RECORD PLC

CAPITAL REQUIREMENTS DIRECTIVE
PILLAR 3 DISCLOSURES – JULY 2018

Background

This document sets out the Pillar 3 disclosures on risk management, capital adequacy and remuneration for Record plc and all of its subsidiary companies (together 'Record' or the 'Group') as at 31 March 2018.

The disclosures were prepared in accordance with the Capital Requirements Directive ("CRD III"), the aim of which 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 CRD III framework consists of three pillars:

- Pillar 1 sets out the rules-based minimum capital requirements;
- Pillar 2 requires the Group to assess capital adequacy in relation to actual risk profile in order to determine whether additional capital is required to cover the additional risks. This assessment is performed through the Group's Internal Capital Adequacy Assessment Process (ICAAP); and
- Pillar 3 requires public disclosure of the Group's risk profile, risk management, capital, and remuneration.

This document describes and discloses information in relation to Record unless such information has been determined as immaterial or of a proprietary or confidential nature, as follows:

1. Risk management objectives and policies;
2. Capital requirements;
3. Remuneration; and
4. Financial resources.

The disclosures in this document are in accordance with the BIPRU rules and are intended to show 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 and 2016), which is regulated by the FCA. The Group is a UK consolidation group and is subject to consolidated supervision. The risk management and control framework is operated at the Group level. This report is therefore prepared on a consolidated basis for Record plc and all of its subsidiaries.

Frequency

This report will be made at least on an annual basis. The disclosures will be as at the Accounting Reference Date (ARD) of 31 March, and will be published within four months of the ARD.

Verification

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

The disclosures have been prepared purely for explaining the basis on which Record has assessed 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. 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 is analysed in detail in the ICAAP document which confirms the capital requirements in light of that analysis.

The Board is assisted in its role by various Board and executive sub-committees. One of these is the Board Audit and Risk Committee, which is responsible for the oversight and review of internal control and risk management. The executive Risk Management Committee ("RMC") has been delegated the day-to-day responsibility for overseeing and mitigating risks arising across the Group as a whole. There is also a programme of independent Internal Audits agreed annually and performed over the financial year and an annual independent service auditor report (ISAE 3402 and AT-C 320) on internal controls, both of which are conducted by an external audit firm. In addition, there is a dedicated compliance and risk function which operates a programme of monitoring.

Risks are also mitigated by the recruitment and retention of highly trained staff, clear reporting lines, appropriate segregation of duties and clearly defined procedures and policies. Ownership of risks is clearly identified and the Board encourages a culture of transparency and openness in all activities. Further information on Record's risk management framework is included in Record's 2018 Annual Report at: https://ir.recordcm.com/financial-information-and-reporting/reports-and-accounts.

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 that are most relevant and are set out in further detail below.

Operational risk

Operational risk is defined as the risk of loss to Record resulting from inadequate or failed internal processes, people or systems, or from external events; it includes legal and financial crime risks, but not strategic or business risks. Cyber risk, i.e. the risk of failure of the Group's technology and support systems, or penetration of such systems by external third parties with consequential loss of data or the prevention of the Group's ability to operate is considered within operational risk.

In general, Record seeks to mitigate operational risk by implementing and maintaining a strong control environment and managing risk proactively through highly specialised and qualified staff. Record has a suite of currency products which are predominantly controlled via systematic implementation and monitoring processes. The proprietary IT infrastructure plays an important role in the structured implementation of the managed assets and the Group has developed comprehensive disaster recovery and BCP (Business Continuity Plans), which cover scenarios from server failure to destruction of the Group's offices.

In addition the risk-based compliance monitoring, the internal controls work undertaken by PwC LLP, 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 managed and mitigated as far as possible.

The RMC has responsibility for oversight of the material operational 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 Pillar 2 operational risk assessments consider the impact of a significant error to the firm and a serious failure of trading systems in terms of the allocation of additional Pillar 2 capital.

Business risk

Business risk is defined as the risk of the business being unable to generate fee income or to control costs in line with its business plan, arising from changes in its business and which could be influenced by internal and external factors.

Record has currency management products from which revenue is generated by management and performance fees. Whilst 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 decreases in AUME[1], for example as a result of poor performance or adverse market conditions. Notwithstanding that currency is the deepest and most liquid of all the financial markets, these include consideration of currency market conditions that would prohibit or severely restrict the ability of Record to carry out trading activity as normal, and also declines in financial markets on which the hedging mandates are based e.g. equity and bond markets.

