assets under management either due to a market downturn or a loss of clients through reputational risk or a loss of key personnel that leads to a significant reduction in revenue.

To mitigate business risk, the cashflow monitoring allows for a stress scenario of reductions in regular income. To mitigate the risk from key personnel we have a large number of client facing staff and conduct regular review meetings with them all, and have robust contractual arrangements with staff and clients.

Market Risk

The Firm does not have any foreign exchange exposures and does not engage in proprietary trading book activities and is therefore not directly exposed to market risk. Company revenues are linked to market movements and these have been addressed within business risk.

Interest rate risk

The Firm has no borrowings and so there is no exposure to interest rate risk.

Concentration risk

The Firm has a wide client base and diverse revenue streams and is not reliant on the income generated by a single client or single revenue stream.

Capital adequacy

The Firm's capital requirement under GENPRU has been determined from our analysis to be £418,000, which was the sum of residual risk capital and the fixed overhead requirement for the Firm as this was higher than the sum of the credit and residual risk allocations.

As at 31 May 2020 the firm held total resources for regulatory purposes of £2,018,000, a surplus of £1,600,000. All of the Firm's capital resources are classified as Tier 1 Capital and therefore of the highest quality. This is broken down as follows:

	£000
Called up ordinary share capital	808
Share premium account	6,619
Profit and loss account	(336)
Total audited capital and reserves	7,091
Deduct intangible assets	(1)
Deduct material holdings	(5,072)
Net capital resources	2,018

The annual Internal Capital Adequacy Assessment Process identifies credit risk, business risk and operational risk capital requirements and will determine future capital requirements for the Firm.

FCA Remuneration Code

Introduction

The Capital Requirements Directive (CRD) of the European Union and the FCA Code on Remuneration (the 'Code') require regulated investment firms to establish and maintain remuneration policies, procedures and practices that are consistent with and promote sound and effective risk management. The Code also requires firms to report annually on their remuneration policy for employees termed Code Staff. Code Staff can generally be defined as employees who perform a significant influence function, senior management and other staff who have a material impact on the risk profile of the business.

How the firm's remuneration is determined

Director remuneration, including salary and bonus arrangements is agreed by a Remuneration Committee and is based on individual performance and roles.

Other code staff have a remuneration basis agreed each year by the Board. Salaries are agreed based on individual performance and recommendations from line management. Bonus schemes are reviewed and agreed by the Board with compliance oversight in line with the Code.

Quantitative disclosure

In the year ended 31 May 2020 the aggregate remuneration to Remuneration Code staff during the financial year ended 31 May 2020 was £1.218m, of which £0.224m was variable pay. This covers 15 individuals. No individuals received more than £1m total annual remuneration.