RECORD PLC

CAPITAL REQUIREMENTS DIRECTIVE

PILLAR 3 DISCLOSURE

Background

The 2006 Capital Requirements Directive ('the Directive') of the European Union created a revised regulatory capital framework across Europe based on the provisions of the Basel 2 Capital Accord.

The new 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 FSA, 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 and risk management process.

In this document we disclose information in relation to our various risks, unless it has been determined as immaterial or of a proprietary or confidential nature:

- Our risk management objectives and policies;
- Our capital requirements;
- Our compliance with the rules on Pillar 2 requirements; and
- Our 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 that risk. In particular the document discloses how Record has satisfied itself that it has sufficient capital in respect of those risks. Record contains a subsidiary, Record Currency Management Limited, authorised to undertake regulated business under the Financial Services and Markets Act 2000 and regulated by the FSA. This report has been prepared on a consolidated basis for Record plc and all its subsidiaries.

Frequency

This report will be made on an annual basis. The disclosures will be as at the Accounting Reference Date (ARD), i.e. as at 31 March, and will be published within four months of the ARD. Record will aim, however, to make the disclosures shortly after the publication of the Annual Report & Accounts.

Verification

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

The Pillar 3 disclosures have been prepared purely for explaining the basis on which Record has prepared and disclosed 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.

Capital Requirement

Record is a BIPRU Limited Licence 50k firm. As such the Pillar 1 capital resource is the higher of £50k; the fixed overhead requirement and the sum of Credit and Market Risks. The Pillar 1 Capital for Record is the fixed overhead requirement, being £2,611k as at 31 March 2011.

As a Limited Licence firm the Pillar 1 requirements do not take account of the operational risk capital component, however, Pillar 2 additional capital requirements have been identified in order to mitigate against the following risks from happening:

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

Record generated £12.5m pre tax profits from £28.2m revenue for the year ended 31 March 2011. Given this level of profitability Business risk has been considered as part of the stress testing rather than the Pillar II capital requirement.

Record's overall approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis.

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, the management has gone through the process of:

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

In particular the stress tests have considered Business risk, principally:

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

Record has made its own assessment of the minimum amount of capital that we believe 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 to determine the level of capital the Record needs to hold. Therefore, additional capital is held in excess of Pillar 1 capital.

Risk management objectives and policies

The Board of Record determines its business strategy and risk appetite and is responsible for overseeing the risk management framework. It delegates authority for the daily oversight of this role to the Executive Committee. The Board places a high priority on the risk management culture within the Group. The risks are set out in the risk register and the assessment of those risks are analysed in detail in the ICAAP document which confirms the capital requirements of the firm in light of that analysis.

The Board is assisted by the Audit and Risk Committee, the Risk Management Committee (“RMC”) and the Compliance Department as well as the implementation of the Compliance Monitoring Programme and a programme of Internal Audits that are performed over the financial year.

The risks are 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 risks that are most relevant, therefore, it is these that 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 does not include strategic, reputational and business risks.

In general, Record seeks to mitigate operational risk by implementing 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. In addition the risk-based Compliance and Internal Controls work undertaken on a periodic basis, together with an Internal Audit programme (outsourced to Deloitte LLP) is designed to ensure the regulatory and operational and control risks faced by the business are well managed and mitigated as strongly as possible.

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 firm has in place a Risk Register which summarises these details and feeds into the control environment of the firm.

The Pillar 2 Operations risk assessments considers the impact of the occurrence of a significant error to the firm and is a scenario for which Record believes it is appropriate to allocate 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 three core currency products. The revenue of the business is generated by management and performance fees. While Record's products are in relation to currency and therefore the asset class to which the business is exposed is concentrated, there is diversification in the appetite of the investment community for hedging compared with absolute return products, both of which are offered.

The Stress tests performed by management include the results of significant falls in AuME as a result of poor performance or adverse market conditions. This includes consideration of declines in financial markets on which the hedging mandates are based e.g. equity and bond markets.

In addition, currency market conditions that prohibit or severely restrict the ability of Record to carry out trading activity as normal are considered.

