CANACCORD Genuity

Canaccord Genuity Limited

Pillar 3 Disclosures
March 2016

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1. Overview

1.1. Introduction

On 1 January 2014 the Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD"), which together comprise CRD IV, became applicable across the European Union ("EU"). CRD IV is the framework for implementing Basel III across the EU with the CRR being directly binding on member states while the CRD required incorporation into national law.

The following disclosures for Canaccord Genuity Limited ("CGL" or "the Firm") are prepared in accordance with CRD IV. This sets out certain capital adequacy requirements standards and disclosure requirements to be implemented by regulated firms. CRD IV consists of three pillars:

- Pillar one specifies the minimum amount of capital that a firm is required to hold in order to support its business activities;
- Pillar two requires a firm to undertake an internal assessment of whether it needs to hold additional capital to support the risks it faces, and to document this in an Internal Capital Adequacy Assessment Process ("ICAAP");
- Pillar three specifies the disclosures a firm is required to make about its capital, risk exposures and risk assessment process.

1.2. Basis and scope of disclosure

These disclosures are for CGL (FRN: 182011) on an entity, or solo, basis. CGL is a full scope 730k IFPRU firm and is subject to the provisions of the FCA's IFPRU handbook (Prudential sourcebook for Investment Firms). This report is not required to be reviewed by the Firm's auditor but has been considered and approved by the Firm's governing body.

1.3. Frequency of disclosure

This report will be updated to reflect any significant changes to the Firm's business profile and in any case at least annually. Unless otherwise stated, all figures are as at 31 March 2016, the Firm's financial year end, with comparative figures for 31 March 2015 where relevant.

1.4. Location

This report is available on the Firm's website at www.canaccordgenuity.com under the UK Regulatory and Legal Disclosures section.

2. Corporate Background

CGL is a wholly owned direct subsidiary of Canaccord Genuity Group Inc. ("CGGI" or "Canaccord"), a publicly listed company on the Toronto Stock Exchange. Through its principal subsidiaries, CGGI is a leading independent, full-service financial services firm, with operations in two principal segments of the securities industry: wealth management and global capital markets.

2.1. Capital Markets (Investment Banking – Broking & Advisory)

Investment Banking provides a range of services to its clients with the Firm being a sponsor on the UKLA and an AIM nominated adviser ("NOMAD"). CGL has 99 retained clients for which it acts as nominated adviser and/or broker, and for whom it provides ongoing corporate finance advice, feedback on investor opinion and guidance on the client's continuing market obligations. It also provides a range of transaction and advisory services including initial public offerings, secondary fundraisings, syndications, takeovers, debt restructuring, M&A and strategic advice.

2.2. Capital Markets (Institutional Securities)

The secondary trading business provides a range of client services, including research, sales, sales trading and market-making in equities, preference shares and corporate bonds, in addition to operating several modest-sized proprietary trading books. The focus of the business is UK, European and North American equities and the business currently has some 740 institutional clients.

3. Overview of Governance & Risk Management Framework

3.1. Governance

CGL operates with an independent Board and Audit & Risk Committee, with the latter headed by an independent non-executive Chairman supported by two additional independent non-executive directors. Membership of the Board includes an independent non-executive Chairman, two further independent non-executive directors (one of whom is also a non-executive director of the CGGI Board), one executive director from the UK and another executive director from CGGI. Both the Board and Audit & Risk Committee operate within defined terms of reference which include clear objectives, authorities and requirements for management information. They also receive the minutes from other sub-committees.

The Executive Committee represents the principal forum for conducting the business of the Firm and takes day to day responsibility for the efficient running of the business. In addition, the Executive Committee is responsible for the formulation and implementation of Board approved strategies and plans.

The Risk and Compliance Committee is responsible for ensuring that appropriate risk mitigation is in place, and that the control environment is commensurate to its needs, based on the strategy adopted by the Firm's Board. Accordingly, it considers management information from Finance, Compliance, Operations Control and

Settlements. It also acts as management's tool for implementing policy directed by the Executive Committee and is responsible for co-ordinating the Firm's approach to fighting financial crime.

3.2. Risk management overview

The Firm utilises the same Enterprise Risk Management ("ERM") methodology that is applied globally across the CGGI Group and which is discussed in more detail below. This requires a systematic approach to the risk management process which encompasses all functional areas and necessitates ongoing communication, judgment and knowledge of the business, products and markets. The Firm is responsible for its local implementation of risk management policies and to ensure there is a clear organisational structure with defined layers of responsibility throughout the Firm.

