Pillar three disclosures

Canaccord Genuity Wealth Limited

Contents

1. Overview

1.1 Background

The Capital Requirement Regulation ('CRR') and Capital Requirements Directive (together referred to as 'C RDI V') came into force on 1st January 2014 and is enforced in the UK together with local implementing rules and guidance, by the Financial Conduct Authority ('FCA').

The rules include disclosure requirements known as 'Pillar 3' which apply to investment firms. These are designed to promote market discipline through the disclosure of key information about risk exposures and risk management processes within the business.

1.2 Basis of disclosure

This report is prepared on an accounting individual basis and includes the following regulated entity:

- Canaccord Genuity Wealth Limited ('CGWL') (FRN 194927)

The report is not required to be reviewed by the Firm's auditor, but has been considered and approved by the Risk Committee of CGWL.

1.3 Frequency of disclosure

Unless otherwise stated, all figures are as at 31 March 2020, the Company's financial year end, with comparative figures for 31 March 2019 where relevant.

Pillar 3 disclosures are published annually concurrently with the Annual Report and Accounts in accordance with regulatory guidelines.

1.4 Location

This report is available on the Firm's website at www.canaccordgenuity.com/wealthmanagement-uk/legal-and-regulatory information/legal--regulatory-information-uk/ under the 'Legal and Regulatory Information' section.

2. Corporate background

The Company is a wholly owned subsidiary of Canaccord Genuity Group Inc. ('CGGI'), a Canadian company listed on the Toronto Stock Exchange. 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.

Canaccord has offices in 10 countries worldwide, including Wealth Management offices located in Canada, Australia, the UK and Europe. The international capital markets division operates in Canada, the US, the UK, France, Ireland, Hong Kong , mainland China, Australia and Dubai.

In September 2017 the Canaccord Group acquired Hargreave Hale Limited ('HHL'), a wealth management business based in the UK.

In April 2019 all activities of HHL apart from its fund management business were transferred to CGWL. HHL will produce its own Pillar 3 report.

In early 2019 the Canaccord Group acquired McCarthy Taylor Limited ('McT') and Thomas Miller Wealth Management Limited ('TMWM'), wealth management businesses based in the UK. In November 2019 all investment management activities were transferred from these entities to CGWL. The wealth planning activities of McT and TMWM were retained in the amalgamated wealth planning company named CG Wealth Planning Limited ('CGWPL'). CGWPL will produce its own Pillar 3 report.

CGWL's offering to clients can be broken down into two broad categories:

2.1 Discretionary and advisory portfolio management

CGWL has approximately £6.3billion of assets under management within discretionary or advisory managed mandates.

Clients are predominantly private individuals but also include trusts, charities and institutions. Portfolios are managed in accordance with asset allocation models and approved holding lists. Revenues are predominantly fees, based on a percentage of assets under management. Revenues from discretionary and advisory managed business equate to circa 80% of Company's revenues.

2.2 Advisory and execution-only stockbroking

Stock broking is a commission based business where CGWL executes trades on behalf of clients either with or without advice. Assets under administration held on behalf of clients total £4.2billion and revenues account for approximately 20% of Company revenues.

3. Risk Management objectives and policies

The CGWM UK Group, consisting of CGWL, HHL, CGWPL and Canaccord Genuity Financial Planning Limited ('CGFPL'), has a centralised Risk Management function and processes which report into the Boards of each entity.

The Boards of each CGWM entity has overall responsibility for the establishment and maintenance of an appropriate risk management framework. A Committee structure, reporting to the Boards, is in place to ensure that procedures, controls and limits are consistent with a Board approved risk framework and appetite.

3.1 Organisational structure

Each CGWM entity operates with its own distinct Board. Membership of the CGWL Board is as follows:

- Chairman
- CEO
- COO
- CFO
- Two Non-executive directors
- Two independent non-executive directors (one of whom is also an independent non-executive director of CGGI)

The other entities Boards are comprised with members of the CGWL Board and other members of the executive management team that have specific responsibility for that business line, such as the Director of Fund Management (HHL) and Director of Wealth Planning (CGWPL).

