

Pillar 3
disclosures

December 31

2019

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1. Introduction

1.1 Background

The purpose of this document is to meet Pillar 3 requirements as set out by the European Banking Authority (EBA) on Part Eight of the Capital Requirements Regulation (CRR) (No 575/2013). Within Spain implementation of the CRR is managed by the Comisión Nacional del Mercado de Valores (CNMV).

The framework is based around three Pillars:

- Pillar I defines rules to calculate the minimum capital required by a firm to cover its credit, market and operational risks;
- Pillar II requires a firm to undertake an Internal Capital Adequacy Assessment Process (“ICAAP”) in order to establish whether it’s Pillar I capital is adequate to cover all the risks faced by the firm, and to ensure it can meet its liabilities as they fall due. If the Pillar I capital is not sufficient to cover these risks, then the firm must calculate and hold the additional capital assessed.
- Pillar III requires a firm to disclose specific information on its risk management policies and procedures and the firm’s regulatory capital resources and risk exposures.

Articles 431-455 of CRD IV set out the specific disclosure requirements in this respect.

1.2 Disclosure Policy

In accordance with Article 431(3) of CRD IV King & Shaxson Capital Markets S.V., S.A. (KSCM) has adopted a formal disclosure policy to comply with the disclosure requirements, and the group has a policy for assessing the appropriateness of those disclosures, including their verification and frequency.

These disclosures are published on KSCM’s website on at least an annual basis in accordance with article 433 of the Capital Requirements Regulation. The disclosures have been approved by the Board and are published on a consolidated basis for the year ended 31 December 2019.

1.3 General information about KSCM

KSCM is a 100% subsidiary of Phillip UK Holdings Limited, a UK registered company. Phillip UK Holdings is a 100% subsidiary of Phillip Brokerage pte, a Singapore domiciled holding company

Phillip UK Holdings is also 100% parent of King & Shaxson Limited, an institutional securities broker in London for over 30 years, and of other smaller financial service companies. Together Phillip UK Holdings and its subsidiaries are referred to in this document as the Group.

KSCM is authorised by the CNMV to operate as:

- (i) An institutional agency securities broker; and
- (ii) an authorised multilateral trading facility (‘MTF’), trading under the name of Dowgate.

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The business primarily covers fixed interest products and their derivatives. The company trades only on a matched principal basis and does not take position risk intentionally.

2. Risk Management Objectives and Policies¹

2.1 Risk framework and appetite

2.1.1 Group's culture and conduct

The Group's culture cascades from its 'purpose' statement, which is set by the Board. The firm's purpose is 'to provide an important and useful economic activity in a socially responsible way, in line with our core values and providing reasonable and fair returns to all stakeholders; clients, staff and shareholders'.

The core values of the Group are embedded within the business and referred to on a day-to-day basis:

- Dictum Meum Pactum – *my word is my bond*
- Honesty, openness and integrity at all times
- Mutual respect and professionalism
- Positive can-do attitude with the absence of a blame culture
- Compliant and risk aware
- Does it pass the smell test?
- Challenge
- More human

The Board believes that the Group's culture and conduct contributes to the overall risk management framework, hence culture and conduct is an ongoing consideration of risk assessments and actions.

2.1.2 Risk management framework

The Group follows a forward-looking approach to risk management to ensure that all relevant classes of risk are taken into consideration both in the Group's day-to-day operations, and in its overall strategy and business plan.

The Group has a risk management framework and policy in place which all staff are aware of. The Board owns the framework and aims to promote a culture of risk awareness which aligns with its appetite, being cautious and quantified at £500,000, with a tolerance of £50,000 (10% each side). A material risk would be any risk exposure causing a financial impact of £50,000 or greater across one year. Each business unit and department is aware of its risks and is encouraged to communicate any 'near misses' to the Risk Officer or any member of the Risk & Governance Committee. All such risks are taken very seriously and mitigating

