# RECORD PLC

## CAPITAL REQUIREMENTS DIRECTIVE
## PILLAR 3 DISCLOSURES – JULY 2017

## Background

The 2006 Capital Requirements Directive (“CRD”) of the European Union created a revised regulatory capital framework across Europe based on the provisions of the Basel 2 Capital Accord. The aim of the CRD 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 framework consists of three “pillars”:

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

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

1. Risk management objectives and policies;
2. Capital requirements;
3. Remuneration; and
4. Financial resources

The disclosures in this document are in respect of Record plc (“Record”) in accordance with the BIPRU rules, and are intended to show clearly the risks that are relevant to Record and the steps Record takes to manage such risk. 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, authorised to undertake regulated business under the Financial Services and Markets Act 2000 (as amended by the Financial Services Act 2012 and 2016), which is regulated by the FCA. 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.

### 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.

### 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 prepared 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 objectives and policies

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. Effective risk management and strong internal controls are integral to the Group's business model and are reflected in the risk management framework adopted within the business. The risks are set out in the risk register and the assessment of the key risks are analysed in detail in the ICAAP document which confirms the capital requirements in light of that analysis.

The Board is assisted in its role by various Board and Operational sub-committees. One of these is the Audit and Risk Committee, which is responsible for the oversight and review of internal control and risk management. The Risk Management Committee ("RMC") has been delegated the day-to-day responsibility for overseeing and mitigating risks arising across the Group as a whole. There is also a programme of Internal Audits agreed annually and performed over the financial year and annual Audit and Assurance reports (AAF 01/06 and SSAE 16) on internal controls, both of which are facilitated by independent, external audit firms. In addition, there is a dedicated compliance function which operates a programme of monitoring.

Risks are also mitigated by the recruitment and retention of highly trained staff, clear reporting lines, appropriate segregations of duties and clearly set out procedures and policies. Ownership of risks is clearly set out and the Board encourages a culture of transparency and openness in all activities.

The risks assessed by the business and within the ICAAP document include: operational, business, credit, market, employee, systems, interest rate and liquidity risk. In respect of this disclosure it is the first six of these that are most relevant and are set out in further detail below.

### Operational risk

Operational risk is defined as the risk of loss to the Firm resulting from inadequate or failed internal processes, people and systems, or from external events; it includes legal and financial crime risks, but not strategic, reputational and business risks. Cyber risk, i.e. the risk of failure of the Group's technology and support systems, or penetration of such systems by external third parties with consequential loss of data or the prevention of the Group's ability to operate is considered within operational risk

In general, Record seeks to mitigate operational risk by implementing and maintaining a strong control environment and managing risk proactively through staff who are highly specialised and qualified. Record has a concentrated suite of currency products which are controlled via a systematic implementation process. The IT infrastructure plays an important role in the structured implementation of the managed assets. The Group has developed comprehensive disaster recovery and business contingency plans. These cover scenarios from server failure to destruction of the Group's offices.

In addition the risk-based compliance monitoring and internal controls work undertaken on a periodic basis, together with an internal audit programme (outsourced to Deloitte LLP) are designed to ensure the regulatory, operational and control risks faced by the business are well managed and mitigated.

The RMC has responsibility for oversight of the material risks faced by the business. It is tasked with overseeing the identification of operational risks across the business, assessing how those risks are mitigated by the controls in place and the likelihood of occurrence and impact of failure. The RMC also agrees enhancements to controls where weaknesses are identified, and tracks implementation and progress of work performed.

The Pillar 2 operational risk assessments consider the impact of a significant error to the firm and a serious failure of trading systems for the allocation of additional Pillar 2 capital.

### Business risk

Business risk is defined as the risk to the firm arising from changes in its business, including the risk that the firm may not be able to carry out its business plan and its desired strategy.

Record has a small number of core currency products from which the revenue of the business is generated by management and performance fees. Whilst Record's products are in relation to currency and therefore the asset class to which the business is exposed is concentrated, Record offers both currency hedging products and currency for return products which appeal to an investment community with a diverse spectrum of risk appetites.

The stress tests performed by management include the results of significant decreases in AUME as a result of poor performance or adverse market conditions. These include consideration of currency market conditions that prohibit or severely restrict the ability of Record to carry out trading activity as normal, and also declines in financial markets on which the hedging mandates are based e.g. equity and bond markets.