A cornerstone of the Firm's risk philosophy is the continuation of the first line of responsibility for managing risk within prescribed limits by department heads and trading desk managers. The monitoring and control of risk exposure is conducted through a variety of separate, but complementary, financial, credit, operational, and compliance reporting systems.

The Board has delegated day to day responsibility to the Executive Committee and other appropriate sub committees but meets at least quarterly and considers reports from a number of areas of the business including Finance and Compliance.

The Firm's Audit & Risk Committee meets quarterly, and is chaired by an independent non-executive director with membership including the Board's other two independent non-executive directors. It is also attended by the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), internal and external audit as required. The Audit & Risk Committee's terms of reference include review of the risk management framework, and reported exceptions. It is also responsible for considering plans and reports from both the external and internal auditors.

The Executive Committee is chaired by the CEO and meets fortnightly. The Executive Committee is the principal forum for conducting the business of the Firm, and takes day-to-day responsibility for the efficient running of the business. The Committee is responsible for the implementation of Board strategy, and to ensure the Executive Committee remains informed on financial and risk matters, the Finance department produces two extensive monthly management information packs.

The first of these, the Management Information Report, highlights the financial performance and position of the UK Capital Markets Group, both overall and by entity. The report contains a detailed review of revenue and expenditure current performance, monthly trends and forecast. It also contains balance sheet and cash flow information and an analysis of regulatory capital resources and requirements. Further general analytics include commission and trading results by client/stock and revenue generated from corporate finance transactions.

The Key Risk Indicator ("KRI") report highlights a number of financial and operational risk indicators presented in the form of a summary risk dashboard. The dashboard presents a clear snapshot of each risk and allocates a red, amber or green status to it. Whilst the green flags are still reviewed for completeness, particular attention is given

to any amber and red flags allowing users to quickly focus on the key areas under which the Firm can then allocate resources.

Financial risks currently reported include:

- Book positions values against book limits
- Stale position summary
- Foreign currency exposure summary
- Asset impairment summary
- Asset concentration risk
- Failed trade statistics
- ILAA liquidity metrics
- Free delivery statistics
- Large exposure statistics
- Insurance coverage
- Ops control statistics
- Risk policy document reporting

The Risk and Compliance Committee is specifically responsible for monitoring risk exposure and for the general oversight of the risk management process. This Committee meets weekly and is attended by the head of each operating area, along with a representative from the trading floor. Further representatives from the business attend as necessary. Although the risk management function within the Firm reports to the Risk & Compliance Committee, it is the joint responsibilities of the CFO and the Head of Legal and Compliance for daily risk management and to report on their areas of risk management to this committee.

Whilst various risk reports are reviewed at each weekly meeting of the Risk and Compliance Committee, which is responsible for identifying risks and developing appropriate risk mitigation strategies, the KRI report which presents a summary of these findings, is reviewed on a monthly basis. The Risk and Compliance Committee helps to shape the content and detail included within the KRI report. The Compliance department also has a comprehensive monitoring programme as approved by the Executive Committee which is reported to the Risk and Compliance Committee.

CGL has outsourced its internal audit function to a firm of chartered accountants, which allows it to benefit from a range of specialist skills in cases where individual audits require such expertise. The internal audit function reports directly to the Head of the Audit & Risk Committee. The internal audit plan is derived from a risk based approach and is compiled from known risk areas identified by both the Risk and Compliance and Audit & Risk Committees. All internal audit reports are tabled at the Audit & Risk Committee. In addition to the Firm's own internal audit arrangements, the CGGI Group internal audit function has oversight of the UK and performs regular Internal Control over Financial Reporting ("ICFR"). The output of ICFR reviews is reported to the Audit & Risk Committee and shared with Ernst & Young, the Firm's external auditor.

3.3. Recruitment and diversity

The current and future needs of the Firm including equality and diversity are considered as part of the recruitment process. Board and committee membership, along with succession planning, draws upon a range of criteria including relevant skills and expertise, suitability for the role, and relevant knowledge in order to achieve a balanced approach to challenge and decision making.

4. Summary of Own funds & Own funds requirements

The table below sets out the Firm's Own funds and Pillar One requirements, as at 31 March 2016.

