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## **Pillar 3 Disclosure and Policy**

### **1 Introduction**

Under UK financial services regulation Hedley & Company Stockbrokers Limited is required to make publicly available certain information regarding risk management policies, capital resources and capital requirements.

### **2 Regulatory Context**

This document serves to meet the Pillar 3 disclosures required by the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU") specifically BIPRU 11.3.1R and BIPRU 11.3.3R. These rules implement in the United Kingdom the Capital Requirements Directive ("CRD"), which represents the European Union's application of the Basel Capital Accord.

The regulatory aim of the disclosures is to improve market discipline.

The CRD requirements have three pillars:

- Pillar 1 deals with minimum capital requirements that must be held;
- Pillar 2 deals with the Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves on the adequacy of capital held by the firm in relation to the risks it faces, and;
- Pillar 3 deals with public disclosure of risk management policies, capital resources and capital requirements.

### **Frequency**

The Firm will be making Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date ("ARD") which is 31<sup>st</sup> August.

### **Media and Location**

The disclosure will be made available on the Firm's website.

### **Verification**

The information contained in this document has not been audited by the Firm's independent appointed auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

### **Materiality**

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

## **Confidentiality**

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investment therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

## **3 Background to the Firm**

Hedley & Company Stockbrokers limited is incorporated in the UK and is a limited licence firm authorised and regulated by the FCA to carry on specified business activities.

## **4 Summary of Risks**

The Firm is an established Stockbroker which seeks to mitigate risk by implementing sound systems and controls and corporate governance arrangements.

We have identified several scenarios which may have a detrimental impact on our business and subjected them to analysis and a stress test. The results inform the Firm that our capital planning forecasts and proposed management actions ensure we have adequate regulatory capital. The existing financial planning process has been integrated into the Internal Capital Adequacy Assessment Process ("ICAAP") to develop forward looking financial forecasts.

## **5 Specific Required Disclosures**

### **BIPRU 11.5.1R Disclosure on Risk Management Objectives and Policies**

#### **Risk Management Objective**

Our general risk management objective is to create and use adequate systems and controls to mitigate risk and monitor the operation of the business and its environment to ensure that sufficient capital to cover all relevant risk is held at all times.

#### **Governance Framework**

The Board of Directors ("the Board") is the Governing Body of the Firm. It meets monthly, and is composed of:

- Tony Hedley Non-Executive Director
- Nick Baldwin Executive Director
- Tim Scott Executive Director
- Ian Currie Non-Executive Director

The role of the Board is to provide strategic leadership of the Firm within a framework of good corporate governance and prudent and effective controls which enables risk to be assessed and managed.

#### **The Risk Management Framework**

The Board regards managing risk as a process of continuous improvement.

The Board is responsible for the total process of risk management, as well as forming its own opinion on the effectiveness of the process. The Board, in liaison with the executive directors and senior management, sets the risk strategy policies. The Board decides the Firm's appetite or tolerance for risk – those risks it will accept and those it will not take in the pursuit of its goals and objectives. In addition, the Board ensures that the Firm has implemented an effective, ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to ensure that such risks are actively managed. The Board will, at least annually, conduct a review of the effectiveness of the Firm's system of internal controls and should report to shareholders they have done so. The review will cover all material controls, including financial, operational and compliance controls and risk management systems.

**BIPRU 11.5.2 R – Disclosure on the Scope of the Application of Directive Requirements**

The firm submits reports for accounting and prudential purposes to the FCA on an unconsolidated basis.

**BIPRU 11.5.3 R Disclosure of Capital Resources**

<b>Regulatory Capital at 31 August 2020</b>	<b>£'000</b>
<b>Total Tier 1 Capital</b>	<b>365</b>
<b>Total Tier 2 Capital</b>	<b>-</b>
<b>Total Tier 3 Capital</b>	<b>-</b>
<b>FCA Capital Resource Requirement</b>	<b>214</b>
<b>Surplus</b>	<b>151</b>

**Regulatory Risk Calculations**

The following calculations are based on the management accounts at 31st August 2020. The Capital resource requirement is the higher of credit risk plus market risk and the fixed overhead requirement (the variable overhead requirement). The higher of the variable overhead requirement and base capital resource is then selected:

	(£'000)	(£'000)	(£'000)
Base Capital Resource		112	
Fixed Overhead requirement	214	214	214
Credit Risk Component	38		
Operational Risk	0		
Counterparty risk	0		
FCA Capital Resource requirement			214

In line with the requirements for our prudential category, our Pillar 1 Capital Resources Requirement is equal to the higher of: €125,000; or Credit Risk Capital plus Market Risk Capital; or Fixed Overhead Requirement. Our Fixed Overhead Requirement is disclosed as a proxy for the Pillar 1 Operational Risk Capital calculation

**BIPRU 11.5.4 R Disclosure on Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the Overall Pillar 2 Rule****BIPRU 3- Disclosure on Standardised Credit Risk**

The Firm has adopted the standardised approach and the simplified method of calculating risk weights.

**BIPRU 4 – Disclosure on Internal Ratings Based Approach**

The Firm does not adopt the Internal Ratings Based approach and therefore this is not applicable.

**BIPRU 6 - Disclosure on Operational Risk Requirement**

This disclosure is not applicable because the Firm is a limited licence firm and therefore is not subject to the Operational Risk Requirement.

**BIPRU 7 - Disclosure on Market Risk**

This disclosure is not applicable because the Firm does not have a Trade Book.

**BIPRU 10 - Disclosure on Large Exposure Requirements**

The Firm has adopted the standardized approach and closely monitors all exposures to ensure that the regulatory required thresholds are not exceeded.

**Disclosure on Overall Pillar 2 Rule**

The Firm has adopted the "Pillar 1 Plus" method of calculating its ICAAP Capital Resources Requirement. The Compliance Officer presents the ICAAP report to the Board for their review, amendment and approval on an annual basis or whenever a material change to the business arises.

**BIPRU 11.5.5 R – Disclosure on Retail Exposures**

This disclosure is not required because the Firm has not adopted Internal Ratings Based approach to credit risk.

**BIPRU 11.5.6 R Disclosure on Equity Exposures**

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3) .

**BIPRU 11.5.7 R Disclosure on Counterparty credit risk**

This disclosure is not applicable because the Firm does not have a Trade Book

**BIPRU 11.5.8 R Disclosure on Credit Risk and Dilution Risk**

The Firm is primarily exposed to Credit Risk from the risk of non-collection of advisory and sub-advisory fees. It holds all cash and performance fee balances with Banks assigned high credit ratings. Consequently risk of past due or impaired exposures is minimal.

**BIPRU 11.5.9 R Disclosure on Value Adjustments and Provisions**

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired Exposures that need to be disclosed under BIPRU 11.5.8R (9).

**BIPRU 11.5.10 R Disclosure Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach**

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights (BIPRU 3.5).

**BIPRU 11.5.11 R Disclosure on calculating Risk Weighted Exposure amounts using the IRB Approach**

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by BIPRU 11.5.4R (3).

**BIPRU 11.5.12 R Disclosure on Market Risk**

This disclosure is not applicable because the Firm does not have a Trade Book

**BIPRU 11.5.13 R Disclosure on use of VaR model**

This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.

**BIPRU 11.5.15 R - Disclosure on Non-Trading Book Exposures in Equities**

This disclosure is not required because the Firm does not have non-trading book exposure to equities

**BIPRU 11.5.16 R Disclosures on Exposures to Interest Rate Risk in the Non-Trading Book**

There no significant exposure to Interest Rate fluctuations.

**BIPRU 11.5.17 Disclosures on Securitisation**

This disclosure is not required as the Firm does not securitise its assets

**BIPRU 11.5.18 Remuneration Policy.**

The executive board of the company serve as the remuneration committee as is common with many businesses of our size.

Overall remuneration may include an annual incentive compensation reflecting individual performance and responsibility, both short and long term, as well as the company's overall performance.

Due to the size and complexity of our business the Executive Directors are considered the only remuneration code staff.

The remuneration of the Directors for the year to 31 August 2020 may be summarised as follows:

	<b>2020</b>	<b>2019</b>
	£	£
<b>Aggregate Emoluments</b>	<b>119,010</b>	<b>129,504</b>

During the year the company paid dividends to the directors as follows:

	<b>2020</b>	<b>2019</b>
	£	£
£1 Ordinary - paid	85,411	114,280
6% Preference Shares accrued	22,800	22,800