MIFIDPRU 8 Disclosures

Purpose

Killik & Co LLP ("Killik & Co", "the Firm") is a privately owned limited liability partnership, incorporated in the United Kingdom ("UK"), authorised and regulated by the Financial Conduct Authority ("FCA") under firm reference number 462016. The principal activities of the firm are the provision of investment management and wealth planning services to retail customers. This disclosure is in relation to Killik & Co LLP

The purpose of this document is to set out the public disclosures required under MIFIDPRU 8 for Killik & Co as at 31 March 2022, which represents the end of Killik & Co's most recent financial accounting period.

Introduction

As a UK investment firm undertaking activities within the scope of the UK Markets in Financial Instruments Directive ("MIFID"), Killik & Co is subject to the prudential requirements of the Investment Firms Prudential Regime ("IFPR") contained in the MIFIDPRU Prudential sourcebook for MIFID Investment Firms of the FCA Handbook.

Killik & Co is required to publish disclosures in accordance with the provisions outlined in MIFIDPRU8 of the IFPR. The disclosures applicable to Killik & Co LLP are:

- MIFIDPRU 8.3 – Governance arrangements
- MIFIDPRU 8.4 – Own funds
- MIFIDPRU 8.5 – Own funds requirement

The Firm has adopted the FCA's transitional provisions for disclosure requirements contained in MIFIDPRU TP12. This means the Firm does not need to disclose information relating to Risk management objectives and policies set out in MIFIPDPRU 8.2.

With regard to the remuneration policy and practices disclosures set out in MIFIDPRU 8.6, the Firm's remuneration arrangements have been prepared according to previous rules applicable to Killik & Co which were referred to as the BIPRU Remuneration Code using the transitional provisions set out in TP 12.8.

With regard to investment policy disclosure set out in MIFIDPRU 8.7, the Firm meets the conditions set out in MIFIDPRU 7.1.4R and therefore is exempt from the requirement to have an investment policy and disclose this.

These requirements are supplemented by the guidance set out in MIFIDPRU8 published by the FCA. Under the IFPR's firm categorisation, Killik & Co is categorised as a non-small, non-interconnected ("non-SNI") MIFIDPRU investment firm.

This report is prepared on an accounting individual basis and includes the following regulated entity: Killik & Co LLP (FRN 462016). The annual audited accounts of Killik & Co set out further information which complements the information in this disclosure. The audited accounts are freely available from UK Companies House.

Governance arrangements

Summary of governance structure

The partners of the firm delegate responsibility for direction and control to its governing body, the Killik & Co Executive Board, which meets quarterly. The Executive Board comprises partners from different parts of the business to ensure a diverse range of knowledge, experience and points of view. The Board also comprises two independent non-executive directors (NEDs) who supply additional insights and challenge to Board decision-making. All Board decisions require a quorum of three members.

The Killik & Co Executive Board has ultimate responsibility for all activities undertaken by the business, and risk management objectives and policies are a key driver within the overall business strategy to ensure effective and prudent management of the firm. Our strategy is about being the best wealth manager for families, which puts our clients' needs at the centre of everything we do, ensuring we have a service for every generation, technology that makes it easy for people to access us and our services, and using our branches and House of Killik locations to be present in the communities and places where families live and meet. The strategy is reviewed every 6 months. In implementing the strategy, we give careful consideration to:

- Identifying the risks to which the capital of the business is exposed
- Articulating the impact and probability of specific risk types (harm to clients, harm to the firm, harm to markets) as well as appropriate risk mitigation methods
- Ensuring our approach is appropriate to the size, nature and complexity of transactions entered into by the Firm and services delivered to clients and reflects the quality and sophistication of the Firm's monitoring capabilities, systems and processes.

Certain matters are delegated by the Executive Board to three other Killik Committees, each with their own terms of reference defining their decision-making powers and/or the areas for which they have oversight; these are expected to advise the Executive Board concerning issues and actions. Each of these Committees - Audit & Risk Committee, Adviser Committee and Operations Committee - and the Executive Board have formal Agendas and receive a suite of management information for analysis, discussion and challenge. Actions agreed at Committees are escalated to the Board where necessary. All Committee and Board meeting actions are assigned to senior individuals and tracked to resolution.

