Canaccord Genuity

Canaccord Genuity Limited

Pillar 3 Disclosures
March 2020

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1. Overview

1.1. Introduction

The Capital Requirements Regulation ("CRR") and Capital Requirements Directive ("CRD"), which together comprise CRD IV, are applicable across the European Union ("EU"). CRD IV remains applicable to the UK as a result of the European Union (Withdrawal Agreement) Act 2020 which came into force upon the UK's departure from the EU on 31st January 2020. The following disclosures for Canaccord Genuity Limited ("CGL" or "the Firm") are prepared in accordance with CRD IV, which 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 2020, the Firm's financial year end, with comparative figures for 31 March 2019 where relevant.

1.4. Location

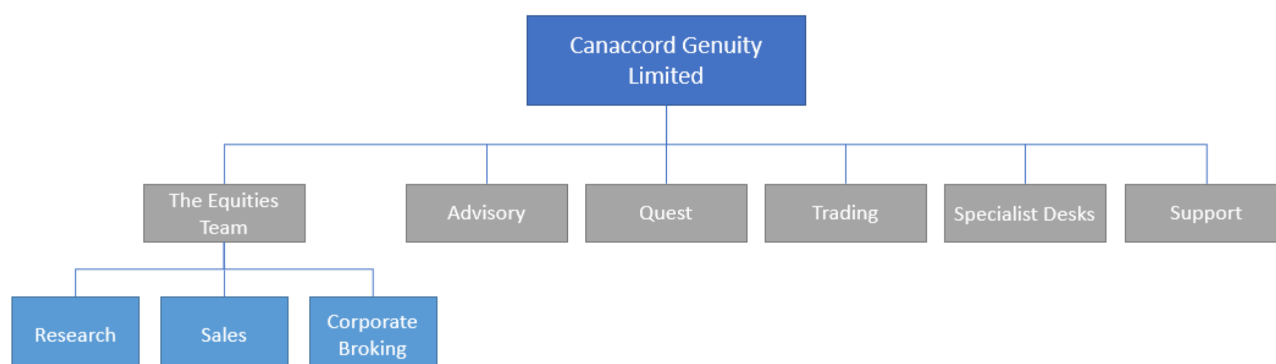
This report is available on the Firm's website at www.canaccordgenuity.com under the UK Regulatory and Legal Disclosures section.

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. Core business lines

The Firm operates as a single integrated Capital Markets business out of its head office in London. Within the overall Capital Markets segment, the business can be sub-divided into six main teams: The Equities Team, Advisory, Quest, Trading, Specialist Desks and Support. These verticals were created as a proactive response in anticipation of MiFID II challenges and with the aim to create better ownership of both revenue and costs, to create a leaner more client focused Firm, to align risk and compensation with each respective business and to increase sustainability. As at 31 March 2020 CGL had 59 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.



3. Overview of Governance & Risk Management Framework

3.1. Governance

CGL operates with an independent Board, Audit Committee and Risk Committee. Both the Audit Committee and the Risk Committee are headed by an independent non-executive Chairman supported by one additional independent non-executive director (whom is also a non-executive director of the CGGI Board). Membership of the Board includes an Executive Chairman and Chief Executive, a non-executive director of the CGGI Board and a further independent non-executive director. In addition, two executive directors of CGGI also hold non-executive positions on the Firm's Board. The Board, Audit Committee and 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 Chief Financial Officer has the responsibility to review this document at a minimum each year and implement any required changes. The Risk & Compliance Committee will evaluate any suggested changes and present them to the Audit Committee. CGL's Audit Committee has the authority to approve this policy and any changes to the policy.

The Risk and Compliance Committee is responsible for ensuring that appropriate risk mitigation is in place, and that the control environment is commensurate to the Firm's 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 that all employees at every level are responsible for the management and escalation of risks. This first line of defence includes responsibility for managing risk within prescribed limits by department heads and trading desk managers. Second lines of defence are provided by the Compliance and Risk Management functions which are further complemented by Internal Audit which provides a third line of defence. 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.

