RECORD PLC

CAPITAL REQUIREMENTS DIRECTIVE
PILLAR 3 DISCLOSURES – JULY 2015

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. Capital requirements;
2. Risk management objectives and policies;
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), authorised and regulated by the FCA. This report has been prepared on a consolidated basis for Record plc and all of 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, and if appropriate, more frequently.

Verification

The Pillar 3 disclosures are subject to internal review procedures 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.

1. Capital Requirements

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 £2,591k as at 31 March 2015. The Group consists of seven legal entities and all UK regulated activities are 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. Further details on the group subsidiaries are included in Note 12 of the financial statements section of the 2015 Annual Report.

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:

- 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 – the risk that system issues require timely corrective action.
- Mis-selling – the risk that during the sales process misleading information or advice is given.

Record generated £7.7m in pre-tax profits from revenue of £21.1m for the year ended 31 March 2015. 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") document. 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, 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 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, 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;

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 to determine the level of capital that Record needs to hold. Therefore, additional capital is held in excess of Pillar 1 capital.

2. 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 of the firm in light of that analysis.

The Main Board is assisted in its role in leading the business by various Board and Operational sub-committees, one of which being the Audit and Risk Committee. One of the Audit and Risk Committee's duties includes the oversight and review of internal control and risk management, and its operational sub-committee, the Risk Management Committee ("RMC"), has been delegated the day-to-day responsibility for overseeing and mitigating risks arising across the activities of the regulated subsidiary (RCML) and the Group as a whole. There is also an established and on-going internal Compliance Monitoring Programme. In addition there is 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.

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 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 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. 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 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 detailed Risk Register which summarises these details and feeds into the control framework of the firm.

The Pillar 2 operations risk assessments consider 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 from which 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, 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 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 and deepest 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. 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 exposure with 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 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 managing the cash to support the currency programme, this will 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.

Employee risk

Record is dependent on its ability to attract and retain the highest quality staff. Risk associated with the loss of any one individual is mitigated due to the fact that the investment policy, supported by fundamental research, is agreed by the Investment Committee and implemented systematically. As such the company 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 of Record 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, will be in 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 encouraging 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 Nomination Committee tasked with considering the succession planning for Directors and other senior executives within the business.

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 recognises the importance this system plays in the operational infrastructure of the firm. Record 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 ensure that any potential issues identified can be rectified on a timely basis.

3. Remuneration

Remuneration Committee

The Remuneration Committee is chaired by Andrew Sykes who is supported by Cees Schrauwers and David Morrison.

The Board considers that Andrew Sykes, Cees Schrauwers and David Morrison are independent of management and free from any business or other relationship that could materially interfere with the exercise of their independent judgement.

The Remuneration Committee meets as often as required to discharge its duties and met seven times during the year ended 31 March 2015. The Executive Chairman, the Chief Executive Officer, the Human Resources Director, the Chief Financial Officer and the Compliance Officer attended all or part of the meetings at the invitation of the Committee but no Director takes part in the determination of their own remuneration.

The Remuneration Committee is responsible for agreeing the remuneration policy for the Group, including the Group Profit Share Scheme, 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 communicated explicitly to shareholders, both in discussions and through the publication of our remuneration policy last year.

Our Company's culture, governance and risk management processes underpin our principles of reward, which are aligned with providing the best possible client service, and are designed to support 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. Our remuneration policy is designed to act in the interests of all our key stakeholders: our clients, shareholders, employees and regulators.

Our remuneration policy was approved by shareholders last year for three years and we are not proposing any major changes to our remuneration structure for this year.

It remains the Group's policy to link the value of profit share to the Group's profitability. The Group Profit Share Scheme pool value for the year ending 31 March 2015 was again 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 medium-term average of 30% of pre-Profit Share EBIT.

In line with our policy of promoting alignment between the interests of senior management and shareholders, the Group Profit Share Scheme for Directors requires at least one third of any variable remuneration to be taken as shares, which are locked up for a period of up to three years. The Director may elect to take a further third of any award in shares, with the elected shares attracting a further element of matching.

The Record Group Share Scheme provides the opportunity for Executive Directors to be awarded share options, subject to defined limits, to enhance their ability to acquire an appropriate level of equity ownership. Share option awards were made to all of the Executive Directors during the year in accordance with the terms and objectives of the Share Scheme.

With the move towards higher fixed remuneration in the financial services industry, all staff have been awarded an exceptional 10% salary increase, with effect from 1 May 2015. This was separate from and in addition to the normal pay review round in April which resulted in a general increase of 3%.