A subset of the Killik Partners are Senior Managers under the FCA's Senior Managers Regime. Each of them has a Statement of Responsibility defining the areas of the business directly under their control and for which they are accountable. There is appropriate segregation of duties amongst the Senior Managers, as well as throughout the organisation, to prevent conflicts of interest and improve oversight. We invest in training and continuous professional development to ensure adequate knowledge and skills of each individual to perform their duties (including oversight of others) to a high standard.

At Killik & Co we seek to avoid conflicts of interest wherever possible. For this reason we do not conduct any Proprietary Trading, we do not operate a Corporate Finance function; and we do not operate our own funds (Collective Investment Schemes). Therefore, all of our trading activity and investment recommendations are free from bias and based upon what is suitable and in the best interests of our clients.

Further information about how we manage or avoid conflicts is provided in our *Conflicts Policy*.

Composition of executive board membership

To ensure that members of the Executive Board can devote sufficient attention to the management of the firm, the number of other commercial directorships (outside those of the Killik Group) that they can hold is limited and is permitted only where there is no conflict with their duties to the firm and our clients and where they are permitted under FCA rules. These are disclosed in the table below.

Members of Management Body (all are Partners or NEDs)	Number of disclosable non-Killik directorships held
Paul Killik, Senior Partner	Zero
Georgiana Killik, Business Development	Zero
Clem MacTaggart, Chief Strategy Officer	Zero
Craig Manning, Chief Finance Officer	Two
Penny Rooney, Chief Risk Officer	Zero
Richard O'Neill, Chief Operations Officer	Zero
Sarah Threadgould, Chief Marketing Officer	Zero
Michael Pate, Head of Advisers	Zero
Simon Haslam, NED	Two non-executive directorships
Rupert Dickinson, NED	Two non-executive directorships

Only directorships for commercial enterprises in companies outside of the Killik Group are shown in this table.

Diversity of the executive board

With respect to diversity, we focus on 'diversity of thought', aiming to bring together a range of different styles of thinking among members of the Executive Board with a view to this aiding better decision-making. Therefore, we seek to ensure that the Executive Board comprises people with different perspectives, abilities, knowledge, attitudes, information styles, and demographic characteristics.

Board representation comes from across the business, providing subject matter expertise in the following areas:

- Investment management
- Investment advice
- Compliance
- Risk management
- Finance
- Operations
- Brand & Marketing
- Business Strategy
- New business development

The natural result of this has been a degree of gender diversity, Board members who represent various age brackets and people who come from different social, economic and geographical backgrounds (e.g. first member of a family to have entered higher education; a range of socio-economic backgrounds; non-UK nationals brought up overseas).

We seek to identify, nurture and retain talent by approaching recruitment and promotion with an open-mind and using our existing Board diversity to challenge potential bias or blind spots in decision making. We also offer equal opportunities for all staff to train, develop and receive mentoring throughout their Killik career and progress people with talent and commitment ensuring there is a pipeline of diverse individuals progressing through the organisation who can become the Board members of the future.

Audit & risk committee

Killik & Co is not required by FCA rules to have a risk committee, a nomination committee, or a remuneration committee, as we fulfil the exemption set out in MIFIDPRU 7.1.4R for firms where the value of the on-balance sheet assets and off-balance sheet items over the preceding 4-year period is a rolling average of £100 million or less. However, for reasons of good governance we have long maintained a risk committee, more recently expanded to an Audit and Risk Committee, which is chaired by one of our non-executive directors.

Own funds

Table 1 shows a break-down of Killik & Co's regulatory Own Funds and confirms there are no regulatory deductions. Our Own Funds are made up entirely of members' capital contributions.

	Item	Amount (GBP thousands)	Source based on reference numbers/letters of the balance sheet in the audited financial statements
1	Own funds	16,560	
2	Tier 1 capital	16,560	
3	Common equity tier 1 capital	16,560	
4	Fully paid up capital instruments	16,560	Members' Capital
5	Share premium		Excluded as fully distributed post year end
6	Retained earnings		
7	Accumulated other comprehensive income		
8	Other reserves		
9	Adjustments to CET1 due to prudential filters		
10	Other funds		
11	(-) total deductions from common equity tier 1	0	
19	CET1: Other capital elements, deductions and adjustments		
20	Additional tier 1 capital	0	
21	Fully paid up, directly issued capital instruments		
22	Share premium		
23	(-) total deductions from additional tier 1		

24	Additional Tier 1: Other capital elements, deductions and adjustments		
25	Tier 2 capital	0	
26	Fully paid up, directly issued capital instruments		
27	Share premium		
28	(-) total deductions from tier 2		
29	Tier 2: Other capital elements, deductions and adjustments		

Table 2 shows a reconciliation of Killik & Co's regulatory Own Funds with its balance sheet from the audited accounts.