Pillar One own funds and requirements	**£m**
Common Equity Tier 1 capital (CET 1)	
Share capital	103.1
Share premium	2.7
Audited reserves	(21.6)
CET 1 before deductions	***84.2***
Deductions from CET 1	
Intangible assets	(1.3)
Material holdings	(14.4)
Deferred tax	(0.9)
Total deductions	***(16.6)***
Tier 1 Capital	67.6
Tier two capital (subordinated loan)	10.0
Total Own Funds	***77.6***
Own funds requirements	
Credit risk	3.2
Settlement risk	0.1
Market risk	
Equity	6.8
Interest rate	1.2
Foreign exchange	0.1
	8.1
Operational risk	14.5
Total requirements	***25.9***
Surplus own funds	***51.7***
Risk weighted Assets (RWAs)	***322.4***
Ratios (as a % of RWAs)	
CET 1	21.0%
Tier 1	21.0%
Own funds	24.1%

4.1. Tier one capital

Tier one capital comprises share capital of £103.1m, share premium of £2.7m less negative reserves of £21.6m. The total, of £84.2m, is eligible CET 1 and the Firm has no other forms of tier one capital.

4.2. Tier two capital

The Firm has £10m of tier two capital which comprises a subordinated loan. This meets all of the specific requirements of Article 63 of the CRR as eligible tier two capital and also the limits in respect of the ratio to tier one capital as set out in Article 4(71)(b) of the CRR.

4.3. Deductions from capital

These comprise deferred tax assets of £0.9m, Intangible assets of £1.3m in respect of development software and material holdings of £14.4m. Material holdings consist of £0.4m investment in the Firm's French subsidiary and £14.0m advanced to an Employee Benefits Trust. The latter has been used to purchase shares in CGGI in order to satisfy outstanding share awards granted to the Firm's employees.

5. Pillar two and the ICAAP

As a full scope IFPRU investment firm, CGL is required to undertake an ICAAP in order to establish the level of capital it deems sufficient to support its business activities. More specifically, the ICAAP assessment is intended to determine whether the FCA Pillar One requirements of market, credit and operational risk provide an adequate level of capital to support the Firm's business. As the Firm is subject to the FCA's capital adequacy regime at a solo level, the ICAAP is formulated at the CGL entity level and, accordingly, shares the same scope as the overall Pillar three disclosures.

The Firm has assessed the amount of capital it feels is necessary to hold to support the risks it faces. This was achieved through the application of the ERM methodology, which defines the level of risk appetite that the Firm is prepared to take. Risk appetite, along with capital, is apportioned by business lines and key risk categories, namely market, credit, operational and other risks.

The methodology is based on the notion of an expected loss amount for each risk category at a given confidence level over a pre-determined time horizon for each key functional area, (e.g. Trading, Sales, Research, Banking, IT, Compliance, Finance, Settlements and HR).

The calculation of these individual risk exposures enables the Firm to determine a capital requirement for the levels of risk assessed, which in turn drives the assessment of the Pillar Two requirements. The outcome is documented in the Firm's ICAAP, which has been approved by the Board.

6. Credit risk

Credit risk represents the risk that the Firm may suffer a financial loss arising from a counterparty failing to meet its contractual obligations. The Firm is subject to credit risk in both the trading (counterparty credit risk) and non-trading book.

6.1. Counterparty credit risk

Counterparty credit risk arises from CGL's secondary trading activities which, in accordance with market practice, unsettled bought and sold security transactions are recognised gross as market receivables and payables respectively on the Firm's balance sheet.

In the case of free deliveries, these are deducted from capital resources in accordance with the requirement of CRD IV. Other unsettled trades expose the Firm to risk if the market price has moved adversely to the contracted price and therefore the exposure is effectively akin to market risk. In such cases, the Firm applies the relevant capital charge for unsettled trades as set out in the CRR.

The Firm's clients are largely entities who are authorised and regulated by the FCA, PRA, or equivalent overseas regulator and are therefore subject to a degree of independent oversight. Counterparty credit risk is managed in a number of ways. These include new client account opening procedures, which include the review and/or approval from senior business managers and Compliance.

The production and distribution of regular management information ensures senior management are made aware of material credit exposures.

The vast majority of the Firm's trades settle on a delivery versus payment basis and therefore the risk of non-settlement is considered to be low. A daily exposure report is produced and distributed to members of the Risk and Compliance Committee showing financial exposure and absolute cash receivable by counterparty and by instrument.

6.2. Credit risk in the non-trading book

With the exception of cash deposits, the majority of the Firm's credit exposures are to unrated counterparties. Accordingly, the Firm generally applies a credit risk capital component of 8% to its non-trading book risk weighted exposures, other than for cash and margin deposits which are placed with investment grade credit institutions which attract a risk weighting of 20%.

An analysis of exposure by type is set out below.

