

## **BIPRU 11: Disclosure (Pillar 3)**

### **Introduction**

**This disclosure, in respect of Dowgate Capital Stockbrokers Limited (“DCS” or “the firm”) is made in accordance with the requirements of Chapter 11 of the Prudential Source Book for Banks, Building Societies and Investment Firms.**

### **Risk Management Policies**

#### **Liquidity Risk Policy**

The firm’s policy is to maintain sufficient cash deposits to meet its obligations as they fall due without recourse to bank borrowing. In particular DCS aims: to maintain such cash deposits as required by our clearing agent Pershing Securities Limited and at a level above a “worst case scenario” net expenditure requirement, to maintain financial resources at or above 100% of the CRD ICAAP Capital Resources Requirement and to maintain net assets at or above £1.5 million as required by Pershing Securities Limited.

As at 30 June 2008, DCS had cash balances of £1.6 million. Its outflows are relatively stable and predictable which helps to reduce liquidity risk. In addition, payment of invoices and transfer of funds between current and deposit accounts is tightly controlled on a day to day basis by the Administration Director and the Chief Executive Officer. A cash flow statement and calculations for the above four tests are presented to the Board on a monthly basis so that any issues can be highlighted and quickly addressed.

#### **Trading Book Policy**

Trading book assets are those investments bought by DCS, on its own behalf, with the intent to benefit from short term increases in share price and / or to meet its underwriting commitments. The firm does not conduct any market making activity and hence has very limited exposure on its trading book.

The firm’s policy is that only directors are able to authorise a principal trade. In the normal course of business the investment decision is made by the Chairman of the firm and approved by the Chief Executive Officer. The account operates with two limits; no more than £100,000 for a single principle investment and no more than £450,000 for the total trading book commitments. Where transactions are in breach of these limits additional approval is required from the Non Executive Director.

These investments are held in an account with Pershing Securities Limited in order to separately identify them as principal trades. They are monitored on a regular basis by the Chief Executive Officer and reported to the Board on a monthly basis.

Pershing accounts are valued on a daily basis. At the month end independent prices are obtained from the Thompson system, taking the most prudent prices i.e. the bid price in order to calculate the current value and unrealised profit or loss.

### **Operational Risk Policy**

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk typically includes systems to identify, monitor, manage and where possible mitigate losses arising from people, processes and systems and external events.

The firm operates with a detailed Operational Risk Policy which covers each of the following:

#### **People**

This includes consideration of the risks and potential losses arising from the following:

- Reporting lines
- Delegation
- Suitability of employees
- Compliance culture
- HR practices
- Employee remuneration and whether this exposes the firm to increased risk
- Quality of training and risk of loss to clients
- Continuity arrangements and loss or unavailability of staff
- Indicators of people risk i.e. sickness and staff turnover
- Outsourcing staffing arrangements

#### **Processes and Systems**

This includes consideration of the risks and potential losses arising from the following:

- Operational systems and processes
- Measures to prevent system failures
- Measures to comply with regulatory requirements
- Measures for business continuity
- Management information indicators – exception reports, compensation trends etc
- Internal documentation of processes
- External documentation and review and sign off processes
- IT systems, extent of dependency and reliability
- IT quality of support and maintenance
- Information security and confidentiality, data integrity, authorised access and data authentication and accountability

### **External events**

This includes consideration of the risks and potential losses arising from the following:

- Dealing with business changes; demotivated employees and loss of employees, inadequate and inexperienced employees, inadequate systems and poor management information, poor planning.
- Business continuity issues; loss or failure of resources including people, systems and assets, loss or corruption of information, external events such as vandalism, war or Acts of God, effective business continuity plans and documentation of these.
- Outsourcing; adequate supervision of providers, before taking on or changing requirements conduct due diligence, consider business fit, ability to monitor and control performance, plan smooth transfer of operations, concentration risk if the provider is used by several firms, access rights, information ownership and confidentiality agreements, guarantees and indemnities, procedures for changing the agreement, termination procedures, service level agreements and performance targets, periodic review and remedial action and escalation process and contingency arrangements in the event of loss or failure of a provider.
- Insurance taken out to reduce the monetary impact of operational risk events; time taken to pay out a claim including potential for disputes and the funding of operations during this period, financial strength of insurer and its ability to pay out and possible effect of limiting conditions and exclusion clauses.