CGWL has also constituted separate Audit and Risk Committees.

The Boards, CGWL Audit Committee and CGWL Risk Committee operate within defined terms of reference which include a clear purpose and authority, duties and requirements for management information. They also have access to the minutes from their respective sub-committees.

The Board has delegated day to day responsibility of running the Group to both the Chief Executive Officer ('CEO') and to the CGWM UK Executive Committee, which meets at least fortnightly and considers reports from a number of areas of the business, including Finance, Operations, Risk Management and Compliance.

The CGWL Audit and Risk Committees meet quarterly and are both chaired by an independent non-executive director with membership including the Board's other independent non-executive director and a non-executive director provided by CGGI. The Committee is also attended by the CEO, CFO and COO, plus other Board members, Divisional Risk Committee ('DRC') and UK Compliance Committee members, internal auditors and external auditors as required. The CGWL Audit and Risk Committees' terms of reference include the review of the risk management framework and reported exceptions. The CGWL Audit Committee is responsible for considering plans and reports from its internal and external auditors. The CGWL Risk Committee is responsible for considering the reports of the Risk Management and Compliance functions.

The Executive Committee ('ExCo') is the principal forum for conducting the business of the Company, and its members take day to day responsibility for the efficient running of the business. The Committee is responsible for the implementation of Board strategy in conjunction with the UK Business Development Committee.

The Divisional Risk Committee ('DRC') is a management committee specifically responsible for monitoring risk exposure and for the general oversight of the Company's risk management processes. This Committee meets five times a year and is chaired by the Head of Legal and Compliance and is attended by the head of each operating area. The Committee is responsible for identifying risks and developing appropriate risk mitigation strategies. The Compliance department also has a comprehensive monitoring programme which is reported to the Divisional Risk Committee, through their attendance, and UK Compliance Committee, and feedback provided to the business through the Conduct Risk Committee.

The role of the Remuneration Committee is set out in 16.2.

The Company also has a nominations committee which meets at least twice a year and its members are three non-executive directors.

3.2 Risk management overview

The CGWM UK Group utilises the Enterprise Risk Management ('ERM') methodology applied globally across the CGGI Group.

This requires a systematic approach to the risk management process which encompasses all functional areas and necessitates ongoing communication, judgement and knowledge of the business.

The Company 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 Company.

A cornerstone of the Company's risk philosophy is the continuation of the first line of responsibility for managing risk by department heads.

The monitoring and control of the Company's risk exposure is conducted through a variety of separate, but complementary, financial, operational, and compliance reporting systems.

The Company uses the services of the CGGI internal audit function and also outsources certain internal audit assignments to a firm of external specialists. Internal audit performs a programme of audit examinations as agreed by the Audit Committee.

The output of the reviews is reported to the Audit Committee of CGWL and shared with Ernst & Young in their capacity of external auditors.

4. Summary of capital resources & requirements

The table below sets out the Group's capital resources, and Pillar One capital requirements, as at 31 March 2020, in line with the last set of financial statements published by CGWL.

CRD IV expresses capital adequacy differently from the previous regime and is formulated as a percentage of own funds to risk weighted assets. Within the company, own funds equate to the current capital resources less deductions, while risk weighted assets are based on capital requirements (higher of the sum of the fixed overhead requirement and the sum of market and credit risk) 'grossed-up' to give an underlying risk weighted asset total.

The Company has adopted the 'structured' approach to the calculation of its Pillar Two minimum capital requirement as outlined in the Committee of European Banking Supervisors Paper (March 2006), which takes the higher of Pillar One and Pillar Two as the ICAAP minimum capital requirement.