		Balance sheet as in published/ audited financial statements	Cross-reference to template OF1 (above)
		As at March 22 Amount (GBP thousands)	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements			
1	Tangible assets	782	
2	Investments	432	
3	Debtors	18,833	
4	Cash at bank and in hand	17,722	
	Total Assets	37,769	
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements			
1	Creditors: Amounts falling due within one year	7,480	
2	Provisions for liabilities	506	
	Total Liabilities	7,986	
Shareholders' Equity			
1	Members' capital	16,560	Item 4
2	Loans and other debts due to Members	3,308	
3	Other reserves	9,915	
	Total Shareholders' equity	29,783	

Own funds requirement

K-Factor requirement and fixed overheads requirement

Killik & Co is required to disclose the K-Factor requirement (KFR) and the fixed overheads requirement (FOR) amounts in relation to its compliance with the own funds requirements (OFR) set out in MIFIDPRU 4.3.

K-factor requirement: (Sum of)	Amount (£'000)
K-AUM	927
K-COH	4
Total K-Factor Requirement	931
FOR	7,111

The K-factors relevant to Killik & Co include the following:

- K-factor requirement calculated on the basis of Assets under Management (k-AUM). AUM is the average AUM measured on the last business day of each of the previous 15 months, excluding the most recent 3 months.
- K-factor requirement calculated on the basis of Client Orders handled (k-COH). COH is measured as the rolling average of the value of the total daily client orders handled, measured throughout each business day over the previous six months, excluding the three most recent months.

Approach to assessing the adequacy of own funds

Killik & Co is further required to disclose its approach to assessing the adequacy of its own funds in accordance with the overall financial adequacy rule ("OFAR") as outlined in MIFIDPRU 7.4.7R.

To comply with the OFAR, a firm must hold the higher of:

a) The amount of own funds that the firm requires at any given point in time to fund its ongoing business operations, taking into account potential periods of financial stress during the economic cycle; and

b) The amount of own funds that a firm would need to hold to ensure that the firm can be wound down in an orderly manner.

In order to comply with the transitional capital and liquidity requirements for former BIPRU firms with individual capital guidance (ICG) issued before 1 January 2022 as set out in MIFIDPRU TP10, we have tested the firm's Own Funds Threshold Requirement to make sure it is at least equal to the transitional requirement.

The transitional requirement has been calculated by taking the absolute amount of own funds that the firms was required to hold to comply with the pre-MIFIDPRU ICG on the reporting reference dates of the last two most recent FSA003 returns submitted on or before 31st December 2021 and working out the arithmetic mean of these.

Our FOR requirement and ICG were as follows:

	FOR	ICG
Sep 21	5,769	7,096
Mar 21	5,410	6,654
Average		6,875

Therefore, the firm's transitional requirement is calculated as £6,875k. As this is lower than the current own funds threshold requirement calculated according to MIFIDPRU 7.6.4, we will base our capital requirements on MIFIDPRU 7.6.4 calculations.

Our understanding is that this transitional rule applies until the earliest of:

1. 6 months after MIF007 submission
2. The date the FCA first communicates the outcome of an SREP visit carried out on the firm
3. The date when the FCA issues new individual guidance to Killik & Co specifying the amount of own funds Killik & Co must hold

Following this the transitional rule and any pre-MIFIDPRU ICG applied to Killik & Co will cease to apply.

ICARA process

The Internal Capital Adequacy and Risk Assessment ("ICARA") Process serves as the means of assessing key risks to which Killik & Co is exposed. Further, it assists Killik & Co with identifying and managing material harms that the Firm may cause through its regulated and unregulated activities. The ICARA process further seeks to determine the level of own funds and liquid assets the Firm needs to hold.

The ICARA process has been implemented and is embedded within the Firm's risk management framework ("RMF"). It has replaced the former Internal Capital Adequacy Assessment Process and has been enhanced to improve the effectiveness of the new process.