¹ Art 435, CRR

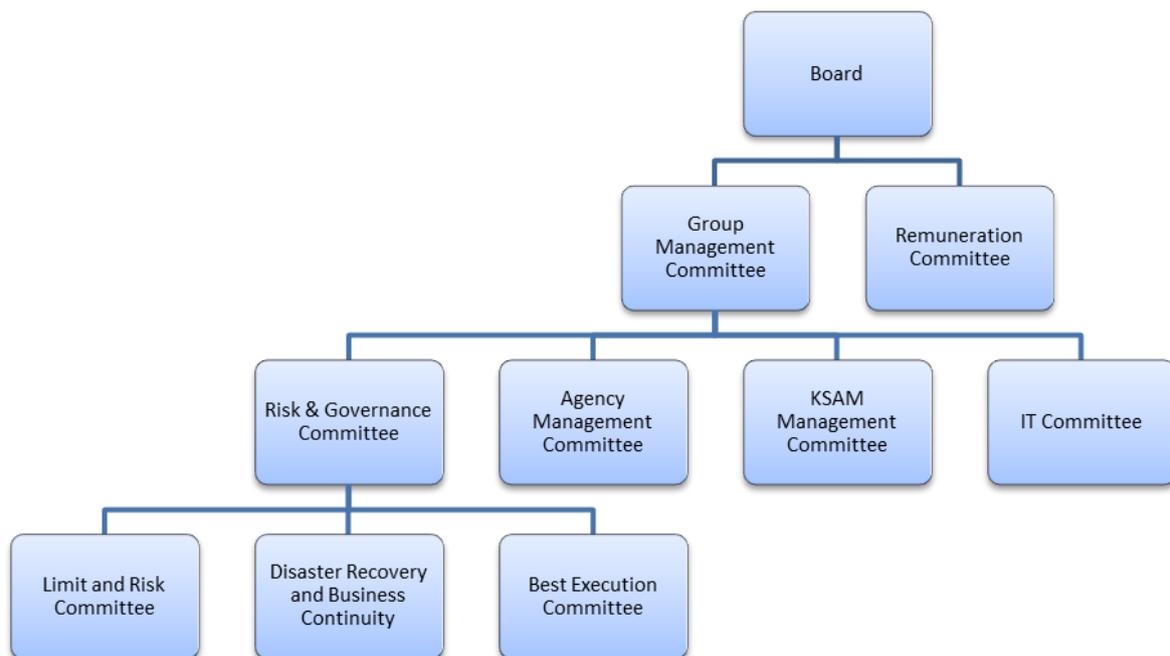
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controls are put in place to reduce the probability of each risk materialising. The firm has a ‘no blame’ culture in place and recognises that we are human and things can go wrong.

The Risk Management framework includes processes that enable it to effectively identify, assess and manage risks throughout the business. Any new business area is formally assessed against a full suite of risks so that all potential risks can be considered before any new business line is implemented. These risks and any resulting actions are escalated to the Risk & Governance Committee, and all such actions are tracked to completion.

2.2 Corporate governance framework

The Group is of a size (approximately 60 persons) which enables the management team to be closely involved in the day-to-day running of the business. Below is the governance framework for the Board and executive committees which formalises responsibility, ensuring that strong risk management policies, processes and systems are in place at all times.



2.2.1 Group Management Committee

This Committee has delegated authority from the Board as a decision-making body. It provides day-to-day management and oversight of the business, is responsible for strategy, reviews the Group’s financial results and forecasts, considers new business initiatives, and reviews other high level matters that may affect the Group’s performance or prospects. The members of the Group Management Committee are all members of the Risk & Governance Committee (“RGC”).

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2.2.2 Risk & Governance Committee

The members of this Committee are all members of the Group Management Committee plus one other senior manager. This Committee has delegated authority from the Board to be responsible for the overall framework of risk and governance, providing oversight of compliance, considering the risks associated with new business initiatives, and reviews other high level matters that may affect the Group's risk management.

The Committee is responsible for determining risk strategy, setting the Group's risk appetite and ensuring that risk is monitored and controlled effectively. It is also responsible for establishing a clearly defined risk management structure with distinct roles and responsibilities. Within that structure business managers are accountable for all the risks assumed within their areas of responsibility and for the execution of appropriate risk management discipline within the framework of policy and delegated authority set out by this Committee. The principle of individual accountability and responsibility within a disciplined approach to risk management is an important feature of the Group's culture. There are independent reporting lines for the key compliance and risk functions. Risk matters is a standing agenda item for the Committee and the Committee reviews top risks, near misses, decisions which could affect the risk appetite and progress on mitigating actions. Top risks and actions are documented in the firm's monthly management report.