Both the Firm's Audit Committee and Risk Committee meet quarterly and are chaired by an independent non-executive director with membership including the Board's other independent non-executive director. The Committees are also attended by the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), Head of Compliance, internal and external audit as required. The Risk Committee's terms of reference include review of the risk management framework and reported exceptions. The Audit Committee is instead 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 one extensive monthly information packs and one quarterly.

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 comparison to budget. It also contains balance sheet information and an analysis of own funds and own funds requirements. Further general analytics include commission and trading results by client/stock and revenue generated from corporate finance transactions.

The Key Risk Indicator ("KRI") quarterly 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 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
- Treasury statistics (cash recs, balances and FX transactions)

The Risk & 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. The Firm has taken the view that the management of risk is best achieved by embedding this process within function heads and the sub committees. Whilst 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 quarterly 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.

The Firm has outsourced its internal audit function to chartered accountants, BDO, 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 Committee. The internal audit plan is derived from a risk-based approach and is compiled from known risk areas identified by both the Risk & Compliance and Audit Committee. All internal audit reports are tabled at the Audit 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 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 2020.

Pillar One own funds and requirements	£m
Common Equity Tier 1 capital (CET 1)	
Share capital	113.1
Share premium	2.7
Audited reserves	(41.5)
CET 1 before deductions	74.3
Deductions from CET 1	
Material holdings	(5.4)
Deferred tax (losses)	0.0
Additional Valuation Adjustment (AVA)	(0.1)
Interco - CGL and Canaccord Genuity Group Inc	(14.0)
Total deductions	(19.5)
Tier 1 Capital	54.8
Total Own Funds	54.8
Own funds requirements	
Credit risk	3.1
Settlement risk	0.3
Market Risk	
Equities	1.2
CIUs	0.6
Interest rates	0.6
Foreign exchange	0.0
	2.4
Operational Risk	9.7
Total Requirements	*15.5*
Surplus Own Funds	*39.3*
Pillar One Risk Weighted Assets (RWAs)	*193.8*
Ratios (as a % of RWAs)	
CET 1	35.5%
Tier 1	28.3%
Own Funds	28.3%

*Foreign exchange risk for the period ending 31 March 2020 was £11,491.

4.1. Tier one capital

Tier one capital comprises share capital of £113.1m, share premium of £2.7m less negative reserves of £41.5m. The total, of £54.8m, is eligible CET 1 and the Firm has no other forms of tier one capital. The retained loss of £41.5m exclude the profit after tax for the year ended 31 March 2020 which only became eligible for inclusion in CET1 following the signing of the Firm's fiscal 2020 Report and Financial Statements.

4.2. Deductions from capital

These comprise additional value adjustment of £0.1m and material holdings of £5.4m. Material holdings consist of £0.4m investment in the Firm's French subsidiary and £5.0m 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. The firm also deducts from CET1 £14m of an intercompany receivable from its parent, CGGI.

4.3. Proposed capital reduction

As set out in the Strategic Report in the Firm's Report and Financial Statements for the year ended 31 March 2020, the Firm undertook a restructuring of its business in Fiscal 2020. This was completed during the quarter ended 30 June 2019 and resulted in a material reduction in market and operational risk, headcount and of the Firm's own funds requirements. As a result, the Firm, after notifying the FCA, is planning to undertake a capital reduction and return £25m to its parent by way of a dividend in specie via the assignment of an intercompany loan balance.

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 brought 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% (i.e. a capital charge of 1.6%).

An analysis of exposures by type and geography is set out below.

£m	Exposure	Weighting	Requirement
31 March 2020			
Institutions	22.8	20%	0.4
Corporates (incl. intercompany)	29.0	100%	2.3
Other (incl. fixed assets and prepayments)	2.5	100%	0.3
Other (deferred tax timing differences)	1.3	250%	0.1
Total	55.6		3.1

£m	Exposure	Weighting	Requirement
31 March 2019			
Institutions	21.2	20%	0.3
Corporates (incl. intercompany)	15.6	100%	1.2
Other (incl. fixed assets and prepayments)	3.0	100%	0.3
Other (deferred tax timing differences)	2.1	250%	0.4
Total	41.9		2.3

