



SHORE CAPITAL  
CAPITAL MARKETS

## Pillar 3 disclosure: Shore Capital Markets

Reporting reference date: 31 December 2020



## 1. Regulatory Framework

### 1.1 Purpose

This document sets out the disclosures as required by the Capital Requirements Directive ("CRD IV") which represented the European Union's application of Basel III. Basel III sets out certain capital adequacy requirements standards and disclosure requirements to be implemented by regulated firms. Specifically, CRD IV prescribes the amount of capital that financial services firms must hold and consists of three pillars:

- Pillar 1 – Minimum Capital Standards: sets out the minimum capital requirements for credit, market and operational risk.
- Pillar 2 – Supervisory Review Process: under which the firm and its supervisor assess whether the firm should hold additional capital against risks not covered under Pillar 1.
- Pillar 3 – Market Discipline: requires the firm to disclose certain details of its risks, capital and risk management.

The Pillar 3 disclosure requirements complement the minimum capital requirements of Pillar 1 and the risk-based processes of Pillar 2 and are set out in Part 8 of the Capital Requirements Regulation ("CRR") together with associated guidelines issued by the Financial Conduct Authority ("FCA") and additional standards and guidance released by the European Banking Authority.

### 1.2 Scope

"Shore Capital Markets" or "SCM" comprises three entities:

- Shore Capital Markets Limited, a UK incorporated entity and the parent entity for two operating subsidiaries (SCS and SCC) which are both authorised and regulated in the UK by the Financial Conduct Authority.
- Shore Capital Stockbrokers Limited ("SCS"), an investment firm subject to the Prudential Sourcebook for Investment Firms ("IFPRU").
- Shore Capital and Corporate Limited ("SCC"), an exempt CAD firm.

The prudential consolidation is undertaken at the parent entity. Accordingly, the Pillar 3 disclosures herein are made on consolidated basis at the SCM level and consider the FCA authorised and regulated entities. Shore Capital Markets specialise in capital markets activities including corporate finance advice, market making, research and sales services.

Shore Capital Markets Limited is a subsidiary of Shore Capital Group Limited.

This document has been completed in compliance with the Pillar 3 disclosure requirements as set out in Part 8 of the CRR. The disclosures made within this document are not subject to audit or external verification but have been reviewed by the Senior Risk and Compliance Committee which is a delegated committee of the SCM Board and senior management. Senior management considers that SCM's diversified business model is sound and is capable of withstanding economic stresses and downturns.



### 1.3 Non-Material, Proprietary or Confidential Information

Article 432(1) of the CRR regards information as being material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If Shore Capital Markets deems a certain disclosure to be immaterial to the economic assessment of its business, it may be omitted from this disclosure.

Article 432(2) of the CRR provides for the omission of one or more items of the required disclosures if the information is proprietary or confidential. Information is regarded as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the SCM's investments therein less valuable.

Shore Capital Markets must regard information as confidential if there are obligations to customers or other counterparty relationships binding the business to confidentiality. If any such information is omitted, SCM shall explain the grounds as to why it has not been disclosed.

### 1.4 Frequency and Means of disclosure

Pillar 3 disclosures are required to be made at least annually in conjunction with the date of publication of the SCM's financial statements. These disclosures are made by reference to the Shore Capital Markets' reporting year end being 31 December. SCM's Pillar 3 disclosures are published in the Regulatory Information section of its website and these disclosures are made as at 31 December 2020.

## 2. Governance

Shore Capital Markets Limited operates its governance structure through its Board, the Boards of its operating subsidiaries and a series of Board-level committees as detailed below.

### 2.1 The Shore Capital Markets Limited Board

The Shore Capital Markets Limited Board has overall responsibility for the SCM's affairs and risk management, commercial and strategic decision making, directing and controlling the activities of SCM and overseeing the SCM businesses and operations, which includes the implementation and review of business plans.

The Shore Capital Markets Limited Board is specifically responsible for SCM's systems of internal controls, including financial, operational and compliance controls, which are designed to provide reasonable assurance against regulatory non-compliance, material misstatement or loss. The controls are used in identifying, evaluating and managing significant risks of the business regularly.