£m	Exposure	Weighting	Requirement
31 March 2016			
Institutions	16.1	20%	0.2
Corporates (incl. Intercompany)	29.7	100%	2.4
Other (incl. fixed assets, prepayments and sundry debtors)	5.7	100%	0.6
Total	51.5		3.2

£m	Exposure	Weighting	Requirement
31 March 2015			
Institutions	5.5	20%	0.4
Corporates (incl. Intercompany)	25.9	100%	2.1
Other (incl. fixed assets, prepayments and sundry debtors)	9.1	100%	0.7
Total	40.5		3.2

The risk of non-payment by corporate clients is considered low, and the Firm ensures that corporate fees are held back from fund-raising activity to mitigate possible significant credit exposures.

The Firm has a rigorous policy of providing for aged receivables, which is consistent with that used throughout the CGGI Group. The table below shows the, impairment provisions as at 31 March 2016 and 31 March 2015 together with the movement. Provisions are primarily against outstanding amounts arising from the Firm's Investment Banking activities.

Movement on credit provisions	**2016**	**2015**
	£000's	**£000's**
Balance at the beginning of the year	903	1,741
Net decrease during the year	(570)	(838)
	333	**903**

Charged to income in the year	**2016**	**2015**
	£000's	**£000's**
Net decrease during the year	(570)	(838)
Write offs charged directly to income	541	947
	(29)	**109**

7. Use of ECAIs

The Firm uses External Credit Assessment Institutions ("ECAI") as part of its assessment of banks to use for the purpose of depositing its own cash resources as well as client money funds. Current policy requires the use of ratings from Moody's, Standard & Poor's and Fitch.

8. Operational risk

8.1. Overview

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, fraud, people and systems or from external events such as the occurrence of disasters or a security threat. It represents the largest single Pillar One risk in terms of capital allocation, which is derived using the Basic Indicator Approach ("BIA") as set out in the CRR.

Under Pillar Two, the Firm has assessed any residual risk by using the methodology set out below and in section three above.

8.2. Assessment

Operational risk is assessed through both a high-level top-down assessment and the process of Risk and Control Self-Assessment ("RCSA").

The top-down view of operational risk within the Firm is complimented by the operational risk profile through the annual (or more frequent if appropriate) performance review of the RCSA within each business area. This involves the heads of departments identifying the key operational risks within their area and assessing the effectiveness of the most significant controls associated with each risk. Mitigating actions, where appropriate, are identified which would reduce the risk and/or improve the effectiveness of the significant controls.

The results of the RCSAs are summarised and presented to the Risk and Compliance Committee, as well as being used to enhance the awareness of the operational risk profiles within the Firm and possible mitigating actions. Internal Audit also refers to RCSA documents in their risk based approach to internal audit assignments.

For each inherent risk identified, existing controls to mitigate operational risks have been identified and are listed in the RCSA templates. An expected loss is calculated using the multiplication of residual risk impact and the likelihood after the consideration of controls and mitigating factors. The expected losses are represented in the Risk (Heat) Map to help communicate and prioritise management actions to further reduce risks to an acceptable level. The progress of any agreed actions is considered on a monthly basis at the Risk and Compliance Committee.

9. Market risk

9.1. Overview

The Firm applies the standardised approach to market risk, which is the risk that changes in market prices such as equities, interest rates and exchange rates will affect the Firm's income or the value of its holdings in financial instruments. Exposure to market risk arises principally from CGL's trading book activities and is predominately comprised of equity and interest rate PRR, with a modest level of foreign currency position risk.

Trading positions are generally in actively quoted holdings in gilts, equities, bonds and preference shares. Other than equities, including investment trusts, the other significant market risk charge is interest rate PRR which is applicable to preference shares, PIBS and bonds.

The Firm reporting currency is sterling and it actively seeks to eliminate exposure in foreign currencies and the month end exposure in each currency is reported in the KRI pack. However, the Firm does not hedge its net investment in non-sterling denominated subsidiaries.

9.2. Monitoring & control

The Firm has strict limits, both at a book and individual stock level. Individual stock limits are set to incorporate metrics such as the average traded volume (e.g. 5 days at 3 month's average volume) thus ensuring that positions have sufficient liquidity to be unwound in an orderly manner within an acceptable timeframe. Limit utilisation is monitored on a daily basis and any temporary breach requires the prior approval from Risk Management and Finance. Changes to formal position limits require appropriate approval.

10. Securitisation risk

The Firm does not undertake securitisation.

11. Exposures in equities not included in the trading book

Following the sale of the non-trading book position in Euroclear plc, which is set out in Note 15 to the Firm's financial statement for the year ended 31 March 2016, the Firm no longer has any non-trading book equity exposures.