2.2.3 Remuneration Committee

This Committee is responsible for recommending and agreeing remuneration changes, incentive amounts, policies and schemes that are fair, competitive and aligned with long term strategy, conduct criteria and with regulatory practice. The Committee includes the Finance Director, the Head of Risk, the Head of Compliance and the Chairman, who does not partake in any of the incentive schemes of the firm. Any proposals of the Committee are subject to ratification by the Shareholder.

2.2.4 Agency Management Committee

This Committee provides day-to-day management and oversight of the agency business. It is responsible for proposing to the Board, the recruitment of new staff, actions in relation to performance management issues, oversight of compliance and operational matters pertaining to the business, review of the related financial results and forecasts, ensures that all business risks are properly identified, managed and monitored, considers new business initiatives, and reviews other high level matters that may affect the performance or prospects of the agency business.

2.2.5 KSAM Management Committee

This Committee provides day-to-day management and oversight of the fund management business. It is responsible for proposing to the Board, the recruitment of new staff, actions in relation to performance management issues, oversight of compliance and operational matters pertaining to the business, review of the related financial results and forecasts, ensures that all business risks are properly identified, managed

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and monitored, considers new business initiatives, and reviews other high level matters that may affect the performance or prospects of the fund management business.

2.2.6 IT Committee

With technology rapidly changing and the department in high demand across the business, this Committee is responsible for prioritising projects and considering the requirements of the IT departments. The Committee may also be required to assist with Risk & Governance matters.

2.2.7 Limit and Risk Committee

The Limit Committee is tasked with setting and monitoring the Group's exposure to credit risk arising from its agency business. It consists of five members of the Management Committee as well as several senior members of staff who meet monthly, or more often as required, to set the Group's attitude to credit risk, set limits from counterparty limits to limits on individual stocks, and review and consider industry matters that could affect counterparty risk.

2.2.8 Disaster Recovery and Business Continuity Committee

This Committee is responsible for ensuring the Group maintains a robust business continuity plan, well communicated and regularly tested. The Committee is also responsible for making decisions should an event occur that causes concern around the continuity of business.

2.2.9 Best Execution Committee

The Committee comprises certain members of the Management Committee as well as several senior managers. This Committee has responsibility for updating and reviewing the firm's order execution policies; monitoring and reviewing of commission charges within the firm's commission charging framework; and reviewing any order execution issues arising.

2.2.10 Risk Function

The Risk Control Function monitors the Group's activities and ensures that the Group operates within the risk parameters set by the RGC. The Risk function is filled by a member of the Management Committee who reports top risks and escalates other risk matters to the Management Committee. The Risk Function ensures adherence to the Risk Management Framework policy by ensuring that all risks are documented, quantified and assigned an owner. The top risks are reviewed in detail on a quarterly basis by the RGC who aim to mitigate them as far as possible. 'Risk matters' is a standing agenda item to look at any risk matters and issues, near misses, and progress on risk mitigating actions.

2.2.11 Compliance Function

The Compliance department monitors the Group's compliance with all regulatory requirements. The Group Compliance Officer is a member of the Management Committee and the RGC and reports on regulatory developments, compliance monitoring and all relevant aspects of Compliance. The head of Compliance in KSCM's Madrid office reports directly to the Group Compliance Officer.

3. Principal Business Risks²

The risks outlined below are those that we believe are our key risks and could have a significant detrimental impact on our business model and outcomes. Each of these risks is discussed within the firm's ICAAP and ILAA as applicable and is stress tested for capital and liquidity management purposes.

3.1 Credit and Counterparty Risk³

Credit risk is defined as the risk that a counterparty may fail to meet its financial obligations to the Group as they become due. Being primarily a matched principal broker, this risk mainly derives from the discontinuity between the delivery of stock in against payment out and the delivery out of the stock on the other leg of the trade against payment in. The firm does not allow free delivery and would only do so in exceptional circumstances and after close consideration by the Management Committee.