## 2.2 Operating Boards (SCS and SCC Boards)

The Shore Capital Markets Limited Board, through its delegation to the Operating Boards (SCS and SCC), ensures that through the effective day-to-day running and management of its operating businesses, SCM can operate as a going concern and that its regulatory and capital requirements are at all times met.

Subject to certain matters which cannot otherwise be delegated to the Operating Boards such as the statutory obligations which the Shore Capital Markets Limited Board assume, including in respect of the SCM's Financial statements and accounting policy, the Operating Boards have been generally authorised by the Shore Capital Markets Limited Board to make all decisions relating to the operational matters relevant to the respective businesses. Where the Operating Boards consider that a particular matter, risk or issue is not within its authority of delegation or of a significant business, financial, liquidity, risk or strategic nature the Operating Boards are required to escalate the matter to the Shore Capital Markets Limited Board to ensure its appropriate resolution.

The Operating Boards receive management information to assist with its day-to-day operational management, including the management of risk, of the of the business. This includes:

- Daily statement of revenue, mark-to-market exposures, cash and excess regulatory capital in SCS.
- Weekly statement of revenue, debtors, cash and excess regulatory capital across the SCM.
- Monthly management accounts for SCM.

The Operating Boards consider the compliance risks arising from the relevant business' activities and assess the effectiveness of the relevant systems and controls in this regard.

## 2.3 Operational Risk and Compliance Committees

The Operating Boards have appointed specific sub-committees to oversee the management of operations and operational risk. There are three Operational Risk Committees:

- Senior Risk and Compliance Committee ("SRC")
- Risk and Operations Committee ("ROC")
- Market Making and Execution Committee ("MERC")

Among other things, these committees consider the operational stresses and risks relevant to the business. The committees will consider risk indicators and other indicators materialising ahead of risk indicators, which would indicate the need for an escalation of matters to the Operating Boards or the Prudential Working Group ("PWG"). The PWG is the body tasked with managing matters relating to SCM's Recovery Plan and will escalate matters to the Shore Capital Markets Limited Board.



## 2.4 Audit Committee

The Audit Committee of Shore Capital Group Limited is responsible for reviewing as to whether the accounting policies are appropriate for each of its subsidiaries and as a whole and for monitoring internal financial compliance and external audit functions, including the cost effectiveness, independence, and objectivity of the auditor.

## 2.5 Number of Directorships held by Members of the Board

	Internal	External
M F Brown	1	-
D H Danford	2	-
S P Fine	3	1
M McEntyre	2	-
X R Rolet	1	-
M L van Messel	1	26
C W Black	2	2
S M Auton	1	-
M R Percy	1	-

*Internal represents Directorships of Shore Capital Markets companies and External represents directorships of other Shore Capital Group Limited entities and other third-party companies.*

## 3. Risk Management

### 3.1 Overview

Article 435 of the CRR requires Shore Capital Markets to articulate the risk management objectives and policies for each separate category of risk as set out herein including the strategies and processes for managing any such risks, the structure and organisation of its Risk Management Function, the scope and nature of risk reporting and measurement systems and the policies in place in order to mitigate risks to which it is exposed including the strategies and processes in place to monitor the efficacy of controls and mitigants.

### 3.2 Risk management framework

Shore Capital Markets aims for a very low level of risk although it understands that risk is inherent in the firm's activities and that to generate returns it must accept a certain level of risk.

It should be noted that the SCM has been in existence since 1985 and senior management has therefore developed a deep understanding of the risks that the firm faces and has put in place controls to prevent those risks occurring where possible, or otherwise to mitigate their impact.



SCM maintains a risk map in conjunction with its Internal Capital Adequacy Assessment Process (ICAAP) setting out the key risks which it has identified in its various business activities. The map shows the controls which have been implemented to mitigate each risk, thereby enabling the SCM to identify readily those which pose the greatest risk. The map is reviewed periodically to ensure that it remains current and reflects any changes in the SCM's risk appetite, activities and markets in which it operates as well as changes in the external environment.

