GREENLEYS MERCHANT BANK LLP

PILLAR 3 DISCLOSURE & POLICY

March 2020

GREENLEYS MERCHANT BANK

PILLAR 3 DISCLOSURE & POLICY

Introduction

Regulatory Context

The Pillar 3 disclosure of Greenleys Merchant Bank LLP ("**GMB**" or "the **Firm**") is set out below as required by the FCA's "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU) specifically BIPRU 11.3.3 R. This follows the introduction of 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.

Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will start as of the Accounting Reference Date ("ARD"). The Pillar 3 will be updated following completion of the firms audit by BDO for the accounting period ending 31st March each year.

Media and Location

The disclosures will be made available to the extent which the FCA requires.

Verification

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

Materiality and Confidentiality

The Firm regards information as material in these disclosures, if its omission or misstatement could change or influence the assessment or decisions 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.

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 investments therein less valuable. Furthermore, 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 this and explain the grounds on which it has not been disclosed.

Summary

The regulatory framework of the Capital Requirements Directive ("CRD") comprises 3 pillars:

- Pillar 1 sets out the minimum capital required such that the firm will ensure that sufficient capital is retained to support the company's daily business activities.
- Pillar 2 deals with the Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process by which the firm and regulator satisfy themselves regarding the adequacy of capital held by the Firm in relation to the risks it faces.
- Pillar 3 deals with public disclosure of risk management policies, capital resources and capital requirements.

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

The Firm is a Broker Dealer in equity and credit markets. It acts as an agent and matched principal, so the main protection to our customers is provided through client money arrangements by the Firm's clearers. The Firm's largest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk, which include:

- The strategies and processes to manage those risks
- The structure and organisation of the relevant risk management function or other appropriate arrangement.
- The scope and nature of risk reporting and measurement systems
- The policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

A number of key operations are outsourced by our clients to third party providers reducing our exposure to operational risk. The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is that fees cannot be collected and the exposure to banks where revenue is deposited. The Firm's credit risk appetite is low so the Firm holds all cash with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to any cash amounts held by the Firm in a foreign currency. The firm receives the large majority of its revenues in GBP and therefore has very limited foreign currency exposure. Where the firm develops foreign currency exposure, such exposure is actively managed.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a Broker Dealer. The Firm's activities give it the BIPRU categorisation of a "Limited Licence" and a "IFPRU €50K" firm.

The following entities are covered by the ICAAP:

- Greenleys Merchant Bank LLP

The Firm is a solo regulated entity.

The Firm is a IFPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4).

BIPRU 11.5.1

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The Supervisory Board is the Governing Body of the Firm ("the Board") but the daily management of the Firm is the responsibility of the Designated Members. The role of the Board is outlined in the Firm's constitution. The Firm's Members (not just the Designated Members) report to the Board and are responsible for the entire process of risk management, as well as forming their own opinion on the effectiveness of the process. In addition, the Members decide the Firm's risk appetite or tolerance for risk and ensure that the Firm has implemented an effective on-going process to identify risks, to measure their potential impact and to ensure that such risks are actively managed. The Members are accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it in the day-to-day business activities of the Firm.

Risk Framework

Risk within the Firm is managed by use of the following:

- The Firm's Board sets the overall risk tolerance of the Firm and is responsible for reviewing this at least annually
- The Firm has a conservative approach to risk
- The Firm has identified its risks and recorded them in a 'Risk Register'
- The 'Risk Register' is reviewed at regular meetings of the Board
- The Firm has undertaken scenario analysis and stress tests on the most significant risks identified. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be to the balance sheet

- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate any risks
- The Firm has adopted a four-point scoring matrix to determine the level of risk within its business (High, Medium-High, Medium- Low, Low). Any risk rated "High" is deemed to be unacceptable to the Firm and must be addressed as a priority to ensure that it is able to receive a lower rating. Any risk rated "Medium High" is assessed in order to determine whether controls may be tightened or Pillar 2 capital allocated. Other risks are deemed acceptable to the business

IFPRU 11.5.4

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7 and the Overall Pillar 2 Rule

BIPRU 3

For its Pillar 1 regulatory capital calculation of credit risk, under the Credit Risk Capital Component the Firm has adopted the Standardised approach (BIPRU 3.4) and the Simplified Method of Calculating Risk Weights (BIPRU 3.5).