£m

31 March 2020

Weighting	United Kingdom		Canada		Other		Total	
	Exposure	*Requirement*	*Exposure*	*Requirement*	*Exposure*	*Requirement*	*Exposure*	*Requirement*
20%	5.2	0.1	0.0	0.0	17.6	0.2	22.8	0.3
100%	19.2	1.5	12.0	1.0	0.3	0.0	31.5	2.5
250%	1.3	0.3					1.3	0.3
	25.7	1.9	12.0	1.0	17.9	0.2	55.6	3.1

£m

31 March 2019

Weighting	United Kingdom		Canada		Other		Total	
	Exposure	*Requirement*	*Exposure*	*Requirement*	*Exposure*	*Requirement*	*Exposure*	*Requirement*
20%	10.6	0.2	0.0	0.0	10.6	0.2	21.2	0.4
100%	11.6	0.9	6.0	0.5	1.0	0.1	18.6	1.5
250%	2.1	0.4					2.1	0.4
	24.3	1.5	6.0	0.5	11.6	0.3	41.9	2.3

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 2020 and 31 March 2019 together with the movement. Provisions are primarily against outstanding amounts arising from the Firm's Investment Banking activities.

Expected credit loss allowance under IFRS 9 Financial Instruments

(£000's)	12 months to 31 March 2020	12 months to 31 March 2019
Provision balance as the beginning of the year	822	288
Net increase/ (decrease) in provision	436	534
Provision balance as the end of the year	**1258**	**822**
Net increase / (decrease) in provision	436	534
Written off directly to statement to income	68	58
Net charge/ (credit) through income statement	**504**	**592**

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. Trading positions are generally in quoted holdings in gilts, equities, bonds, PIBS and preference shares.

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

The Firm does not have 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 19 of the Firm's financial statements for the year ended 31 March 2020.

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 fixed, variable and deferred remuneration for Remuneration Code Staff for the years ending 31 March 2020 and 31 March 2019 respectively. Senior management is defined as members of the Board.

Year ended 31 March 2020 (£m unless stated otherwise)	Senior Management	Other Code Staff	Total
Fixed compensation	0.5	2.8	3.3
Variable compensation	0.4	1.8	2.2
Total Compensation	**0.9**	**4.6**	**5.5**
Number of Code Staff	7	15	22
Non-cash variable compensation awarded in shares included in the above	0.1	0.4	0.5

Year ended 31 March 2019 (£m unless stated otherwise)	Senior Management	Other Code Staff	Total
Fixed compensation	0.9	2.9	3.9
Variable compensation	0.5	6.4	6.8
Total Compensation	**1.4**	**9.3**	**10.7**
Number of Code Staff	6	17	23
Non-cash variable compensation awarded in shares included in the above	0.1	0.8	0.9

The non-cash variable compensation awarded in shares during the year represents the Company Employee Benefit Trust (EBT) award value. The vested amount recorded during the year represents the EBT vest value at vest date. The outstanding balance as at the year-end represents the unvested shares per year end share price.

Non-cash variable compensation outstanding for period ending 31 March 2020

Year ended 31 March 2020 (£m unless stated otherwise)	Awarded during the year	Vested during the year	Outstanding at 31 March 2020
Senior Management	0.1	0.0	0.1
Other Code Staff	1.5	(0.4)	0.4
Total	1.6	(0.4)	0.5

No severance payment was made in Fiscal 2020. A total severance payment £1.2m were made in Fiscal 2019 (£0.3m to Code Staff and £0.9m to one Senior Manager).

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	2020	2019
EUR 1.0m - EUR 1.5m	2	-
EUR 1.5m - EUR 2.0m	1	-
EUR 2.0m - EUR 2.5m	1	1
	4	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 for the Firm is 10.4 % and 11.5%, as at 31 March 2020 and 31 March 2019 respectively. This compares favourably to the 3% minimum requirement which is became mandatory from January 2018.

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

£m		2020	2019
Gross assets as at 31 March (per audited financial statement)		543.7	593.3
Less deferred tax and material holdings (see section four)		(19.5)	(9.9)
Gross assets for the purpose of the leverage ratio	a	524.2	583.4
Tier One Capital after deductions	b	54.8	67.2
Leverage ratio (b divided by a)		10.4%	11.5%