Currency is the most liquid financial market and Record's investment process is restricted to the developed market currencies that settle in 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. The Stress tests consider the effects of poor markets in terms of loss of mandates and hence AuME declines.

In addition Record has set aside Pillar 2 capital sufficient to cover the performance risk associated with the seed products.

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 to pay. The firm does not take proprietary positions but does have direct exposure with cash held across a diversified selection of major UK banks. Record seeks to place cash with a prudent spread of highly rated financial institutions. In addition, Record has exposure to the positions in the two products it is currently seeding. The amount of seed capital at any time is limited to 10% of liquid assets.

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

In order to manage these risks Record uses 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 ISDA or IFEMA agreements. The credit risk is managed by the Risk Management Committee 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 10% of net assets to fund seed capital investments. To date, three investments of £1m have been made in an index tracking product, Carry 250 (now FRB 10), an Emerging Market product and the Euro Stress Fund. These investments assist in creating a track record for these products. The investments in the products are carried at market value.

Employee risk

Record is dependent on its ability to attract and retain the highest quality staff. Individual risk is mitigated in that the investment policy, supported by fundamental research, is agreed by the Investment Committee and implemented by systematically. As such the company is not dependent on any individual or a 'star' manager.

Record employees' interests are aligned with shareholders in that both employees and Directors of Record have significant interest in its shares. Furthermore, the remuneration of key members of staff will be in significant part made up of Record shares which will be 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 is committed to engendering 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.

Record has recognised the need to have in place contingency plans 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 recognises the importance this system plays in the operational infrastructure of the firm. Record has in place detailed BCP plans 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 ensure that issues that could arise are rectified on a timely basis.

Remuneration Policy and Directors' Remuneration

The overriding principles of the remuneration policy at Record are to incentivise the Executive Directors and senior management to deliver sustained performance consistent with the Group's strategic goals and appropriate risk management, and to reward success in doing so.

The Group aims to attract, motivate and retain high calibre executives with the abilities, skills and experience to deliver the Company strategy over the long term by rewarding them with competitive salary and benefits packages. Their remuneration will be linked to the achievement of agreed individual objectives, the achievement of the Group's key financial objectives and the creation of long-term shareholder value. The Group's remuneration policy seeks to give a high proportion of the total annual remuneration in the form of variable compensation. The pay model adopted for Executive Directors is similar to that of employees more generally within the Group. All employees receive a fixed salary and participate in the Group-wide Profit Share Scheme, and so employees share in the success of the business with remuneration rising and falling as a result of Group profit performance.

Remuneration of Non-executive Directors is determined by the Chairman and the Executive Directors within the limits of the Company's Articles of Association. Remuneration for the Non-executive Directors reflects the time commitment and responsibility of the role and does not include any component of variable remuneration or share options.

Service contracts

All Executive Directors have service agreements with effect from 15 November 2007, with the exception of James Wood-Collins, who has a new service agreement dated 1 October 2010 to reflect his promotion to Chief Executive Officer, and Paul Sheriff who has a service agreement dated 27 June 2008. None of the service agreements are for a fixed term and all include provisions for termination on six months' notice by either party. Service agreements do not contain any contractual entitlement to receive bonuses, nor to participate in the Group's share-based incentive scheme, nor to receive any fixed provision for termination compensation. Where applicable the broad aim in making termination payments is to avoid rewarding poor performance.

Non-executive Directors are appointed for an initial three-year period. Their continued engagement is subject to the Company's Articles relating to the retirement of Directors by rotation. The terms and conditions of appointment of the Non-executive Directors are available for inspection at the Company's registered office.

Risk management

The Group has a prudent approach to risk management, and meets the required standards of a Tier 4 firm under the FSA Remuneration Code. It is the Group's intention to have a remuneration policy which promotes effective risk management and rewards long-term value creation and does not encourage excessive short term risk taking. Code Staff, who are not already significant shareholders, 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. Changes to the scheme are being made such that all Code Staff will be required to take a significant proportion of variable remuneration in share-based payments from 1 April 2011.