People and employment risk

Record is dependent on its ability to attract and retain the highest quality staff. Measures have been taken to mitigate the risk of the loss of any one individual, for example the investment policies, supported by fundamental research, are agreed by the Investment Committee and are not dependent on any individual or a "star" manager.

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[1] As a currency manager Record manages only the impact of foreign exchange and not the underlying assets, therefore its "assets under management" are notional rather than real. To distinguish this from the AUM of conventional asset managers, Record uses the concept of assets under management equivalents "AUME" and by convention this is quoted in US dollars.

The interests of Record employees are aligned with shareholders in that both employees and Directors have significant interests in Record shares. A significant proportion of the remuneration paid to key members of staff eligible for the Group Profit Share scheme, is in Record shares which are 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 encourages 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 Board Nomination Committee tasked with considering the succession planning for Directors and other senior executives within the business, as evidenced by the successful recruitment of three new non-Executive Directors in the last three years.

Record has contingency plans in place for the recruitment of 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.

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 Group performs standard treasury management activities in terms of managing its exposure to its non-Sterling receivables, but does not take proprietary positions. The Group has direct credit exposure in relation to cash and money-market instruments held, although the exposures are across a diversified selection of banks and are managed in accordance with strict limits contained within investment guidelines approved by the Board. Record also has exposure to the positions currently held in the four seed funds; however the amount of seed capital at any time is restricted to a percentage of capital resources, as approved by the Board.

Record's clients face credit risks which if crystalised could result in direct loss of AUME and reputational risk to the Group. The primary credit risks faced by clients are 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, cash would 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.

Record's Pillar 1 credit risk capital requirement at 31 March 2018 equated to £1.4 million.

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 Group's market risk requirement is determined in accordance with Pillar 1 calculations under CRD III, and relates to foreign exchange risk on balance sheet exposures denominated in foreign currencies. On this basis, the Group's market risk equated to £0.6 million at 31 March 2018.

Interest Rate risk in the Non-trading book

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group has limited exposure to interest rate risk as it does not have any borrowings on which interest is paid. The Group has cash balances upon which interest is earned.

2. Capital Requirements

The Group consists of eight legal entities with UK regulated activities 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. Record generated £7.3m in pre-tax profits from revenue of £23.8m for the year ended 31 March 2018. Further details on the group subsidiaries are included in Note 12 of the financial statements section of the 2018 Annual Report.

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

Record's regulated subsidiary is a BIPRU €50k Limited Licence firm which is subject to FCA rules under BIPRU/GENPRU, and subject to the capital requirements under CRD III. The Group is a UK consolidation group and is subject to consolidated supervision, and 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 £3,362k as at 31 March 2018. More detail on Record's capital resources is provided on page 10.

As a Limited Licence firm, the Pillar 1 requirements do not take account of the operational risk capital component. 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 and consequently additional capital is held in excess of Pillar 1 capital. Accordingly, Pillar 2 additional capital requirements have been identified in order to mitigate 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 and cyber-security – the risk that system issues require timely corrective action.
- Mis-selling – the risk that during the sales process misleading information or advice is given.

At Record, business risk is considered as part of the stress testing rather than the Pillar II capital requirement.

In order to determine the level of capital that Record needs in respect of its current risks and those expected over a three-year cycle, management has gone through the process of:

- Identifying key risks;
- Quantifying such risks;
- Considering the mitigations in place against such risks;
- 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 and severe credit risk scenarios, principally:

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

Further information on Record's capital management is included in Record's 2018 Annual Report at: https://ir.recordcm.com/financial-information-and-reporting/reports-and-accounts.

3. Remuneration

Remuneration Committee

The Remuneration Committee is responsible for agreeing the remuneration policy for the Group, including the Group Profit Share Scheme, the Share Scheme, the 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

The Group has a well-established approach to remuneration which has evolved over a number of years and has been published and communicated explicitly to shareholders.

Our Group's culture, governance and risk management processes underpin our principles of reward, which are aligned with providing the best possible client service and supporting 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.

The three-year remuneration policy in place on 31 March 2018 was approved by shareholders at the AGM in 2017. It was designed to act in the interests of all our key stakeholders: our clients, shareholders, employees and regulators.

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.

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 and 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 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). Furthermore, the links between conduct risk, conflicts of interest and remuneration are reflected in the Group's Conduct Risk framework.