Credit Risk Calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£91,088
Counterparty risk capital component	BIPRU 13 & 14	£0
Total		**£91,088**

	Rule	Exposure	Risk Weight	Risk weighted exposure amount
National Government Bodies	BIPRU 3.4.2	£0	0%	£0
Banks etc. long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc. short-term	BIPRU 3.4.39	£1,270,000	20%	£254,000
Brokerage	BIPRU 3.4.52	£2,868,000	20%	£573,600
Past due item	BIPRU 3.4.96	£0	100%	£0

Fixed assets	BIPRU 3.4.127	£311,000	100%	£311,000
Accrued Investment management fees	BIPRU 3.4.128	£0	100%	£0
Total		**£4,449,000**		**£1,138,600**
Credit Risk Capital Component	8% of risk weighted exposure			**£91,088**

BIPRU 4

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

IFPRU 7

The Firm has Non-Trading Book potential exposure only (BIPRU 7.4, 7.5).

Overall Pillar 2 Rule

The Firm has adopted the "Structured" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors' Paper, 25 January 2006. The ICAAP assessment is reviewed by the Executive and amended where necessary, on an annual basis or when a material change to the business occurs. The Executive presents the ICAAP document to the Governing Body of the Firm which reviews and endorses the risk management objective annually or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

BIPRU 11.5.8

Disclosure: Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of advisory and brokerage fees. It holds all cash and brokerage fee balances with banks and clearers assigned high credit ratings. Consequently, risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

BIPRU 11.5.12

Disclosure: Market Risk

The Firm has Non Trading Book potential exposure only (BIPRU 7.4 & 7.5).

Market Risk calculation

Rule Position Risk Weight PRR

Interest rate positional risk requirement	BIPRU 7.2	£0	8%	£0
Equity positional risk requirement	BIPRU 7.3	£0	8%	£0
Commodity positional risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency positional risk requirement	BIPRU 7.5	£0	8%	£0
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
Total		**£0**		**£0**

IFPRU 11.5.2

Disclosure: Scope of application of directive requirements

The Firm 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.

BIPRU 11.5.3

Disclosure: Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4). Tier 1 Capital comprises of LLP Members' Capital.

Capital Resources

Tier 1 Capital	£1,270,000
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£1,270,000
Tier 3 Capital	£0
Deductions	£0

Total Capital	**£1,270,000**

BIPRU 11.5.5

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 11.5.6

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

This disclosure is not required as the Firm does not have a Trading Book.

BIPRU 11.5.9

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

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

Disclosure: Firms 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 11.5.13

Disclosure: Use of VaR model for calculation of Market Risk Capital Requirement

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

Fixed Overhead Requirement

Fixed Overhead Requirement	GENPRU 2.1.53	£368,989

BIPRU 11.5.15

Disclosure: Non-Trading Book Exposures in Equities

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities or any other asset class.

BIPRU 11.5.16

Disclosures: Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations. The board notes the low interest rate environment currently prevailing and does not consider the firm's risk to rising interest rates to be material.

BIPRU 11.5.17

Disclosures: Securitisation

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

Remuneration

The Firm is subject to the Remuneration Code (the "Code"). The Code governs the remuneration policies of regulated firms and aims to ensure that firms establish, implement and maintain remuneration policies, procedures and practices that promote effective risk management.

In accordance with the provisions of the Code, the Firm is required to make certain disclosures regarding its remuneration policies and processes as well as to disclose certain information on remuneration.

The Code requires the Firm to consider its processes and procedures for those senior staff within the Firm who are covered by the Code (known as 'Code Staff') and whose professional activities have a material impact on the Firm's risk profile. The Firm has determined that its Code Staff are those Approved Persons performing a Significant Influence Function, a Control Function (e.g. MLRO and Compliance) and all staff performing the Customer Function (CF30). Staff performing the CF30 function are considered Code Staff as their actions have a direct relationship to the risk profile of the Company.

The Firm's remuneration policies are managed and reviewed by the Board. The remuneration package for employees is comprised predominately of fixed remuneration ensuring individuals are receiving a market rate relative to their position. Salary reviews for employees occur annually and at the discretion of the Executive the Firm may also pay a one -off bonus, typically at year end.

The Board believes that this remuneration structure meets the requirements of the Code and is appropriate given the nature and scope of the business.

The firm is required to disclose remuneration information which can be found in the annual accounts.