Shore Capital Markets has a strong culture of risk control as evidenced by the close involvement of the Board and senior management and a long track record of effectively managing its risks.

### 3.3 Internal Capital Adequacy Assessment Process

Shore Capital Markets' Internal Capital Adequacy Assessment Process (ICAAP) documents senior management's approach and its assessment of SCM's risk profile and the adequacy of its internal capital. The process is intended to identify the amount of capital it requires in order to undertake its business activities and whether the Pillar 1 requirements of market, credit and operational risk provide sufficient capital to support the risks associated as a consequence of those activities.

The ICAAP is approved by the Shore Capital Markets Limited Board and it includes an assessment of all the material risks faced by SCM and the controls in place to identify, manage and mitigate those risks and ensures that sufficient capital is maintained to withstand any resulting residual risk.

The main categories of risk which are considered in further detail below are the following:

- Credit risk and Counterparty Credit risk
- Market risk
- Operational risk
- Liquidity risk
- Reputational risk

### 3.4 Credit Risk and Counterparty Credit Risk

Credit Risk and Counterparty Credit risk is the potential loss that SCM, where the loss is deemed to be material to SCM, would incur if a counterparty fails to settle under its contractual obligations or there is a default of an institution with which SCM holds cash deposits.

The main credit risks in SCM relate to the potential failure by a counterparty or customer to settle a securities transaction executed with SCS, the non-payment of fees by a corporate client to SCC and cash balances held at banks.



SCS seeks to deal only with creditworthy counterparties, the majority of which are financial institutions. As a result, such counterparties are generally subject to certain minimum capital requirements and thereby limiting the counterparty credit risk to SCM. Furthermore, the counterparty credit risk associated with securities transactions is further limited by the fact that counterparty balances are generally settled on a delivery versus payment (DVP) basis. Unsettled trades are subject to a greater degree of risk which increases as the overdue period increases. Circumstances such as this are closely monitored with detailed management information provided to senior management including in relation to transactions awaiting settlement.

Outstanding fees due are monitored closely and strict payment terms are written into engagement letters entered into between SCS and SCC and the relevant corporate client. Transaction fees attributable to SCS and/or SCC are typically received upon completion of the transaction.

SCM's cash balances are held with a few deposit-taking institutions for the purposes of diversifying the risk exposure in this regard.

Other sources of counterparty risk include non-trading receivable components of the firm's balance sheet such as corporate finance receivables, loans, other non-trading receivables and prepayments and accrued income. SCM uses the standardised approach as set out in IFPRU 4 and Part 3, Title II, Chapter 2 of the CRR to calculate credit risk.

Credit exposures and corresponding capital resource requirements (£000's) as at 31 December 2020

Asset	Value	Charge	Risk weight	Requirement
Cash & cash equivalents	11,433	8%	20%	183
Prepayments & Other receivables	25,655	8%	100%	2052
Non-current assets	1,954	8%	100%	156
<b>Total</b>				<b>2,392</b>

Shore Capital Markets makes use of External Credit Assessment Institutions ("ECAIs") for the purposes of assessing the creditworthiness of the banks at which it deposits its own cash resources. Where a credit assessment is available, SCM has nominated Standard & Poor's ("S&P") to rate the relevant exposures, under the standardised approach.

SCM's two main banks are currently rated BBB and A+ by S&P for long term debt.

### 3.5 Market Risk

Market Risk is the risk that SCM's earnings or capital is adversely affected by changes or volatility of market rates or prices such as interest rates, equity prices or foreign exchange rates.



SCM is exposed to market risk through its subsidiary, SCS, holding securities arising from its market making, trading and customer flow activities which are held as Trading Book Positions. Market risk on such positions arises from the volatility in equity price movements and this is managed daily within pre-defined limits set by senior management. Market risk on securities is measured using in accordance with IFPRU 6 and CRD IV.

SCM's activities are undertaken primarily in pounds sterling and therefore it does not face any significant foreign exchange risk. Any foreign exchange risk that may arise is monitored on an intra-day and end of day basis and exposures are calculated using an asset class-based risk weighting on the greater if the net long and net short of GBP equivalent value.