For all clients, a counterparty credit limit has to have been agreed by the Limit Committee before any trading can take place and similarly, if any potential trade would cause a limit to be breached any increase in limit must be approved before the trade is agreed with the counterparty.

Limits are set by client/counterparty and this is then overlaid by a margin value applied according to the rating of the instrument in which the client/counterparty is trading. The margin value ranges from 5% to 200%, and may also be country specific. The Group's credit officer may override agency ratings if he considers that other factors need to be taken into account, such as stock liquidity. All trades in sub-investment grade paper are given a 200% margin weighting.

Other credit risk exposures faced by the firm include cash on deposit, margin placed with brokers, and outstanding invoices raised for ad hoc transactions. These are all monitored on a daily basis with steps taken to ensure that risk is kept to a minimum. The vast majority of exposures are held with highly rated clearing banks and settlement organisations.

3.2 Market Risk

Market risk is defined as the vulnerability of the Group to movements in the value of financial instruments. The Group as a whole does not take trading risk and does not have a proprietary trading book, and so the Group would not be subject to market risk arising from positions held. However, it is recognised that the Group may be subject to market risk where a client defaults and we cannot cancel the other side of the trade (and are therefore left with a position). Should this occur, the Group would normally look to flatten its position at the very soonest opportunity by buying or selling the securities in the marketplace. This price risk is taken into account within the credit assessment of trading with clients and counterparties by allocating a percentage margin against the instrument to be settled. This is a fairly simple methodology, but the percentage is set at a sufficiently high level such that the price risk is taken into account on a very conservative basis. For instance, in the gilt market a margin of 5% is used, a level of volatility which has only been experienced in the long end in periods of extreme market stress. In periods of market instability margin is increased.

² Art 435, CRR

³ Art 439, CRR

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Market risk can also arise on currency deposits held with banks and with our liquidity providers. These positions are monitored and hedging considered if it is felt the exposure exceeds the Group's risk appetite.

3.3 Settlement risk⁴

The Group is exposed to settlement risk from its matched principal activity. Settlement risk is calculated on any trades that are more than 5 days past due settlement date. A firm must calculate the price difference to which it is exposed, being the difference between the agreed settlement price for the instrument in question and its current market value, where the difference could involve a loss for the firm.

3.4 Operational Risk

Operational risk is defined as the risk of direct or indirect loss resulting from inadequate or failed internal processes, people or systems, or from external events. This risk is the broadest exposure of the group.

Risks can entail:

- Key person risk
- Culture and conduct risk
- Legal and compliance risk
- Business process risk
- Strategic and business risk
- Financial management risk
- Communication failure
- IT systems failures
- Events preventing access to the business premises or the failure of the power supply or telecommunications systems causing disruption to normal business activities
- Errors in the dealing process – failure to follow procedures
- Fraud
- Human error

As explained within our governance structure, this risk is managed by the Risk & Governance Committee (RGC) through close management oversight, and consideration of a database of potential risks. All near misses are subject to hot review by the RGC. The Group has a clear risk management policy and a Risk Manager who updates the RGC and Management Committee on risk matters on a regular basis and reviews key risks on a quarterly basis.

3.5 Liquidity Risk

The Group's financial instruments are comprised of cash, treasury bills, trade debtors and trade creditors⁵. The Group manages its exposure to liquidity and cash flow risk through close management supervision of cash balances and short term investments, ensuring that the Group has sufficient cash

⁴ Art 378, CRR

⁵ Art 437(1)(b), CRR

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resources at any time to meet immediate cash needs and that bank facilities are available should they be required. As part of normal operations, the Group faces liquidity risk through the risk of being required to fund transactions that fail to settle on the due date. This risk could materialise where the selling party deliver securities to us and the purchasing party fails to pay us the cash on a timely basis. The Group has addressed this funding risk by arranging overdraft facilities and a parental bank guarantee to cover such trades. The Group maintains a liquidity buffer in UK Treasury bills in accordance with its individual liquidity adequacy assessment. The Group also has a Contingency Funding Plan.