12. Exposure to interest rate risk on positions not included in the trading book

The Firm is not a credit institution, nor does it have any significant off balance sheet assets or liabilities. Outside of the trading book, the risk arising from a change of interest rates to the Firm is not significant and is set out in Note 20 of the Firm's financial statements for the year ended 31 March 2016.

13. Remuneration

13.1. Classification of the Firm

As set out in the FCA's General guidance on proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 disclosures on remuneration the Firm is classified as a level three proportionality tier firm for the purpose of remuneration disclosures on the basis that it has gross assets of less than £15bn.

13.2. Remuneration Committee

CGL's Remuneration Committee remit covers the supervision and oversight the Firm's framework governing remuneration and reward, including overall responsibility for the implementation of and compliance with the FCA's Remuneration Code. The members of the Committee are all non-executive directors and are considered to be independent.

13.3. The role of relevant stakeholders

The CEO is not a member of the Remuneration Committee, although he may provide non-binding advice to it.

13.4. The link between pay and performance

Remuneration is made up of fixed and variable elements designed to reward performance, with the overall package intended to generally reflect market practice for any given role. However, the Firm's policy is that compensation should not be based entirely on revenue attributable to an individual.

Individual performance is measured in a number of ways against agreed objectives, with annual appraisals providing a significant element of performance assessment. The variable element of remuneration includes the use of share schemes, with awards deferred to ensure that longer-term performance is considered, with suitable claw-back in place in appropriate circumstances.

13.5. Aggregate remuneration

The Firm operates as an integrated Capital Markets business and, although it has different revenue types, there are no identifiable business areas other than Capital Markets. The tables below set out the aggregate remuneration for Remuneration Code Staff for the years ending 31 March 2016 and 31 March 2015 respectively.

Year ended 31 March 2016 (£m unless stated otherwise)	Senior Management	Other Code Staff	Total
Fixed compensation	0.8	2.4	3.2
Variable compensation	1.7	2.6	4.3
Total compensation	**2.5**	**5.0**	**7.5**
Number of Code Staff	5	14	19
Non-cash variable compensation awarded in shares included in the above	1.1	1.0	2.1

Year ended 31 March 2015 (£m unless stated otherwise)	Senior Management	Other Code Staff	Total
Fixed compensation	1.2	3.7	4.9
Variable compensation	1.6	2.6	4.2
Total compensation	**2.8**	**6.3**	**9.1**
Number of Code Staff	6	25	31
Non-cash variable compensation awarded in shares included in the above	1.3	1.1	2.4

Senior management are defined as members of the Board with all other Code Staff included as "other" (figures for the year ended 31 March 2015 have been reclassified accordingly to reflect this definition).

One (2015: nil) severance payment of £0.3m (2015: £nil) was made to a code staff employee during the year ended 31 March 2016.

Total outstanding deferred remuneration in respect of Remuneration Code Staff is shown in the table below.

£m	Opening deferred Compensation	Awarded during the year	Vested during the year	Outstanding at 31 March 2016
Senior Management	2.8	1.1	(0.5)	3.4
Other Code Staff	3.7	1.0	(0.5)	4.2
Total	**6.5**	**2.1**	**(1.0)**	**7.6**

13.6. Higher paid employees

The table below shows the number of employees with total remuneration greater than €1m, banded according to the provisions of Article 450 of the CRR.

Number of staff	2016	2015
EUR 1.0m - EUR 1.5m	-	-
EUR 1.5m - EUR 2.0m	1	-
EUR 2.0m - EUR 2.5m	-	1
EUR 2.5m - EUR 3.0m	1	-
EUR 3.0m - EUR 3.5m	-	-
	2	**1**

14. Leverage ratio

The Firm is not a credit institution and the use of leverage is not an integral part of its business model. However, although the Firm does not believe that excess leverage is a material risk, Article 451 of the CRR requires the disclosure of the leverage ratio. The ratio (on a non-transitional basis) for the Firm is 16.4% and 18.3%, as at 31 March 2016 and 31 March 2015 respectively. This compares to the 3% minimum requirement which is expected to become mandatory from January 2018.

A summary of the calculation is set out in the table below.

£m		2016	2015
Gross assets as at 31 March (per audited financial statements)		430.0	449.2
less intangible assets, deferred tax and material holdings (see section four)		(16.6)	(68.2)
Gross assets for the purpose of the leverage ratio	a	413.4	381.0
Tier one capital after deductions	b	67.6	69.7
Leverage ratio (b divided by a)		16.4%	18.3%