Exposure to interest rate risk has not been included in its disclosures due to not being material to the SCM. SCM has no material exposure to non-trading book positions.

Market Risk	Risk Requirement (£000's)
Interest Rate PRR	-
Equity PRR	681
Foreign currency PRR	108
<b>Total</b>	<b>788</b>

### 3.6 Operational risk

Operational risk is the risk of losses arising as a result of inadequate or failed internal processes, people and systems, or from external events. Operational risk can also be impacted by factors such as the loss of key staff, the quality of service afforded to clients, systemic failures or any event that disrupts the business from being able to carry out its activities such as those requiring an invocation of the SCM's Business Continuity Plan.

SCM seeks to mitigate operational risk by maintaining appropriate systems and controls including where relevant policies and procedures. The Operational Risk Committees described in more detail at section 2.3 detail the governance framework that has been established to ensure any risks so arising of an operational nature are promptly identified, escalated and managed as appropriate.

Through delegating to the Operating Boards, the Shore Capital Markets Limited Board ensures that the sub-committees established for the purposes of managing Shore Capital Markets' risks are properly constituted with the appropriate mix of experienced and knowledgeable staff, with clear reporting lines and escalation expectations. Outsourced relationships are monitored closely to ensure adherence to contractual obligations and service levels while business continuity plans are in place and are subject to periodic review and testing. Operational risk is further mitigated by professional indemnity insurance.

SCM has adopted the basic indicator approach under Pillar 1 for operational risk capital as set out in article 315 of the CRR.





### 3.7 Liquidity risk

The liquidity position of the SCM is closely monitored and managed daily, adhering to the liquidity policies and controls that have been put in place. SCM's liquidity is subject to periodic stress testing to ensure the appropriateness of its liquidity position and the adequacy of any liquidity buffer set.

SCM has an effective contingency funding plan and meets the overall liquidity adequacy rule (OLAR) and is therefore in compliance with BIPRU 12.

### 3.8 Settlement risk

Settlement risk requirement for Pillar 1 is calculated in accordance with Article 445. Settlement risk is derived from exposures on unsettled delivery versus payment transactions in securities multiplied by a factor depending on how many days overdue payment or delivery is (0% up to 4 days, 8% 5-15 days, 50% 16-30 days, 75% 31 to 45 days, 100% 46+ days). The exposure on an unsettled trade is calculated as the difference between the agreed settlement price and the current market price of the underlying instrument due to be delivered where this difference could involve a loss for the firm.

### 3.9 Reputational risk

This is the risk of an event occurring which could adversely affect a firm's reputation. The effect could be a loss of confidence by clients which could in turn affect the firm's ability to generate income.

SCM considers reputational risk to be one of its key risks. It has numerous controls in place in order to minimise the possibility of an occurrence. SCM's primary measures to mitigate reputational risk include:

- a high degree of emphasis on employing experienced, qualified, professional staff in both front office and support areas in order to ensure that high quality standards are upheld and that industry requirements are met.
- appropriate training to ensure that such standards are maintained.
- strict control over new business approvals and new clients taken on.
- compliance procedures covering, inter alia, conflicts of interest, complaints and fair treatment of customers.
- periodic reporting to the Shore Capital Markets Limited and Operating boards.

### 3.10 Other risks

SCM has no exposure to securitisation activity.

## 4. Own Funds and Capital Requirements

The below table summarises a full reconciliation of SCM's Common Equity Tier 1 and Tier 2 capital pursuant to article 437 of the CRR against SCM's Own Funds calculated as at 31 December 2020, being the most recently audited financial statements. SCM calculates and reports its capital resources and capital resources requirements in accordance with the current FCA and EBA regulations.

Common Equity Tier 1 capital is largely comprised of share capital and reserves. The calculation of capital resources for the purposes of these rules only permits the inclusion of resources that are located in EU countries.