Salaries

The Group policy is to pay salaries which are competitive with other employers in our industry. A salary benchmarking exercise to establish the market position is carried out on a regular basis and this information contributes to the Group remuneration policy and any subsequent pay reviews.

Variable compensation

It remains the Group's policy to link the value of cash profit share and share awards to the Group's profitability. The Group Profit Share Scheme pool value for the year ending 31 March 2011 is 30% of pre- Profit Share EBIT (to include employers NI), although the Committee has the discretion to vary this amount between 25% and 35% in any individual year, with the intention being to maintain a long-term average of 30% of pre-Profit Share EBIT.

The Group Profit Share Scheme is payable through a combination of profit share payments in cash and share-based payments. The allocation of the profit share pool for Executive Directors is determined by the Remuneration Committee and for all other employees is delegated to management. The Group Profit Share Scheme is discretionary in that all payments made to Code Staff (including, but not restricted to Executive Directors and other Executive Committee members) are subject to Remuneration Committee approval and no payments are made automatically. Payments are awarded after input from the Compliance Officer, who reports any legal or compliance issues that relate to individuals who are in line to receive awards under the scheme. Any issues would also be monitored through compliance and risk reports at Audit and Risk Committee and Board meetings.

To ensure that the interests of management and shareholders are aligned, Directors and senior managers are required to take a proportion (initially a third) of their Profit Share in shares rather than cash, subject to a three year 'lock up'. These shares may be sold in three equal tranches on the first, second and third anniversary of the Profit Share payment date. Additionally, Directors and senior managers are offered the opportunity for up to a third of the Profit Share to be available for a share matching scheme that will also include a 'lock up' for three years. The remaining third will be paid in cash.

During the financial year, those Directors and senior managers who are significant shareholders (being a 2% ownership of the issued shares in Record plc), namely Neil Record (until 30 September 2010), Leslie Hill, Bob Noyen and one other, have been committed to funding the share matching scheme for

Directors and senior management from the Profit Share payments they would otherwise have received. In view of their substantial existing shareholdings, the Committee has determined that the significant shareholders' interests are already inextricably aligned with those of other shareholders, and therefore they take their Profit Share payments in cash.

With effect from 1 October 2010, Neil Record relinquished his role as Chief Executive Officer and Chairman to become Executive Chairman, and as a result of this change he was no longer a participant in the Group Profit Share Scheme from this date.

For the new financial year, it is intended that the funding of the share matching scheme will be borne from the Profit Share Scheme pool rather than from the significant shareholders. This change is being made to recognise the contribution of these individuals and their importance in meeting the Group's business development objectives in the short term. Another effect of this change is that the three remaining significant shareholders detailed above will be required to take their Profit Share in the same way as all other Directors and senior managers; i.e. as a combination of shares and cash rather than just as cash, as previously.

The Group recognises that increasing funds under management is a key priority. In order to incentivise the appropriate individuals to achieve this objective, the Group is considering introducing some form of commission based remuneration for potential new hires in this area of the business. For the intended new Consultant Relations and Sales specialist hire, who will be based in the US, it is recognised that this individual will be operating in a different market and that market conditions may also dictate that a commission arrangement is appropriate. Any such payments will be paid from the Group Profit Share Scheme pool and will not be borne by shareholders.

Share Scheme

The Record plc Share Scheme was adopted by the Company on 1 August 2008 and was initially created to allow deferred share awards to be granted to new senior employees. Since inception, share awards with an aggregate value at grant of £400,000 have been issued to two senior employees under the scheme. The shares are available to the employee after the vesting period for nil consideration upon exercise. The shares vest in three equal tranches on the second, third and fourth anniversary of appointment. Awards lapse on cessation of employment, subject to the Remuneration Committee's discretion to permit good leavers to exercise their awards. The rights to acquire shares are issued under nil-cost option agreements.

The Directors are not entitled to participate in the Share Scheme. However, James Wood-Collins received a deferred share award upon joining the Group and prior to his appointment as Chief Executive Officer. Further details for this award are contained under Directors' interests in Record plc share awards below. No other Directors had any interests in the Share Scheme at the beginning, during, nor at the end of the period.

