



# Killik & Co LLP Pillar 3 Disclosures

*(March 2020)*



**KILLIK & Co**

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## Introduction

Killik & Co LLP is classified as a Limited Licence €50k firm and, as such, is required to comply with the three “Pillars” of the Capital Requirements Directive. These are:

- Pillar 1, which sets out the minimum amount of capital that we need to meet our basic regulatory obligations;
- Pillar 2, which requires us to calculate how much (if any) additional capital we need to maintain to mitigate other prudential risks (e.g. credit risk, market risk and operational risk) that are specific to this firm;
- Pillar 3, which requires us to disclose to market participants key information about our underlying risks, risk management controls and capital position.

The purpose of this document is to meet our obligation in respect of Pillar 3. Killik & Co makes Pillar 3 disclosures on an annual basis, as soon as practicable following the end of our Financial Year. These are provided on our corporate website [www.killik.com](http://www.killik.com).

## Background

Killik & Co LLP (“Killik & Co”) is a limited liability partnership. The principal activity of the LLP is the provision of stockbroking and investment management services to the private client community. Killik & Co LLP reports on a consolidated basis to the FCA and has therefore undertaken the ICAAP and Pillar 3 disclosures on a consolidated basis. However as Killik Intelligent Savings Limited is independently regulated by the FCA its risks have been considered separately in an independent ICAAP. In addition to Killik & Co LLP, the disclosures include the activities of Killik Services Limited. Killik Services Limited acts as a service company providing staff resources and infrastructure to Killik & Co LLP.

## Risk management policies and objectives

The Killik & Co Executive Board takes ultimate responsibility for the risks undertaken by the business and risk management objectives and policies are a key driver within the overall business strategy. These policies:

- Identify the risks to which the capital of the business is exposed.
- Articulate the acceptable levels of exposure to specific risk types and counterparties
- as well as appropriate risk mitigation tools to utilise, such as insurance cover
- Are appropriate to the size, nature and complexity of transactions entered into by Killik & Co and its counterparties and reflect the quality and sophistication of the Firm’s monitoring capabilities, systems and processes.

The Killik & Co Executive Board delegates authority to a specific executive committee (the Killik & Co Audit & Risk Committee) which reports on a formal basis to the Executive Board. In addition to the policies outlined above, this requires the Audit & Risk Committee Committee to:

- Define the total financial capital the Firm is prepared to place at risk of loss (capital at risk) as distinct from a regulatory authority’s imposed minimum capital requirements
- Approve risk limits
- Ensure that the policies and procedures for conducting business are adequate and up to date
- Ensure appropriate internal controls are in place.

Risk management policies are reviewed and approved on a regular basis by the Audit & Risk Committee, which must in turn, submit these to the Executive Board for ratification. In doing so, it must take into consideration:

- The Firm’s overall business strategy
- Appropriateness as to the size, nature and complexity of transactions entered into by the firm
- Quality of internal procedures
- Sophistication of the Firm’s monitoring capabilities, systems and processes
- Past experiences and performance
- Regulatory constraints.

## Internal Capital Adequacy Assessment Process ('ICAAP')

As mentioned in the background section the Firm has a requirement to carry out internal capital adequacy assessments. Killik & Co has a continuous process of monitoring of its capital resource availability with comprehensive analysis of its capital requirements and risk exposures carried out within the Firm's ICAAP. This document includes a review of the adequacy of the Firm's capital resources for the next 3 years based on its latest financial projections, and considers the risks to which the business is exposed, and for the most significant risks, calculates the effect on capital if they were to materialise. The ICAAP also includes the results of various scenario analyses aimed at assessing the Firm's position under turbulent market conditions. Based on the ICAAP, the Firm expects to have sufficient capital to cover its requirements. The ICAAP is updated annually and reviewed, challenged and approved by the Executive Board of the Firm.

## Significant risks and mitigants

### Financial risks and uncertainties

There are a number of potential risks and uncertainties in the business which could impact the Firm's long-term performance. The Firm has identified, documented and monitored those risks and it ensures that there are adequate controls in place that mitigate those risks. The Risks Committee meets fortnightly and closely monitors any financial exposures or other risks of the Firm and reports each fortnight to the Executive Board.

### Disclosure on potential risks

Killik & Co has undertaken the ICAAP for the year ended March 2020 and has determined the major sources of risk that our Firm faces. These are summarised below along with the mitigants we have in place to manage them.

Risk	Risk description and mitigants
Market risk	This is the risk that the Group's revenue will be adversely affected by changes in foreign exchange rates, interest rates and asset prices. Killik & Co operates under a Model B Clearing relationship with Platform Securities which results in Killik & Co significantly reducing its Market Risk exposure. Platform Securities are responsible for the settlement of all of Killik & Co transacted business as well as the safeguard and custody of client stock and cash. Killik & Co is not authorised to hold any principal positions or client stock therefore significantly reducing the level of Market Risk exposure.
Credit risk	This is the risk of loss arising from counterparty failure or client default. Management information is produced on an ongoing basis to monitor material Credit and Counterparty Risks. In addition to ongoing monitoring these reports are formally reviewed at the Risk and Compliance Forum and escalated to ARC when appropriate. Our banking services are reviewed annually unless information arises during the year that would prompt us to complete an interim review. Killik & Co operates under a Model B Clearing relationship with Platform Securities which results in a concentration of Credit and Counterparty Risk exposure with Platform Securities. The vast majority of client transactions are settled on a "Delivery versus Payment (DvP) basis under which the exchange of security and cash occurs simultaneously, materially reducing the possibility of credit losses. However, secondary market exposures may still occur if the counterparty defaults during the intended settlement period, as a replacement must be found. Certain trades are required to settle on a non DvP basis, for example equity placings dealt directly with the issuer. Platform Securities provide daily reporting to the Firm to indicate where they have any issues with failing transactions so we are able to oversee potential areas of credit risk that Platform are taking on our behalf.