### **Risk Management Function**

DCS is responsible for around 18 advisers and back office employees in total. It is therefore not proportionate for the firm to have a separate risk management function. Risk is managed on a day to day basis by the senior management of the firm who are also the firm's directors.

The firm does not undertake hedging strategies for its own account.

### **Scope of Disclosure**

These disclosures are made in respect of DCS which is fully consolidated with its parent company Dowgate Capital plc. No other entities have been consolidated for the purpose of these disclosures. No entities are deducted from capital resources. Dowgate Capital Advisers Limited is exempt from the CRD regime and is therefore neither consolidated nor deducted from capital resources.

We are not aware of any current or foreseen, material, practical or legal impediment to the prompt transfer of capital resources or repayment of liabilities among our parent and its subsidiary undertakings.

The firm is not the subject of a solo consolidation waiver.

**Consolidated Capital Resources as at 30 June 2008 (unaudited)**

<b>Tier One</b>	£
Permanent share capital	3,107,844
Share premium	1,943,345
Treasury shares	(69,237)
Audited profit and loss and other reserves	903,780
<b>Total Tier One Capital</b>	<u>5,885,732</u>
 Dividend	 (220,462)
	<u>5,665,270</u>

Permanent share capital is composed entirely of ordinary shares that have been allotted, called up and fully paid. There are no special or unusual terms and conditions attached to this class of stock.

Dowgate Capital plc has shareholder approval to buy back up to 10% of its ordinary shares, and for these to be held in treasury. The Board will only make market purchase of its shares if it has sufficient financial resources available.

There is no innovative tier one capital.

The firm does not have any tier two or tier three capital resources.

**Firm's Approach to Capital Adequacy**

The firm monitors its compliance with capital adequacy requirements on a firm and group basis. It continues to be adequately capitalised at both firm and group level.

**Consolidated Credit Risk Capital Exposures as at June 2008 (unaudited)**

The firm calculates credit risk using the standardised approach as follows:

	£
Exposure Class 6 Institutions	37,641
Exposure Class 7 Corporates	36,649
Exposure Class 16 Other	310,005
<b>Total Credit Risk Capital Requirement</b>	<u>384,295</u>

The firm does not calculate credit risk using the IRB approach.

**Externally Rated Credit Exposures**

The External Credit Assessment Institution used was Fitch Ratings which was used for all exposures within Exposure Class 6 Institutions.

The relevant Fitch Ratings assessments fell within the category AAA to AA- which map to Credit Quality Step 1 and a Risk Weight of 20% for all rated group balances within Exposure Class 6 Institutions.

	Exposure Value Before Credit Risk £	Exposure Value After Credit Risk £
Exposures within Credit Quality Step 1.	883,543	869,406

**Consolidated Operational Risk Capital Requirement as at 30 June 2008 (unaudited)**

	£
Basic Indicator Approach	687,814
Standardised Approach	0
Advanced Measurement Approach	0
Total Operational Risk Capital Requirement	<u>687,814</u>

**Other Consolidated Capital Requirements as at 30 June 2008 (unaudited)**

	£
Interest rate PRR	0
Equity PRR	29
Option PRR	0
CIS PRR	0
Counterparty Risk Capital Component	0
Concentration Risk Capital Requirement	0
Total Trading Book Capital Requirements	<u>29</u>
Commodity PRR	0
Foreign currency PRR	0

Dowgate Capital Stockbrokers Limited  
December 2008