CGWL (£000's) 31 March 2020	**Pillar one**	**Pillar two**
Capital resources		
Tier one capital		
Share capital	**77,151**	**77,151**
Share premium	**–**	**–**
Reserves	**13,112**	**13,112**
Tier one capital	**90,263**	**90,263**
Intangible assets	**(64,957)**	**(64,957)**
Other deductions	**(4,292)**	**(4,292)**
Tier one after deductions	**21,014**	**21,014**
Tier two capital		
Total capital after deductions	**21,014**	**21,014**
Capital requirements		
Risk weighted assets:		
Market risk	**168**	**500**
Credit risk	**26,784**	**33,700**
Operational risk	**–**	**132,325**
Other risk	**–**	**–**
Fixed overhead requirement*	**143,725**	**–**
Wind down provision		
Risk weighted assets	**143,725**	**166,525**
Existing ICG	**176,781**	**166,525**
Capital requirement equivalent (8%)	**14,142**	**13,322**
Capital ratio	**11.88%**	**12.62%**

*based on actual annual expenditure calculated for the year ended 31 March 2019.

4.1 Common equity tier one capital

The requirement is that the Company must satisfy own fund requirements at all times, which are as follows:

- A Common Equity Tier 1 Capital ratio greater than 4.5%
- A Tier 1 ratio greater than 6%
- A Total Capital ratio greater than 8%

Tier one capital comprises entirely of Common Equity, namely allotted, called up and fully paid share capital of £77.1m and audited reserves of £13.1m less deductions.

4.2 Tier two capital

The Company does not currently have any tier two capital.

4.3 Deductions from capital

Goodwill arising from past acquisitions and amounts receivable from an Employee Benefit Trust are all deducted from tier one capital.

5. Pillar two and the ICAAP

As a limited activity IFPRU investment group, the Company 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 provide an adequate level of capital to support the Firm's business. As the regulated firms within the Group are subject to the FCA's capital adequacy regime at a consolidated level, the ICAAP is formulated at both the level of the Company and Group.

The Company 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 calculates a risk measure based on the impact and probability of loss events. Risk is apportioned by business lines and key risk categories, namely, Financial, Conduct, Operational and Other risks.

6. Exposure to counterparty credit risk and credit risk adjustments

Credit risk represents the risk that the Company may suffer a financial loss arising from a counterparty failing to meet its contractual obligations.

The Company has adopted the standardised approach to credit risk. It has made use of external credit rating agencies for the purpose of risk weighting its exposure to credit institutions and, for other exposures it has applied a 100% weighting. An analysis of exposure by type is set out below.

The risk of credit loss is considered low. Fees are agreed in advance and can usually be deducted directly from client accounts. The Group has a rigorous policy of providing for aged receivables.

£m	Exposure	Weighting	Risk weighted exposures
Institutions	38,045	20%	7,609
Other (fixed assets and debtors)	19,175	100%	19,175
	57,220		26,784

7. Capital buffers

Capital buffers are not applicable to the Company in accordance with IFPRU 10.1.1(1).

The calculation of these individual risk exposures enables the Company 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 Group's ICAAP, which is updated and approved by the relevant Boards at least annually.

8. Indicators of global systematic importance

The Company and Group is not considered to be a global systemically important institution.

9. Unencumbered assets

All regulatory qualifying assets held on the balance sheet are considered unencumbered.

10. Use of ECAIs

The Company uses publicly available information from counterparties as assessed by External Credit Assessment Institutions ('ECAI') as part of its assessment of banks to use for the purpose of depositing its own funds as well as client money funds.

11. Exposure to market risk

The Company has a very clear and unambiguous policy that it does not take proprietary positions. Market executions are always transacted to satisfy client orders or for the account of discretionary client portfolios. The Company's systems, controls and procedures highlight positions arising from errors and ensure they are closed out immediately.

12. Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people, and systems or from external events. The identification of operational risk within the Company is carried out as part of the process of compiling, updating and reviewing the Risk Register in conjunction with the ERM methodology described in Section 3. 2. The register incorporates a comprehensive description of the Company's operational risk.

The regular review of the Risk Register and follow up of the action plans form a key aspect of the Company's ongoing assessment and mitigation of operational risk. This is the responsibility of the Divisional Risk Committee which formally reviews the register.

The firm also has a programme of insurance designed to reduce its exposure to liability and to protect its assets.

13. Exposure in equities not included in the trading book

The Group does not hold exposures in equities.

