**Pillar 3 Disclosure**

## 1.0 Introduction

The Capital Requirements Directive ("CRD") of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ("FCA") in its regulations through the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). The CRD implementation is based on three 'Pillars', which form the cornerstones of the process.

• Pillar 1 is the prescribed or minimum capital requirement for an authorised Firm to meet its credit, market and operational risk.

• Pillar 2 requires a Firm to conduct an assessment known as an Internal Capital Adequacy Assessment Process (ICAAP) that considers risks and uncertainties that are not included in Pillar 1 to determine whether the Pillar 1 capital is adequate to meet its risks; and

• Pillar 3 complements the above and requires a Firm to publish certain information about its risks, capital and risk management controls and processes.

1.1 The requirements for Pillar 3 disclosures are detailed in the FCA Handbook of Rules and Guidance under BIPRU 11

1.2 Disclosures are required to be made on at least an annual basis (or more frequently if required). We are permitted to omit required disclosures if we believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information. In addition, we may omit required disclosures where we believe that the information is regarded as proprietary or confidential. In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and other counterparties.

1.3 This document is designed to meet the Pillar 3 obligations of London Stone Securities Limited.

## 2.0 Company Profile

2.1 London Stone Securities ("LSS") is incorporated in the UK and authorised and regulated by the Financial Conduct Authority (FCA) No: 479827.


T: +44 (0) 20 3697 1700
E: info@londonstonesecurities.co.uk
W: www.londonstonesecurities.co.uk
W: www.londonstonegroup.co.uk

2.2 The FCA classifies LSS as a BIPRU limited Licence 50k Company. The 50k to a base capital requirement of €50k In order to meet the Basel II Pillar 1 minimum capital requirement, LSS must maintain capital resources equal to or in excess of its Variable Capital Requirement

This is the higher of (I) the Fixed Overhead Requirement or (II) the sum of the Credit Risk Capital and the Market Risk Capital Requirements The capital used to meet the €50k base capital requirement can be used to meet any other elements of the capital resources requirement

As a BIPRU limited licence €50k Company there is no need to calculate an Operational Risk Capital Requirement for Pillar 1 purposes.

2.3 Pillar 2 requires LSS to ascertain whether it should hold additional capital against risks not covered in Pillar 1 such that LSS can meet its liabilities as they fall due. As required by the FCA, LSS has conducted a systematic Internal Capital Adequacy Assessment Process ("ICAAP"). In the event that this exercise were to produce a higher capital requirement than Pillar 1 requirement, LSS would need to maintain this higher Pillar 2 requirement. In LSS's case the results of the ICAAP show that the Pillar 2 requirements is not greater than that for Pillar 1.

2.4 Pillar 3 requires LSS to disclose objectives and policies for each category of risk including strategies and processes to manage risks, risk management functional structure and arrangements, the scope and nature of risk reporting and measurement systems and policies for hedging and mitigating risks on a continuous basis. LSS chooses to publish its Pillar 3 disclosure requirements within this report.

2.5 The company is subject to the disclosures under the Banking Consolidation Directive; however, it is not a member of a UK Consolidation Group and consequently, does not report on a consolidated basis for accounting and prudential purposes.

**3 Governance Framework**

3.1 The Board of LSS is the Governing Body of the Company and has oversight responsibilities.

3.2 The Board is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Board determines the Company's risk appetite or tolerance for risk and ensures that the Company has implemented an effective, on-going process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. The Directors and Senior managers are accountable for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Company.

3.3 The ICAAP assessment is formally reviewed by the Board on a semi-annual basis, and amended where necessary, or when a material change to the business occurs. The ICAAP document is presented to the Board which reviews and endorses its risk management approach, at the same time as reviewing and signing off the ICAAP document. The company's accountants will also have an input into the document.

**4 Risk Management Objectives and Material Risk Definition**

4.1 The company utilises the platform of one of the largest providers of online trading, Jarvis investment Management, as well as having in place a “Model B”, clearance, settlement and custody arrangement with Jarvis Investment Management for clients using the firm’s Classic Service. These arrangements provide investors with a degree of security. The company acts as an introducer with client funds being held by external companies. The management objective is to continue to meet its capital adequacy requirements, providing an individual service together with the most suitable and expert advice at a fair and reasonable cost.

4.2 Operational Risk

The Company has identified its most material risks as the levels of operational risk and how these risks apply to the small niche market that the company operates in, and what effects the introduction of any changes deemed necessary will have on the company’s basic business model. The main operational risk is defined as the risk of loss from inadequate or failed internal process, people and systems, or from external events.

4.3 The company manages this risk through identifying potential risk trigger events, quantifying the risks and assessing the controls that the company has put into place to mitigate the risk. These controls include internal and external training, internal compliance reviews, monitoring of positions and unusual trades.

4.4 The company’s general risk management objective is to develop systems and controls to mitigate risk to a level that does not require the allocation of additional capital.

4.5 The Risk Framework and Identification Process

The Director in consultation with Senior Management has identified the principal risk factors and categories of risks as applicable to LSS. These risks are reviewed by the Board. The Board of LSS recognises that it has ultimate responsibility for overseeing risk management. The ICAAP Report and Pillar 3 disclosure are presented to the Board for approval on a six-monthly basis unless events warrant an interim exercise.

**5.0 Capital Resources**

5.1 Tier 1 Capital

The Company’s Tier 1 capital comprises ordinary shares, plus retained profit or reserves at the Balance Sheet date.

Ordinary share capital £100

Share premium £75,000

Audited reserves £231,000

Tier One Capital £306,000

Less variable requirement £79,000

Surplus £227,000

5.2 Tier 2 Capital

No additions or deductions are made for Tier 2 Capital.

Base Capital Resources Requirement £44,000

Fixed Overhead Capital Requirement £79,000

Credit Risk Capital Requirement £0

Market Risk Capital Requirement £0

Total Variable Capital Requirement £59,000

5.3 Credit Risk

This represents the risk of loss due to non-payment for transactions from Jarvis or client defaults, in which case Jarvis not LSS are liable for the default. Our experience to date has been a low value of dealing error occurrences (0.4%) combined with extremely strong controls; these levels have been absorbed in monthly profit and loss trading to date.

5.4 Market Risk

The company's business plan is reliant on maintaining existing business and organic growth, based on client referrals and management contacts. Management accounts are regularly provided to the Board on profits, cash flow and capital resources. It is not considered that LSS's niche market represents a business risk due to the nature of their trading and the stable client base.

**6 Pillar 3 remuneration disclosures**

LSS does not have a separate Remuneration Committee. The Board will discuss and agree on remuneration from time to time for code staff – but the levels in relation to fixed and performance related pay have been static for several years. The Directors take into account the company's strategic objectives in setting remuneration and are mindful of its duties to shareholders and other stakeholders.

6.1 Code Staff criteria

The following groups have been identified as meeting the FCA criteria for Code Staff:

1) Directors

2) Significant Influence Functions

3) Brokers (CF30)

LSS currently has 3 code staff

• 1 significant influence functions

• 1 Directors

• 2 Brokers +1 Directors who also hold CF30 and deal on behalf of some clients.

6.2 The link between pay and performance for Code Staff

Staff remuneration is made up of fixed pay (Basic) and performance related pay (Commission and other bonuses). Brokers are defined as either a Junior Broker, Broker or Senior Broker and the fixed element reflects a broker's experience, length of service, qualifications and overall status within the company. The performance element is set against the Remuneration Matrix policy and is designed to reflect success or failure against a range of internal targets. The aim of the matrix is to encourage good compliance/ trading / customer service, by brokers and at the same time discourage poor compliance.