Pillar III Disclosure 2014

BEAUFORT

Beaufort International Associates Plc
Registered Address: 131 Finsbury Pavement, London, EC2A 1NT

Company Background

Beaufort International Associates PLC (“Beaufort”, “BIA”) is an investment banking, private client stockbroking and asset management business serving the investment needs of investors in the UK, Europe and the Asia Pacific region, offering the full range of institutional equity and a range of corporate finance services via private client stockbroking and wealth management services.

Currently BIA is a “Full Scope” Group for the purposes of the Capital Requirements Directive (“CRD”) consolidated supervision requirements. The Group does not underwrite MiFID financial instruments and/or place MiFID financial instruments on a firm commitment basis, nor does it deal in financial instruments for own account apart from a small number of principal transactions.

The Group includes two fully owned entities which fall within the scope of the Capital Requirements Directive (“CRD”), Beaufort Securities Limited (BSL) and Beaufort Asset Clearing Services Limited (BACS). The remaining entities within the Group are dormant companies.

Beaufort Securities Ltd is authorised and regulated by the Financial Conduct Authority (“FCA”). The activities of BSL comprise a broad range of stockbroking and wealth management services for private clients. The firm also operates an online execution only brokerage services.

Beaufort Asset Clearing Services Ltd is authorised and regulated by the FCA The activities of BACS include asset clearing and settlement of domestic and international securities, safe custody, payment services and corporate client share dealing. They provide this service to other FCA regulated businesses who do not wish to invest in ‘in-house’ provisions.

The Boards of BSL and BACS meets monthly with the principle Board committees for the purpose of this report being the Executive, Risk, Audit and Remuneration and Benefits committees. All of these Committees have executive board member representatives.

Regulatory Framework

The Capital Requirements Directive (the Directive) of the European Union established a revised regulatory capital framework across Europe governing the amount and nature of capital that credit institutions and investment firms must maintain. In the United Kingdom, the Directive, as it impacts Investment Firms, is governed by the FCA

From 1 January 2014, with the implementation of the Capital Requirement Directive IV (CRD IV), the applicable regulations are:

- The Capital Requirements Regulation (CRR)
- The IFPRU sourcebook of the FCA handbook
- Additional standards released by the European Banking Authority.

The framework consists of three “pillars”:

- Pillar I: sets out minimum capital requirements firms are required to meet for credit, market and operational risk.
- Pillar II: requires firms to assess the amount of internal capital they consider adequate to cover all of the risks to which they are, or are likely to be, exposed. This is implemented through the Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by the firm. The FCA reviews and evaluates the firm’s ICAAP as part of the Supervisory Review and Evaluation Process (SREP).
- Pillar III: requires firms to publicly disclose certain details of their risks, capital, and risk management arrangements.

Capital Resources

The capital resources analysis below is based on the latest set of audited accounts. The analysis will be updated on an annual basis to reflect the updated results for the year.

Tier 1 Capital

The overwhelming majority of Beaufort's Tier 1 capital comprises ordinary shares, which may have been issued at a premium, and retained earnings. Intangible assets are deducted in full in accordance with FCA requirements.

Tier 2 Capital

Tier 2 capital comprises the Group's revaluation reserves, which arise principally from the revaluation of Available for Sale financial assets. No deductions are made to Tier 2 Capital.

Tier 1 Capital (£000s)	
Ordinary Shares	126
Share Premium	2,847
Other Reserves	29
Minority Interest	418
Retained Earnings	(1,497)
Less: Deductions	(543)
Tier 2 Capital (£000s)	
Other Reserves	188
Total Capital	**1,568**

Risk Management

BIA as the parent company of firms that are authorised and regulated by the FCA are required to make public disclosure of its risk management principles and policies in accordance with the requirements of Pillar III of the EU Capital Requirements Directive and the ICAAP as prescribed by the FCA.

The Group board’s have overall responsibility for the Group's system of internal controls, however this operated through a number of committees the objectives of which are the safeguarding of the clients assets, ensure the accounting records are properly maintained and mitigate rather than eliminate the risk of failure in achieving the groups business objectives.

The Group has the following oversight committees.

- Audit & Risk Committee
- Remuneration Committee
- Operational Management Group

The Audit & Risk Committee comprise of two Non Executive Directors and one Executive Director, the committee is chaired by John Farthing a Non Executive Director. The committee plays a critical role in monitoring the integrity of the financial statements of the Group and provides independent review. The committee is also tasked with the oversight of a company's financial reporting processes, internal controls and independent auditors. By effectively carrying out its functions and responsibilities, the committee helps to ensure that Groups management properly develops and adheres to a sound system of internal controls.