The following are the key elements that are assessed as part of the ICARA process:

- Business strategy and growth plans
- Comprehensive key risk and harms assessment
- Internal assessment of own funds adequacy
- Internal assessment of liquidity adequacy
- Capital and liquidity planning (i.e. financial, own funds and liquidity)
- Stress testing
- Recovery actions
- Wind-down Plan (“WDP”)

The adequacy of the ICARA process will be reviewed at least annually or more frequently, should there be any material changes to Killik & Co’s risk profile, business strategy or if requested by the Executive Board.

Overall OFAR compliance

At all times, Killik & Co must hold adequate financial resources, both in amount and quality, to ensure that the Firm remains financially viable throughout the economic cycle with the ability to address and mitigate any potential harms that may be caused, arising from its ongoing business activities, and that the Firm is prepared for an orderly wind-down while minimising harm to customers or to other market participants, without threatening the integrity of the UK financial system.

As a minimum to meet the OFAR, an FCA standard of determining the adequacy of its financial resources through the internal assessment of its capital and liquidity adequacy, Killik & Co must meet the Own Funds Requirement (OFR) and basic liquid assets requirement (“BLAR”).

As a non-SNI firm, Killik & Co has to comply with the provisions of the OFR contained within MIFIDPRU 4.3.2R by holding the highest of:

1. Permanent Minimum Capital Requirement (PMR) – £75,000 (MIFIDPRU 4.4.4R)
2. Fixed Overheads Requirement (FOR) – £7,111,000 one quarter of the Company’s annual fixed overheads (MIFIDPRU 4.5.1.R), unless there is a material change expected to projected expenses during the year (MIFIDPRU 4.5.7R)
3. K-factor requirements – (k-AUM) + (k-COH) £931,000 (a breakdown of which is provided below) plus Additional Capital for risks identified in ICARA Risk Assessment

Killik & Co performs an internal assessment of the own funds and liquid assets required to support its ongoing operations and to support an orderly wind-down of the Firm. The Firm also undertakes regular stress testing and scenario analysis as key inputs in these internal assessments of the adequacy of its financial resources. These internal assessments, alongside the OFR and BLAR, help inform the adequate level of financial resources required to be maintained by MCEL in compliance with the OFAR.

Killik & Co’s Own Funds Requirements are therefore determined by the FOR, i.e., £7,111,000, which is the highest of these three.

Own funds adequacy and monitoring

Killik & Co’s approach to ensuring that it has appropriate own funds is its alignment with the Firm’s strategy and risk appetite. The Firm maintains a Top Risks Register that defines the universe of material risks arising out of our business activities. It is organised by risk category and indicates both the probability of a risk occurring and the impact of the risk with consideration to how it affects the client, the market and the firm. The Top Risks Register forms the basis of risk assessment and reporting and supports risk quantification and associated capital calculations. It is therefore closely aligned to both the ICARA and the Risk Appetite Statement.

Liquid assets adequacy and monitoring

Killik & Co assesses its compliance with liquid assets threshold requirement which is based on the sum of BLAR and an additional liquid asset requirement determined during the ICARA process, to ensure liquidity adequacy in stressed conditions and during an orderly wind-down as part of its OFAR

Killik & Co’s monitoring and reporting of its liquidity position is undertaken through established regular reporting against the key liquidity metrics. Any triggers or breaches would be escalated in line with the escalation framework.

Wind-down

Killik & Co has a wind down plan, which provides an overarching governance framework for the process of ceasing its operations while ensuring minimal adverse impact to clients, markets or the entity’s counterparties. It provides a detailed guide and practical steps to assist the Executive Board and senior management in making timely and effective decisions to wind down Killik & Co in the event of a severe financial stress. The WDP includes key actions and a timeline from when a wind-down is triggered, through to the preparation, execution and endpoint of the process.

The WDP is reviewed and updated annually.

Remuneration policy and practices

Because of transitional relief in place for firms with an accounting reference statements date before 31 December 2022 Killik & Co do not need to comply with MIFIDPRU 8.6 but must publish the remuneration information specified in the disclosure requirements that applied to the firm at the time at which the relevant performance period began (i.e. the remuneration information required under Pillar 3).

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 is 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 drawing which is paid monthly. Members receive an equity allocation of profits and the remainder is allocated on a discretionary basis following the finalisation of the accounts for that period.

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 ICARA 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 31 March 2022.

	2022
Members' remuneration charged as an expense, including employment and retirement benefit costs	3,301,000

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.