For the new financial year, the Record plc Share Scheme will be used to offer a group of individuals below Board level, who the Executive Committee believe have the skills and potential to contribute significantly to the business in the future, the opportunity to participate in a share option scheme. Options will be granted at a strike price set at the share price prevailing at the time of grant, and will vest after four years. The scheme has the condition that each participant must be employed at the end of this period and a further condition stipulates that a performance hurdle is met based on total shareholder return value in comparison with a relevant peer group. The funding of this scheme will be borne from pre-tax profits and will therefore be in addition to the Record Group Profit Share Scheme.

It is anticipated that options over up to 1,800,000 shares will be granted as part of this scheme. It is intended to amend the Share Scheme to enable it to provide tax-approved awards to employees of Record plc or its subsidiaries. Awards will be in the form of options with an exercise price equal to the market value of a share on the date of grant. Each participant may be granted approved options over shares with a total market value of up to £30,000 on the date of grant.

Delivery of share awards

Share awards under the Group Profit Share Scheme are covered wherever possible through market purchases, not through the issue of new shares, and this remains our intention for the future in order to avoid dilution. Awards under the Share Scheme must be satisfied with market purchase shares.

Pension

The Group contributes to a defined contribution Group Pension Plan ('GPP'). The contributions made by the Group depend on the seniority of each employee (the 'Group's Initial Contribution'). No employee contribution is necessary to benefit from the Group's Initial Contribution, but the Group will match contributions up to a maximum of 3% of salary (the 'Group's Additional Contribution'). Any employee over the age of 55 and who has taken early retirement according to tax legislation rules can have their standard contributions paid as additional taxable salary if they would prefer, but forego the Group matching contribution.

The remuneration of the Directors listed by individual Director is as follows:

	Salaries	Fees	Benefits	Profit Share - Share based payments	Profit Share - Cash based payments	Year ended 31 March 2011	Year ended 31 March 2010
Executive Directors							
Neil Record[1]	287,107[2]	-	826	-	279,766	567,699	892,502
James Wood-Collins[3]	143,407[4]	-	397	279,795	87,436	511,035	-
Leslie Hill	272,225	-	-	-	510,525	782,750	867,750
Bob Noyen	249,540	-	1,087	-	468,107	718,734	868,471
Peter Wakefield	-	-	-	-	-	-	348,084
Paul Sheriff	246,591[5]	-	1,087	287,768	192,359	727,805	632,560
Non-executive Directors							
Cees Schrauwers	-	75,000	-	-	-	75,000	75,000
Andrew Sykes	-	40,000	-	-	-	40,000	40,000
Jeremy Palmer[6]	-	-	-	-	-	-	10,000
David Morrison[7]	-	40,000	-	-	-	40,000	20,000
Total	1,198,870	155,000	3,397	567,563	1,538,193	3,463,023	3,754,367

Pensions

Executive Directors are entitled to join the Group Personal Pension Scheme. This is a defined contribution plan, to which the Group makes contributions equal to 13% of each Director's salary and matches any contributions made by the Director up to a further 2.5%. There is no mandatory requirement for Executive Directors to contribute.

[1] Neil Record relinquished the joint role of Chief Executive Officer and Chairman with effect from 1 October 2010, remaining as Executive Chairman.

[2] Neil Record's pension contributions of £33,030 were paid as taxable salary in accordance with the Group's pension policy and are included in this figure.

[3] James Wood-Collins was appointed Chief Executive Officer with effect from 1 October 2010. Remuneration from 1 April 2009 to 30 September 2010 is excluded from these figures.

[4] The Remuneration Committee approved payment of £7,295 to James Wood-Collins as salary in lieu of pension contributions during the year, which are included in this figure.

[5] The Remuneration Committee approved payment of £3,395 to Paul Sheriff as salary in lieu of pension contributions during the year, which are included in this figure.

[6] Jeremy Palmer was appointed as a Non-executive Director on 1 October 2009 and resigned on 5 January 2010.