The Group has developed and continually updates its risk register. This acts as a central repository for all risks identified and, for each risk, includes information such as source, nature, treatment option, existing counter-measures and recommended counter-measures. Risk ownership is allocated on the basis individuals have a detailed understanding and influence of that risk to the Group.

The risk owners subject their risks to a regular monitoring programme and any concerns or issues are escalated to the Audit & Risk Committee to ensure appropriate controls remain in place to manage and mitigate risk. The Risk Register is maintained by Internal Control.

Risk Categories & Definitions

Operational risk

Operational risk is defined as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, this includes legal risk. The Group is aware that operational risk can never be eliminated, but seeks to minimise and mitigate the impact of operational events.

In general, operational risk concerns are managed through sound internal controls, strong governance arrangements, loss mitigation techniques, including use of insurance. The Group has a robust risk management framework which underpins all activities conducted within the Group. This includes oversight committees, polices and regularly reviewed procedures to ensure compliance with laws and regulations.

Credit risk

This represents the risk of loss through default by a counterparty. The most significant risk to the Group is that a client or market counterparty will fail to settle a trade. In relation to its retail business the Group does not consider that, given the breadth of its client list and the volume of their trades, there is a risk of client default that would be material in the context of the overall business.
The Group is exposed to credit risk which may arise from short term deposits held with UK clearing banks; however this risk is mitigated through the use of a range of highly rated UK based banks. Under current market conditions it would appear highly unlikely that these banks would default on the deposits that they hold for the Group, however regular due diligence is conducted and funds are diversified to mitigate the risk.

All Client money held by the Group is held in Trust for all clients, this is documented in accordance with the FCA CASS rules.

Market risk

This is the risk that arises from fluctuations in values of, or income from, assets or in interest or exchange rates. The Group does not generally deal for its own account and predominantly only enters into short-term principal positions, this is primarily on a 'riskless' basis.

The Group has small currency exposures. We run positions in a variety of currencies, principally the US and Hong Kong dollar, to support clients' dealing activities.

While changes in interest rates will affect income, they should not pose a significant risk to the Group.

Remuneration Policy Disclosures

The Remuneration Committee is made up of a chairman, one Executive Director and two Non Executive Directors, the committee has responsibility to determine and agree with the groups remuneration philosophy and the principles of its remuneration policy, ensuring that these are in line with the business strategy, objectives, values and long-term interests of the Company and comply with all regulatory requirements and to create the Group remuneration statement which ensures that remuneration does not encourage excessive risk-taking. These will be subject to annual review.

Remuneration decisions are based a number of financial and non-financial performance indicators. Such indicators include: performance against agreed objectives, performance of a particular function or business line and the generation of profitable business. Other factors such are strategic business needs, retention and succession planning, market intelligence and criticality to the business are also taken into account.

Code Staff Criteria

It has been determined that only those Approved Persons performing Significant Management Functions within the Group companies will be currently classified as Code Staff. For the year ending 31st December 2014 those staff approved with these functions for BSL and BACS totalled 11 people. The quantitative information included in this disclosure relates to the 11 staff members identified as Code Staff.

Beaufort recognises the responsibility Code Staff have in driving its future success and that remuneration is a key component in motivating and rewarding those staff. Code Staff remuneration is based on competitive market-based wages that fairly compensate employees in view of skills provided, work performed and responsibility undertaken. Overall remuneration includes an annual variable incentive compensation reflecting individual performance and responsibility, both short-term and long-term, as well as the Groups overall performance.

Deferred variable remuneration will be subject to ex-post risk adjustment, the Remuneration Committee will consider the following factors:

- Misconduct of individual employees
- Downturn in the company’s performance and profit projections
- Departmental failures in risk management or regulatory non-compliance

Independence of Risk & Compliance Employees

Control functions within Internal Control and Compliance report directly to the Chief Financial Officer who is a member of all the group's Boards. This gives them the appropriate authority to conduct their roles. Both departments are independent from the businesses that they oversee. To validate this, the group has engaged external auditor to conduct a ISEA 3402/SSAE 16 Controls report.

Employees holding the CF10, CF10a and CF11 control functions attend the Board meetings directly to present their reports and so have direct access to all Executive Directors and Independent Non-Executive Directors.

Quantitative Disclosures

Aggregate remuneration expenditure in respect of Code Staff for year end 31st December 2014 in respect of 11 Code Staff was £1,058k.

Remuneration expenditure was divided between fixed and variable remuneration as follows:

Fixed remuneration:	£946
Variable remuneration:	£112

All variable remuneration was paid in cash and there has been no deferred remuneration paid for the financial year 2014.