3.6 Group Risk

Group risk is defined as the risk of any other group company causing a substantial failure in the ability of this Group to meet its regulatory and legal requirements. These risks are managed through effective corporate governance structures and ongoing dialogue.

3.7 Business Risk

Business risk is the risk that a company will have lower than anticipated profits or experiences a loss rather than making a profit. Business risk is influenced by numerous factors including sales volume, margin, operating costs, competition, the overall economic climate and regulations. This risk is managed through close review of the Group's results, both for the year to date and forecast. Forecasts are presented by the Finance Director at least quarterly and if showing concern, management will discuss any mitigating actions that may need to be taken.

3.7 Interest Rate Risk⁶

The Group is exposed to interest rate risk through its cash on deposit at bank. With interest rates so low, any impact from changes in rates is expected to be minimal. It manages this risk through ongoing monitoring of balances.

3.8 Pension Obligation Risk

The Group has no exposure to Pension Obligation Risk.

3.9.1 Securitisation risk⁷

The Group has no exposure to Securitisation Risk.

3.10 Insurance Risk

The business has insurance policies for crime, professional indemnity, directors and officer's liability, business interruption and general asset cover. The lead underwriting name is assessed for good reputation and financial standing in advance of any policy being undertaken.

⁶ Art 448, CRR

⁷ Art 449, CRR

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3.11 Regulatory Risk

The Group is exposed to the risk of new regulations bringing about a fundamental change to the structure or activity of financial markets, and negatively impacting the viability of the business. The Group's Compliance department monitors such changes in regulation and will involve external lawyers as required. The RGC is informed at each meeting of any regulatory matters that may affect the business. The Compliance and Risk area attend industry seminars on a regular basis to ensure that nothing is missed and that their understanding is sound.

4. Capital Resources

The capital resources of the company are noted in the table below. The capital resources consist solely of Tier 1 capital⁸. The company was incorporated on **** and the figures shown below are based on eth audited accounts dated 31 December 2019.

4.1 Solo capital resources

Tier 1 Capital Resources	€
Ordinary share capital	1,000,000
Retained earnings	56,898
Tier 1 capital and own funds	943,102

5. Pillar I Capital Resource Requirement

a) Credit Risk and risk weighted assets

Exposure classes	Capital requirement	Risk weighted assets
Institutions	15,275	190,940
Other items	310	3,873
Tier 1 capital and own funds	15,585	194,813

⁸ Art 437, CRR

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Credit risk is calculated primarily on cash held at bank, and any amounts due from group companies. All of these amounts are expected to be recoverable. Other items are mainly prepayments. The firm uses the standardised approach to credit risk.

The firm will be providing financial services to EU based clients. At the balance sheet date there were no exposures due from overseas entities. No items were past due date or considered to be impaired⁹.

b) Foreign Exchange Risk Capital Requirement

All assets and liabilities are based in euros. There was no foreign exchange exposure at 31 December 2019.

c) Settlement risk

The firm had not commenced trading by the date of this report so there was no settlement risk.

d) Operational Risk Capital Requirement (“ORCR”)

The firm has earned no revenue to the date of this report.

e) Pillar I capital adequacy as at 31 December 2019

Tier 1 Capital Resources	€
Pillar 1 capital resources	943,102
Pillar 1 capital requirement	730,000
Excess capital resources	213,102
Total risk weighted assets	9,125,000
Capital ratio	10.33%

**The Pillar 1 capital requirement under CRD IV remains the higher of (i) the base requirement (€730k), and (ii) the sum of the credit risk, market risk and operational risk capital requirement.*

6. Internal Capital Adequacy Assessment Process (ICAAP)¹⁰

The Group is required to comply with the overall financial resources rule in order to ensure it has capital and liquidity resources, in sufficient amount and quality, to meet its liabilities as they fall due. The purpose of the ICAAP is to inform the Group’s Board of Directors and senior management of the ongoing assessment of the Group’s risks, how the Group intends to mitigate those risks and how much current and future capital is necessary to withstand severe yet plausible risk events. This includes an assessment of capital for the current year, an estimate of capital required over a 3-year period (under both ‘normal’ and ‘stressed’ conditions) and the calculation of wind down costs.