Operational risk	Operational Risk is defined as the risk of loss or unintended gain arising from inadequate or failed internal processes, people and systems or from external events, and may lead to financial impact, adverse client impact, reputational damage, or regulatory censure. An operational risk policy and framework has been approved by the Executive Board. The Operational Risk Management Framework sets how operational risks are identified, assessed, mitigated, managed, monitored, and reported, and how assurance is provided. The 2LOD Risk Management Team provide both monitoring of 1LOD and oversight as well as Risk Governance. They are responsible for overseeing, challenging, and monitoring operational risk management activities. The Head of Operational Risk Oversight reports to the Head of Risk who reports to the Chief Risk Officer. The CRO reports to the Chief Strategy Officer and the Chair of the Audit and Risk Committee. This reporting line ensures the team remains independent from the business and that there is a clear and direct escalation to the Audit and Risk Committee without influence from other areas.
Liquidity risk	Liquidity Risk is defined as the risk of loss resulting from the unavailability of sufficient funds to fulfil financial commitments, including customers' liquidity needs, as they fall due. This is mitigated by detailed cash flow planning and forecasting. The cash position is reviewed fortnightly by the Executive Board and a buffer of at least £6m is maintained.
Regulatory risk	The risk of non compliance with regulatory or statutory requirements. This is mitigated through continuous emphasis on compliance with all relevant regulation and statutes. A strong compliance culture exists throughout the firm and all staff required to undertake regular compliance training. The Audit & Risk Committee meets fortnightly. In addition the firm holds Professional Indemnity Insurance.

## Capital resources

Capital is held to ensure that a suitable operating margin is maintained in excess of the higher of Pillar 1 and Pillar 2 capital requirements. Pillar 2 capital requirements are determined using a risk-based approach that explicitly takes into account management's view of specific risk exposures.

Pillar 1 capital requirements are the greater of:

- Base capital requirements of €50,000; or
- The sum of market and credit risk requirements; or
- The Fixed Overhead Requirement.

We have determined that, as at 31 March 2019, the Fixed Overhead Requirement established our Pillar 1 capital requirements.

The LLP's tier 1 capital resources comprises capital contributions from Members. The capital position of the LLP as at 31 March 2019 is set out:

	£'000
<b>Total Tier 1 Capital after deduction</b>	<b>12,827</b>
<b>Total Regulatory Capital</b>	<b>12,827</b>
Pillar 1 Minimum Capital Requirement	5,410
Individual Capital Guidance (ICG) issues by FCA	123%
<b>Total Capital Requirement</b>	<b>6,654</b>
<b>Surplus</b>	<b>6,173</b>
<b>Regulatory Capital Ratio</b>	<b>208%</b>

## Business strategy integration

The capital management policy of the firm is contained in the Members' Deed, which is effectively the constitution of the firm. This governs how capital is effectively assessed and maintained. The members' deed gives an annual requirement to assess and plan our capital requirements. All subsequent strategy diversions must answer the question of how this affects our capital requirements and this is embedded into the culture of the firm.

## Remuneration code

The Killik & Co Executive Board has reviewed and considered the requirements of the FCA Remuneration Code. The Compliance Department has drawn up a policy in this respect and the Board has adopted this.

### BIPRU remuneration code staff

We have identified, and maintain a record of, 'BIPRU Remuneration Code Staff' i.e. staff to whom the BIPRU Remuneration Code applies. All members of Killik & Co LLP are considered to be Code Staff.

### Decision making process for determining remuneration

Killik & Co LLP does not have a Remuneration Committee. The Executive Committee are responsible for the remuneration policy. All employees are remunerated by a combination of salaries and discretionary bonuses. Salaries are reviewed annually by the Executive Committee with reference to salary surveys, which provide a benchmark for setting appropriate salary levels for individual roles. The ultimate decision to increase salaries rests with the Executive Committee.

### Link between performance and remuneration

The members of Killik & Co LLP performing a Controlled Function are entitled to a fixed entitlement which is paid monthly and is included as an expense in the profit and loss account of Killik & Co LLP after arriving at "profit for the financial year before members' remuneration and profit shares". Discretionary amounts due to members in respect of their participation of rights in the profits of the LLP for the financial year are classified as equity until allocation is approved by the members. The allocation to the members of the residual profits for a financial year occurs following the finalisation of the accounts for that period. A members'

share in the profit and loss for the year is accounted for as an allocation of profits.

Killik & Co LLP ensures that any measurement of performance used to calculate variable remuneration (i.e. performance bonuses) includes adjustments for all types of current and future risks, referring back to the risk register detailed in the firm's ICAAP document. Any bonus pool calculation takes into account the capital adequacy requirements of Killik & Co LLP to ensure that any bonuses paid do not hinder Killik & Co LLP's ability to meet its capital adequacy requirements under Pillar 1, as well as meeting its liquidity requirement under BIPRU 12 of the FCA handbook.

### Remuneration of senior members

This information is confidential to the members of Killik & Co LLP so the information provided below is that which is available in the consolidated statutory accounts of Killik & Co LLP for the year ended 31st March 2020.

	2020
Member's remuneration charged as an expense, including employment and retirement benefit costs	3,039,000

The amount of profit allocation to the member with the largest entitlement is calculated by reference to profit sharing ratios in existence at the year end.