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

The Company is not a credit institution, however it is required to comply with the FCA's Client Asset Rules which protect client assets and money held in nominee or on trust on their behalf. As a result, the Company is obliged to have in place procedures to safeguard client assets, and as such client money deposits may only be placed in specifically designated client money accounts maintained with regulated institutions. The Company maintains a panel of such approved banks which have been subject to CGWM's internal approval processes.

As required by the FCA, the Company has obtained confirmation from these institutions that the client money accounts are separate from our corporate accounts. The Company may retain all or part of any interest earned on the client money held in those accounts in accordance with the CGWM UK Group's policies.

Outside of the trading book, the risk arising from a change of interest rates to the Company is not significant as it has no variable rate borrowings and interest earned on firm cash or retained on client money deposits is a small part of the Company's earnings.

15. Exposure to securitisation positions

The Company does not undertake securitisation and is not exposed to this risk.

16. Remuneration policy

16.1 Classification of the group

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

16.2 Remuneration committee

The Company has constituted a separate Remuneration Committee ('REMCO'). the members of which are two Independent Non-Executive Directors and one Non-Executive Director. No members of the UK management team sit on the REMCO, although they are in attendance, if invited to be so, by the Chairman, and are able to make representations.

The REMCO is responsible for approving the general principles of remuneration plans and ensuring the balance of pay is in-line with market . The REMCO is afforded with the flexibility to choose remuneration structures which are most appropriate for the Company's strategy and business needs. Remuneration Structures include, but are not limited to, fixed salary, discretionary variable bonuses, equity deferral, buy-outs and guaranteed variable pay, personal hedging strategies, pension payments and early termination payments.

The REMCO is responsible for the approval of all compensation of the members of the Executive Committee and senior staff in control functions, including salary increases, bonuses and stock awards. REMCO will seek input from senior management and/or the control functions, as appropriate.

16.3 The role of the relevant stakeholders

The CEO and CFO are not members of the Remuneration Committee, although they do provide non-binding advice to it.

16.4 The link between pay and performance

Compensation payments are made up of a mixture of fixed salary paid monthly and a discretionary variable bonus, which is paid in cash and/or shares in Canaccord Genuity Group Inc. Total compensation includes a range of benefits associated with employment including, but not limited to, private health insurance, pension contributions and death in service insurance.

Remuneration is designed to reward performance, with the overall package intended to generally reflect market practice for any given role.

The Company's remuneration structure comprises a fixed salary element, which is intended to reflect an employee's professional experience and organisational responsibilities, and is distinct from variable remuneration which is intended to reward performance in excess of that required to fulfil the employee's job description.

Discretionary variable bonuses are paid following a 6 month performance review of the financial period to which they relate. All variable pay awards are conditional, discretionary and contingent on sustainable and risk adjusted performance and therefore capable of clawback forfeiture or reduction at the employer's discretion.

16.5 Aggregate remuneration

The following information relates to the year ended 31 March 2020. All code staff are classified as senior management.

Fixed remuneration includes both gross salary and employer payments to defined contribution pension plans.

Variable remuneration includes cash bonuses and shares granted under long term share based incentive plans.

During the year a total of 16 (2019: 17) employees were categorised as Code staff. Aggregate remuneration, pro rated to reflect the period they were considered code staff, in respect of the year ended 31 March 2020 was £4,590,559(2019: £3,874,906) of which the fixed element was £1,771,985 (2019: £1,1,609,906), the variable element was £2,818,574(2019: £2,265,000) and severance costs were £Nil (2019: £53,690). Included in the variable element was £509,675 (2019 : £439,000) in respect of long term share based incentive schemes.

Total outstanding deferred remuneration in respect of code staff at 31March 2020 is £900,675 (2019-£713,444). All deferred remuneration was unvested at the reporting dates. Total deferred remuneration paid out in the financial year was £235,000 (2019: £230,393).

16.6 Higher paid employees

There were two (2019: one) employees whose remuneration was in excess of EUR 1 million in the financial year.

Australia

Canada

Guernsey

Isle of Man

Jersey

United Kingdom

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