Own Funds and Capital Requirement as at 31 December 2020	£000's
<b>Capital resources per statement of financial position</b>	
<i>Consolidated net assets</i>	37,313
<i>Less non-EU resources</i>	-
<b>Capital resources</b>	37,313
<b>Common Equity Tier 1 (CET 1) capital</b>	
Share Capital and Retained Earnings	37,313
<b>CET 1 capital before deductions</b>	<b>37,313</b>
<i>Deductions from CET1 capital</i>	
<b>Total deductions</b>	-
<b>CET 1 Capital</b>	<b>37,313</b>
Common Equity Tier 2 (CET 2) capital	-
<b>Total Own Funds as at 31 December 2020</b>	<b>37,313</b>
<b>Own Funds requirement</b>	
Market risk requirement	788
Credit risk capital component	2,392
Settlement risk component	101
Operational risk requirement	4,202
<b>Total Pillar 1 capital requirement as at 31 December 2020</b>	<b>7,483</b>
Surplus capital	29,830
Capital ratio:	499%



## 5. Remuneration

The following qualitative and quantitative disclosures are made in accordance with article 450 of the CRR and chapter 19A of the Senior Management Arrangements, Systems and Controls of the FCA Handbook (SYSC 19A). SCM is required to establish and apply policies which comply with the FCA's General Guidance on Proportionality: The Remuneration Code in a way which is appropriate to its size, internal organisation and the nature, scope and complexity of its activities.

### 5.1 Classification

SCS is classified as a "tier 3" firm and in accordance SYSC 19A and in accordance with the FCA's general guidance on proportionality on the basis that Shore Capital has gross assets of less than £15bn. Each of SCC and SCL fall within scope of the Remuneration Code set out at SYC 19C BIPRU Remuneration Code.

### 5.2 Remuneration Committee

Shore Capital Markets is not considered "significant" for the purposes of the Remuneration Code and so is not required to have a remuneration committee. It should be noted, however, that the ultimate holding company of the FCA regulated firms, Shore Capital Group Limited has a remuneration committee. This committee determines the company's policy on the remuneration of executive directors and certain other senior executives. It is not considered a remuneration committee under the Remuneration Code (Article 450).

### 5.3 The role of the relevant stakeholders

The Board of Directors of each of the regulated firms are responsible for remuneration, with appropriate advice given by Shore Capital Markets' Human Resources and Compliance departments as appropriate.

### 5.4 The link between pay and performance

Remuneration payments by SCM comprise fixed and variable elements which are designed to reward performance. The variable pay element comprises an annual award which is determined either by reference to contractual agreements in place or on a discretionary basis. Performance is measured in a number of ways against agreed objectives for discretionary awards, the year-end appraisal process being one significant element of this measurement.

SCM's approach to remuneration has been formulated to reflect market practice on a role-by-role basis, with a sizeable proportion of awards being deferred to ensure that the award is able to reflect the performance over time and suitable clawbacks are in place which are triggered under certain events as per the provisions of the Remuneration Code.



## 5.5 Identification of Code Staff

SCM has considered the guidance of the FCA as contained in its Remuneration Code.

Code staff are those individuals who perform roles which have a material impact on the Firm's risk profile.

This includes:

- Executive and Non-Executive Directors and Senior management
- Material risk takers in business management roles
- Employees who are remunerated in excess of Senior Management and Material Risk Takers.

SCM had 8 code staff as at 31st December 2020.

## 5.6 Aggregate remuneration

The following information relates to the financial year ending 31st December 2020. The information below reflects Code staff.

	<b>Fixed Remuneration (£ '000)</b>	<b>Variable Remuneration (£ '000)</b>	<b>Total (£ '000)</b>
Year ended 31 <sup>st</sup> December 2020	1,403	1,300	2,703
Year ended 31 <sup>st</sup> December 2019	1,252	794	2,047

Fixed remuneration includes both gross salary and employer pension contributions where relevant.

Variable remuneration includes cash bonuses subject to deferral which is subject to a claw-back in certain circumstances.

No material sign-on or severance payments were made to Code Staff in the period 1 January to 31 December 2020.

Of the variable element to remuneration, which is paid in cash, 40% is deferred for a period of 11 months and is payable on certain conditions relating to the relevant employee being met. During the period 1 January to 31 December 2020 there were no performance related adjustments.