Currency is the deepest and most liquid of all the financial markets and Record's investment process is restricted to the developed market currencies that settle in Continuous Linked Settlement ("CLS"). The exception to this is the Emerging Market product where a minority of currencies are non-deliverable and hence non-deliverable forwards must be utilised.

Business risk is considered as part of stress testing. The stress tests consider the effects of poor markets in terms of loss of mandates and hence AUME declines.

### Credit Risk

Credit risk is the risk that unexpected losses may arise as a result of the firm's clients or market counterparties failing to meet their obligations. The firm does not take proprietary positions (although hedging of receivables is undertaken and conversion of receivables to Sterling) but does have direct credit exposure in relation to cash held across a diversified selection banks. Record seeks to place cash with a prudent spread of financial institutions. In addition, Record has exposure to the positions in the three products it is currently seeding. Subject to certain conditions, the amount of seed capital at any time is limited to 15% of capital resources.

Record's clients face credit risks which if realised would result in direct loss of AUME and reputational risk to the Group. The primary credit risks faced by clients are unsettled profits on transactions and the extent to which margin is required for those transactions. In addition, where Record's mandate with clients includes managing the cash to support the currency programme, cash would also be placed on deposit and subject to the same risk of default.

In order to manage these risks Record uses the CLS settlement systems to manage daylight settlement risk as far as practicable. Record deals with a spread of creditworthy counterparties to diversify risks where possible and deals under netting arrangements set out in standardised ISDA or IFEMA agreements. The credit risk is managed by the RMC and is set out in the Credit Risk Policy.

The stress tests consider the effect of default on the firm of the most significant counterparty.

### Market Risk

Market risk is the risk of any impact on the firm's financial condition due to adverse market movements caused by market variables such as interest rates, prices etc. The Board have agreed to allocate up to 15% of capital resources to fund seed capital investments. Currently, three live funds have each received seed investments of £1m and the investments in the products are carried at fair value.

### Key personnel risk

Record is dependent on its ability to attract and retain the highest quality staff. Measures have been taken to mitigate the risk of the loss of any one individual, for example the investment policy, supported by fundamental research, is agreed by the Investment Committee and implemented systematically and is not dependent on any individual or a "star" manager.

The interests of Record employees are aligned with shareholders in that both employees and Directors have significant interests in its shares. Furthermore, a significant proportion of the remuneration paid to key members of staff eligible for the Group Profit Share scheme, is in Record shares which is locked in for periods such that the employees are incentivised to contribute to the company's success over the longer term horizon. In addition, Record encourages an open, positive and collegiate work environment in which its commitment to excellence in ethical and business standards and to its staff and clients creates an environment conducive to long-term staff retention.

Furthermore, the business has a Board Nomination Committee tasked with considering the succession planning for Directors and other senior executives within the business, as evidenced by the successful recruitment of two new non-Executive Directors within the last two years.

Record has contingency plans in place to recruit senior staff should the need arise and an allocation to the cost of ensuring this process is adequately financially supported is made in the Pillar 2 capital provisions.

### Systems Risk

Record delivers its investment process via a proprietary IT system and has in place detailed Business Continuity Plans (BCP) to ensure any risks in relation to the normal functioning of that system are addressed, with alternative procedures that will ensure operations risk is mitigated.

The Pillar 2 risk assessment considers the additional costs required to rectify any potential issues on a timely basis.

## 2. Capital Requirements

The Group consists of seven 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 £8.7m in pre-tax profits from revenue of £23.9m for the year ended 31 March 2017. Further details on the group subsidiaries are included in Note 12 of the financial statements section of the 2017 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 is a BIPRU €50k Limited Licence firm subject to FCA rules under BIPRU/GENPRU and subject to the capital requirements under CRD III. As such the Pillar 1 capital resource is the higher of:

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

The Pillar 1 Capital for Record is the fixed overhead requirement, being £2,960k as at 31 March 2017. More detail on Record's capital resources is provided on page 10.