One of the Executive Directors received both of these salary increases, while the other three have only been awarded the exceptional increase of 10%. The Committee considers that the Executive Directors' salaries are now at the appropriate level and to provide some context, after the recent increases, an Executive Director's salary now is just 2% higher than it was seven years ago, having seen a previous 10% decrease in December 2011.

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. Whilst this situation may diminish over time, a significant proportion of the shares in Record plc will, for the foreseeable future, continue to be 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.

Remuneration Policy – Executive and non-Executive Directors

BIPRU 11.5.18 requires disclosure of remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile in a manner that is appropriate to the size, internal organisation and the nature, scope and complexity of their 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 remuneration policy for Executive Directors and non-Executive Directors are shown in separate tables below:

Remuneration Policy for Executive Directors

Element, purpose and link to strategy	Operation, performance measures, deferral and claw back	Further information
Base salary To pay a salary that reflects the role, responsibilities, experience and knowledge of the individual, ensuring that the salary paid is competitive with other employers in our industry.	Salaries are paid monthly through the payroll and reviewed annually by the Remuneration Committee. Any review will take into account market rates, business performance and individual contribution. There is no prescribed maximum salary. However, increases are expected to normally be in line with the typical level of increase awarded across the Group, except under certain circumstances such as: - a new Executive Director is appointed at lower than typical market salary to allow for growth in the role; - larger increases in salary may be awarded to position salary closer to market levels as experience increases; - higher increases may be awarded to reflect an increase in responsibilities or promotion; and - where there has been a significant change in market practice.	Executive Directors' salaries are reviewed annually but historically have been adjusted infrequently. In line with the general level of increase for all staff, a salary increase of 10% has been awarded to all of the Executive Directors from 1 May 2015. In addition, one Executive Director received a 3% increase in April, in line with other staff. No other Executive Directors received this increase.

Benefits To provide a benefit package that provides for the wellbeing of our colleagues.	Executive Directors receive a range of benefits including, but not limited to, private medical insurance, permanent health insurance, life assurance, personal accident insurance and annual holiday. There is no maximum level of benefit – the overall level of benefits will depend on the cost of providing individual items and on the individual's circumstances.	There is the option to exchange medical insurance for the cash equivalent for all staff, including Executive Directors. In May 2015, a dental insurance benefit has been added, which is available to all staff including Executive Directors. Benefit schemes are reviewed on an annual basis to ensure that the costs and service of the schemes are appropriate.
Pension To provide an appropriate retirement income.	Executive Directors are entitled to join the Group Personal Pension Scheme. This is a defined contribution plan to which the Group makes contributions of up to 13% of each Director's salary which can be paid into the Group Personal Pension Scheme, taken as cash or a combination of the two. A core contribution of 3% employer contributions will be paid into the Director's scheme unless they have exceeded the lifetime allowance and a further 10% can be paid as employer's pension contributions, taken as cash or a combination of the two. The Group also matches any contributions made by a Director up to a further 2.5%, depending on the level of flexible and personal contributions made by the Director.	Executive Directors can choose to take employer pension contributions as taxable salary if they can no longer make contributions due to the lifetime allowance conditions.

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Group Profit Share To reward individual and collective performance, aid retention and to align interests with those of our shareholders.	The Group Profit Share Scheme is based on pre-tax profitability of the business for the financial year and is paid semi-annually. Executive Directors are eligible to participate in the Group Profit Share Scheme, together with all staff. The Remuneration Committee sets the quantum of the Scheme with the intention of maintaining this at an average of 30% of operating profits. The allocation of the Profit Share pool is determined by the Remuneration Committee for Executive Directors and is based on the role and performance of the individual Director. Whilst the profit share pool is capped based on the profitability of the Group and range stated above, there is no individual maximum entitlement set within this limit. Executive Directors are required to take one third of their payment in shares subject to lock up conditions of one to three years and in addition are offered the opportunity for up to a further third of the Profit Share to be paid in shares which will attract matching shares and will also include a lock up for three years. The remaining amount will be paid in cash. Claw back provisions are in place in the event of adverse restatement of accounts or material misconduct, at the discretion of the Remuneration Committee.	The profit share scheme range is capped at 25% to 35% of operating profits with the intention of this being an average of 30%. Key features of the scheme may be amended to the advantage of Executive Directors only with prior shareholder consent.