⁹ Art 442, CRR

¹⁰ Art 438, CRR

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Each revision of the ICAAP is presented by Finance Director, and is discussed and approved at a meeting of the RGC. Where a new desk or business initiative is ventured, a detailed review of risk associated with that business venture is carried out. This includes reviewing any impact the new business would have on the firm's ICAAP. The ICAAP is formally reviewed and approved on an annual basis or more often as required.

7. Capital buffers¹¹

IFPRU 10 stated that a firm must calculate a capital conservation buffer of common equity tier 1 capital equal to 2.5% of its total risk exposure amount. A firm must also calculate a countercyclical capital buffer equal to its total risk exposure amount multiplied by the weighted average of the countercyclical buffer rates that apply to exposures in the jurisdictions where the firm's relevant credit exposures are located.

As at 31 December 2019, the capital conservation buffer was calculated to be €228,125. The countercyclical buffer was calculated to be nil.

¹¹ Art 439, CRR

8. Remuneration Code Disclosures¹²

The Remuneration Committee is responsible for all remuneration policies and framework, and for ensuring that the remuneration for Code Staff is fair and in accordance with the Remuneration Code. The policy is determined with due regard to the Code and to the shareholders.

As Tier 3 private limited companies, for the purposes of the FCA's general guidance on proportionality, the Group is not sufficient in terms of size to warrant an independent remuneration committee, and the Remuneration Committee is composed of 3 executive directors plus one independent Chairperson (whose remuneration does not comprise any variable components).

The Remuneration Committee has the ability to apply discretion to bonus payments for senior management and all staff. All bonuses are made on a discretionary basis and the Remuneration Committee always exercises that discretion. The Remuneration Committee makes proposals regarding remuneration to the Shareholder who is not an employee of the Group. All remuneration matters are submitted to the Shareholder for final review and approval. The Remuneration Committee meets at least twice per year.

The Group has not used external consultants to determine the remuneration policy, however the Remuneration Committee believes that the group's remuneration policies are consistent with and promote sound and effective risk management and do not encourage unnecessary risk taking.

The remuneration policy for the performance year 2018-19 was reviewed, discussed and approved by the Remuneration Committee and also the RGC. The remuneration policy statement sets out the parameters within which the Remuneration Committee takes its decisions and ensures that the remuneration decisions take into account the risk implications for the firm and its risk management.

The Group's remuneration practices, policies and procedures are designed to ensure that an employee's remuneration is consistent with and does not encourage excessive risk taking. Bonuses are wholly discretionary and are linked to an individual's contribution to the overall success of the Group. Being a small group (approximately 60 persons), management are close to employees and are able to monitor performance personally. Each employee has a formal appraisal on at least an annual basis. Before any bonus is paid the Remuneration Committee will individually review the performance of each employee and agree on whether the employee had met appropriate performance criteria.

Bonuses are only paid out of realised profits and do not take account of any future revenue streams in the calculation. In this way, we ensure that pay is always linked to performance. There is a deferral element to the bonus pool for senior key staff, whereby an element of bonus is deferred over a two year period and is paid subject to performance conditions.

¹² Art 450, CRR

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Aggregate quantitative information on remuneration by business area (BIPRU 11.5.18R (6))

For the financial year ended 30 June 2019, total remuneration broken down by business area is:

Broking: £4,744,000

Aggregate quantitative information on remuneration broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm (BIPRU 11.5.18R (7))

Six Code Staff: £727,000

Amounts of remuneration paid for the financial year, split into fixed and variable remuneration and the number of beneficiaries (BIPRU 11.5.18R (8))

Fixed: £727,000 for six code staff

Variable: £nil for six code staff

In accordance with Article 450 1(i), no individuals were paid over €1 million during the financial year. No severance payments were made during the financial year.

9. Non-Applicable Disclosures

The following disclosures specified in CRR are not applicable to the Group:

Article 441 – The Group has not been designated an institution of global systemic importance;

Article 447 – The Group does not have a non trading book exposure to equities;

Article 449 – The Group does not securitise its assets; and

Article 451 – The Group is not currently required to comply with the leverage ratio requirements.