As a Limited Licence firm, the Pillar 1 requirements do not take account of the operational risk capital component. Management has made its own assessment of the minimum amount of capital that it believes is adequate against the risks identified. While not all material risks can be mitigated by capital the Board has adopted a "Pillar 1 plus" approach and consequently additional capital is held in excess of Pillar 1 capital. Accordingly, Pillar 2 additional capital requirements have been identified in order to mitigate the following risks:

- Errors – the risk that in implementing the investment mandates on behalf of clients, an error occurs which requires compensation - this includes dealing, portfolio and settlement errors.
- Loss of key personnel – Record recognises the importance of attracting and retaining high calibre, experienced senior management and has set aside capital to ensure staff can be recruited.
- IT systems and cyber-security – the risk that system issues require timely corrective action.
- Mis-selling – the risk that during the sales process misleading information or advice is given.

At Record, business risk is considered as part of the stress testing rather than the Pillar II capital requirement.

In order to determine the level of capital that Record needs in respect of its current risks and those expected over a 3 year cycle, management has gone through the process of:

- Identifying key risks;
- Quantifying such risks;
- Considering the mitigations in place against such risks;
- Stress testing the relevant key variables of the business in respect of these risks;
- Determining what management action would be taken in the possible event that a key risk crystallised;
- Determining what level of capital is appropriate considering all of the above.

In particular the stress tests have considered business risk and severe credit risk scenarios, principally:

- Decline in performance of products – the risk that poor performance or market conditions lead to falling revenues;
- Loss of some of the largest clients;
- A serious failure of trading systems; and
- Counterparty risk – the risk that failure of a significant market counterparty caused a follow on loss of AUME[1] and mandates.

## 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

Record plc 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 2017 was approved by shareholders at the AGM in 2014. 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 plc through equity ownership and the majority of shares in Record are currently owned by employees.

It remains our policy to discuss any significant proposed changes to the Group's remuneration structure with key external shareholders in advance of any implementation.

[1] As a currency manager Record manages only the impact of foreign exchange and not the underlying assets, therefore its "assets under management" are notional rather than real. To distinguish this from the AUM of conventional asset managers, Record uses the concept of assets under management equivalents "AUME" and by convention this is quoted in US dollars.

## 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). 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 2017

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 2017 – Code Staff

The following disclosures should be read in conjunction with the Remuneration Report on pages 52 to 64 of the 2016 Annual Report and Accounts (available of the Group's website - http://ir.recordcm.com).

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 EBIT, with the intention to maintain a medium-term average of 30% of pre-profit share EBIT. Code Staff are required to take a proportion of their payment in shares, with the option to elect a further proportion in shares which attract matching 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. Options are granted under an HMRC Approved or an Unapproved part of the Scheme. Performance conditions applicable on options granted to Executive Directors differ to 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 Approved options are based on Record's Total Shareholder Return (TSR) in comparison with a relevant peer group. Unapproved options vest subject to 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.

### Remuneration Policy – post 31 March 2017 amendments

A **new** three-year remuneration policy was approved by shareholders at the AGM in 2017, which contained two changes to the existing policy, being (1) the removal of the 3% matching share pool, and (2) the introduction of more flexibility to the Record Share Scheme for staff below Executive Director level. The new policy is designed to act in the interests of all of our key stakeholders: our clients, shareholders, employees and regulators. Further details of Record's new remuneration policy and all elements of remuneration for Code Staff and employees are provided in the 2017 Remuneration Report section of the 2017 Annual Report and Accounts (available of the Group's website - http://ir.recordcm.com).

## Quantitative information on remuneration of Code Staff (for the Year Ended 31 March 2017)

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 | 1.97 | 0.82 | 0.80 | 1.62 | 3.59 |

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 | 2,500,000 | 8,650,834 | 2,470,570 |
| Other staff members | 0 | 0 | 0 |

## 4. Financial Resources

The table below summarises the composition of regulatory capital for the Record Group based on the audited financial statements as at 31 March 2017 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.

| | **£000's** |
|---|---|
| Issued share capital | 55 |
| Share premium account | 1,971 |
| Retained earnings* and other reserves | 34,805 |
| Tier 1 Capital before deductions | 36,831 |
| Deductions from Tier 1 Capital | (245) |
| **Tier 1 Capital after deductions** | **36,586** |
| Less: Total risk weighted assets** | (2,960) |
| **Financial Resources excess (vs Pillar 1)** | **33,626** |

* Retained earnings include those earnings audited since the year end and attributable to the financial year ended 31 March 2017.

** Total risk weighted assets is the higher of the Fixed Overhead Requirement (FOR) or the sum of Market Risk and Credit Risk. The FOR includes the expenditure audited since the year end and attributable to the financial year ended 31 March 2017.