Share Scheme To incentivise long-term performance, aid long-term retention and to align interests with those of our shareholders.	Executive Directors are eligible to participate in the Record plc Share Scheme as are all staff. The Share Scheme allows the Remuneration Committee to grant options over up to 2% of the market capitalisation of Record plc (being approximately 4.4 million shares) per annum. Of this total 1% (approximately 2.2 million shares) can be made to Executive Directors. Any share options awarded are subject to a performance condition based on Record's annual EPS growth with vesting proportions directly related to this growth. Claw back provisions are in place for Unapproved Options should there be any restatement of accounts or breach of contract, at the discretion of the Remuneration Committee.	Share options were awarded to all of the Executive Directors this year, using all of the 1% allocation. The Remuneration Committee limit the value of shares over which an option is granted to any Director in any year to a maximum of 200% of that Director's salary for that year. Key features of the scheme may be amended to the advantage of Executive Directors only with prior shareholder consent.
Share Incentive Plan To incentivise long-term performance, aid long-term retention and to align interests with those of our shareholders.	The Group has an HMRC-approved Share Incentive Plan (SIP). Executive Directors are able to buy shares from pre-tax salary up to an HMRC approved limit (£1,800 for the financial year ended 31 March 2015), which is matched at a rate of 50%.	

Remuneration Policy for non-Executive Directors (including Chairman)

Element, purpose and link to strategy	Operation, performance measures, deferral and claw back	Further information
Salary / Fees To pay a salary / fee that reflects the role, responsibilities, time, experience and knowledge of the individual, ensuring that the salary / fee paid is competitive with other employers in our industry.	Salaries and fees are reviewed annually. Any review will take into account market rates, business performance and individual contribution. Whilst there is no prescribed maximum salary / fee, increases are expected to normally be in line with the typical level of increase awarded across the Group. Salaries and fees in the year were: • Chairman: £70,000; • Senior Independent Director: £69,525; and • Non-executive Directors: £37,080.	The Chairman's salary is recommended by the Remuneration Committee and approved by the Board. The Chairman does not participate in the Group Profit Share Scheme nor the Share Scheme. The Non-executive Directors' fees are approved by the Board and they do not participate in the Group Profit Share Scheme nor the Share Scheme. Non-executive Directors' fees are reviewed annually but historically have been adjusted infrequently. In line with the general level of increase for all staff, an increase of 10% has been awarded to the Chairman and the Non-executive Directors from 1 May 2015. In addition, the Non-executive Directors received a 3% increase in April 2015, in line with other staff. The Chairman did not receive this increase.

Benefits To provide a benefit package that provides for the wellbeing of our colleagues.	The Chairman receives a range of benefits including, but not limited to, private medical insurance, permanent health insurance, life assurance, personal accident insurance and annual holiday.	The Non-executive Directors do not receive any additional benefits although the Board may introduce additional benefits if it is considered appropriate to do so. The Company reimburses the Chairman and Non-executive Directors for reasonable expenses in performing their duties.
Pension To provide an appropriate retirement income.	The Chairman is entitled to join the Group Personal Pension Scheme. Group policy allows any employee over the age of 55 who has taken early retirement according to tax legislation rules to have their standard employer pension contributions paid as additional taxable salary but forego the Group matching contribution. In accordance with this policy, the Chairman receives additional salary equivalent to the standard pension contributions that would normally be paid.	The Non-executive Directors do not receive pension benefits.
Share Incentive Plan	The Chairman and the Non-executive Directors do not participate in the Group Profit Share, the Share Scheme nor the SIP scheme.	

Differences in remuneration policy for Executive Directors compared to other employees

There are no differences to the remuneration structures in which Executive Directors and employees can participate, those being base salary, benefits, pension, Group Profit Share Scheme and the Share Scheme. There are, however, different requirements for share deferral within the Group Profit Share Scheme and different performance conditions and claw back provisions for any share awards between Executive Directors and other employees.

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 Remuneration 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).

Quantitative information on remuneration of Code Staff (for the Year Ended 31 March 2015)

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 & risk management	11	0	1.68	0.96	0.57	1.53	3.21

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	2,610,000	3,315,000	1,604,542
Other staff members	-	-	-

4. Financial Resources

The table below summarises the composition of regulatory capital for Record based on the audited financial statements as at 31 March 2015:

	£000's
Issued share capital	55
Share premium account	1,847
Retained earnings and other reserves	30,026
Tier 1 Capital before deductions	31,928
Deductions from Tier 1 Capital	(504)
Tier 1 Capital after deductions	**31,424**