[7] David Morrison was appointed as a Non-executive Director on 1 October 2009.

The contribution made in respect of each Executive Director is as follows:

	Year ended 31 March 2011	Year ended 31 March 2010
Neil Record[8]	-	14,065
James Wood-Collins	10,800	-
Leslie Hill	42,195	42,195
Bob Noyen	38,679	42,195
Peter Wakefield	-	17,581
Paul Sheriff	34,100	34,100
Total	**125,774**	**150,136**

Directors' share awards

No Director was awarded any share options during the financial year ended 31 March 2011.

The only Director to hold or exercise any share options during the financial year was James Wood-Collins. The grant of these share options was made upon his joining the Group, prior to his appointment to the Board of Directors and in accordance with the rules of the Record plc Share Scheme.

[8] In accordance with the Group's pension policy, payments in lieu of pension were made totalling £33,030 to Neil Record (2010: £23,593). No pension contributions were made on behalf of Neil Record in the year (2010: £14,065).

Further details regarding the number of shares and vesting conditions attached to the share options are contained below:

Directors interests in Record plc ordinary shares

	Ordinary shares held as at	
	31 March 2011	**31 March 2010**
Executive Directors		
Neil Record	71,171,043	71,171,043
James Wood-Collins[9]	498,066	290,273
Leslie Hill	14,828,039	14,828,039
Bob Noyen	8,418,561	8,418,561
Paul Sheriff[10]	445,109	231,033
Non-executive Directors		
Cees Schrauwers[11]	100,000	60,000
Andrew Sykes	25,000	25,000
David Morrison	-	-

All interests are beneficial except the interest of Neil Record which includes a non-beneficial interest of 190,332 ordinary shares (2010: 190,332 ordinary shares) held as trustee.

There have been no changes to Director's interests between 31 March 2011 and 13 June 2011

[9] Includes interest in Record plc shares acquired under the Group Profit Share Scheme and vested under the Share Scheme as detailed in Directors interests in Record plc share awards

[10] Includes interest in Record plc shares acquired under the Group Profit Share Scheme as detailed in Directors interests in Record plc share awards, and shares held by the Director's spouse

[11] Includes shares held by the Director's spouse

Directors' interests in Record plc share awards

	Interest in share awards held as at	
	31 March 2011	**31 March 2010**
Record plc Group Profit Share Scheme[12]		
Executive Directors		
James Wood-Collins	369,403	190,273
Paul Sheriff[13]	445,109	231,033
Record plc Share Scheme[14]		
Executive Director		
James Wood-Collins	113,496	170,245

[12] The shares are held via a nominee and were acquired on behalf of the Director as beneficial owner under the terms of the scheme rules. Shares cannot be sold, transferred or otherwise disposed of ('Sold') without the consent of the Remuneration Committee except as given in the scheme rules, which place restrictions on the 'Sale' of shares until the first, second and third anniversary from the Profit Share payment date. None of the shares are subject to any vesting or forfeiture provisions and the beneficial owner is entitled to full rights and rewards of ownership subject to those restrictions as noted above. The shares are included in Directors' interest in Record plc ordinary shares.

[13] As permitted by the scheme rules, these shares are held in the names of the Director's spouse

[14] The shares are available to the director after the vesting period for nil consideration upon exercise. A total of 170,245 shares were awarded to the employee upon joining the Group in August 2008. A total of 56,749 shares were exercised in August 2010 when the market share price was £0.46 per share. The remaining balance of 113,496 shares vest in two equal tranches of 56,748 shares in August 2011 and August 2012 respectively. The vesting of shares is subject to continued employment with the Group. The vested shares are included in Directors' interest in Record plc ordinary shares.

Financial Resources

The table below summarises the composition of regulatory capital for Record as at 31 March 2011:

	£k
Issued share capital	55
Share premium account	1,809
Retained earnings and other reserves	27,282
Tier 1 Capital before deductions	29,146
Deductions from Tier 1 Capital	1,085
Tier 1 Capital after deductions	**28,061**