Differences in remuneration policy for Executive Directors compared to other employees as at 31 March 2018

There are common remuneration structures for Executive Directors and employees, those being base salary, benefits, pension, Group Profit Share Scheme and the Share Scheme. There are, however, different performance conditions and different requirements for share deferral and clawback provisions.

Remuneration Policy as at 31 March 2018 – Code Staff

The following disclosures should be read in conjunction with the Remuneration Report on pages 56 to 70 of the 2018 Annual Report and Accounts (available of the Group's website: http://ir.recordcm.com/financial-information-and-reporting/reports-and-accounts).

BIPRU 11.5.18 requires disclosure of remuneration policy and practices for those categories of staff whose professional activities have a material impact on a firm's risk profile in a manner that is appropriate to the size, internal organisation and the nature, scope and complexity of its 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 main elements of the remuneration policy for Code Staff are given below.

Fixed Pay

Base Salary/Fees – all Code Staff receive either a salary (for employees and the Chairman) or fees (for non-Executive Directors), which are commensurate with the incumbent's role, responsibilities and experience and with reference to competitive market rates in the industry.

Benefits and Pensions – all salaried Code Staff are entitled to receive a range of benefits, which are provided in line with all other employees across the Group. Similarly, all salaried Code Staff are entitled to join the Group Personal pension scheme, with the choice of receiving their employer pension contributions as cash if they elect not to make contributions into the scheme. Non-salaried Code Staff do not receive any additional benefits and are not entitled to join the pension scheme.

Variable Pay

Short-Term Incentives - with the exception of the Chairman, all salaried Staff are entitled to join the Group Profit Share Scheme, which rewards individual and collective performance and is set within a range of 25% to 35% of pre-profit share operating profit, with the intention to maintain a medium-term average of 30% of pre-profit share operating profit. Code Staff are required to take a proportion of their payment in shares, with the option to elect a further proportion in shares – all shares are subject to a lock-up restriction for up to three years. The Group Profit Share Scheme rules contain clawback provisions which allow for the repayment of profit share payments in the event of a material breach of contract, material misconduct or a restatement of financial accounts which would have led to a reduction in any Profit Share award.

Long-Term Incentives - All salaried staff are eligible to participate in the Record Share Scheme, which allows the Remuneration Committee to grant options over up to 2% of the market capitalisation of Record plc per annum. Of this total 1% can be made to Executive Directors. Options are granted under an HMRC Approved or an Unapproved part of the Scheme. Performance conditions applicable to options granted to Executive Directors differ from those granted to other Code Staff and employees. The former are subject to performance conditions based on Record's annual cumulative Earnings Per Share (EPS) growth and vest on a stepped basis from three to five years, and are also subject to clawback provisions. For other employees and Code Staff, performance conditions for options are based on the employee being in employment on the relevant vesting date and to the extent personal performance conditions have been satisfied. All awards made to staff other than Executive Directors vest between one and four years from grant, subject to the performance conditions being met and are not subject to clawback provisions.

Non-salaried Code Staff and the Chairman are not entitled to join the Share scheme.

Quantitative information on remuneration of Code Staff (for the Year Ended 31 March 2018)

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 and risk management	13	0	2.05	0.85	0.73	1.58	3.63

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	2,225,000	9,431,667	2,379,660
Other staff members	0	0	0

4. Financial Resources

The table below summarises the composition of regulatory capital for the Record Group based on the audited financial statements as at 31 March 2018 The capital comprises share capital, share premium, profit and loss and other reserves – the Group does not hold additional Tier 1 or Tier 2 capital. Further information on Record's capital management and financial resources is included in Record's 2018 Annual Report at: https://ir.recordcm.com/financial-information-and-reporting/reports-and-accounts.

	£000's
Issued share capital	50
Share premium account	2,237
Retained earnings* and other reserves	24,264
Tier 1 Capital before deductions	26,551
Deductions from Tier 1 Capital	(228)
Tier 1 Capital after deductions	**26,323**
Less: Total risk weighted assets**	(3,362)
Financial Resources excess (vs Pillar 1)	**22,961**

* Retained earnings include those earnings audited since the year end and attributable to the financial year ended 31 March 2018.

** Total risk weighted assets is the higher of the Fixed Overhead Requirement (FOR) or the sum of Market Risk and Credit Risk. The FOR includes the expenditure audited since the year end and attributable to the financial year ended 31 March 2018.