PILLING & CO STOCKBROKERS LTD (FRN 652114)

IFPR DISCLOSURES 2024

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1. Overview

1.1. Background

As a UK investment firm undertaking activities within the scope of the UK Markets in Financial Instruments Directive ("MIFID"), Pilling & Co Stockbrokers Ltd ("Pillings") is subject to the prudential requirements of the Investment Firms Prudential Regime ("IFPR") contained in the MIFIDPRU Prudential sourcebook for MIFID investment firms of the FCA Handbook.

IFPR is the current prudential regime for MIFID investment firms which aims to streamline and simplify the prudential requirements for UK investment firms. It came into effect on 1st January 2022 and its provisions apply to Pillings as a non-small non-interconnected ("non-SNI") MIFIDPRU investment firm.

Pillings is required to publish disclosures in accordance with the provisions outlined in MIFIDPRU 8 of the IFPR. The disclosure for Pillings is prepared on a solo entity basis. The disclosed information is proportionate to the firm's size and organisation, and to the nature, scope and complexity of its activities.

1.2. Structure

Pilling & Co Stockbrokers Ltd (FRN 652114) is a private limited company providing agency stockbroking and investment management services to private clients. The company is controlled equally by its two Directors, who are also beneficial owners, and started trading on 01/05/2015 following the transfer in of the long-standing business and assets of Pilling & Co. LP (FRN 141242), a limited partnership.

The company is not part of a larger group but has one wholly owned subsidiary, St Ann's Square Nominees Ltd. This is a dormant company established for the sole purpose of holding clients' stocks.

2. Governance (MIFIDPRU 8.3)

2.1. Oversight of Government Arrangements

The affairs and operations of the firm are organised and operated by an Executive Committee consisting of the firm's two Directors, the General Manager and the Financial Controller/Company Secretary.

The Executive Committee is responsible for identifying, assessing and managing all material risks that may impact on the safety of the firm's business and ensuring that each of those risks is appropriately mitigated if possible and covered by an amount and type of capital that will enable the firm to successfully survive any serious incident and protect clients' assets.

All members of the Executive Committee are registered with the FCA and classified as Senior Management Functions under the Senior Managers Certification Regime (SMCR).

2.2. Risk Committee

Due to its smaller size and the nature and low complexity of its business activities, the Firm does not have a Risk Committee or a Nomination Committee as part of its governance arrangements nor is it required to establish these committees. This is in line with the requirements of MIFIDPRU 7.3.1R.

It is also not necessary for Pillings to have a remuneration committee, however, an informal equivalent is in operation for salary reviews and bonus payments.

2.3. Directorships

The following information relates to the appointments of members of the Executive Committee held in both, executive and/or non-executive functions, including directorships held at external, commercial organisations as at 1st August 2023.

Function	Senior Management Function	Name	Directorships in scope of MIFIDPRU 8.3.1R(2)
Management	SMF1 Chief Executive Function	DL Morgan	5
Management	SMF3 Executive Director	CD Hodgson	4
Management	SMF16 Compliance Oversight Function	JR Short	0
Management	SMF17 Money Laundering Reporting Function	BJ Neal	0

2.4. Approach to Diversity

Pillings values the innovation and creativity that diversity of thought brings to the workplace and understands that the concept of diversity and inclusion plays a critical role in establishing strong governance and maintaining a healthy culture from the top as part of delivering higher standards of conduct and success of the business.

The firm approaches diversity in the broadest sense, recognising that successful businesses embrace diversity at all levels, including in senior management. Pillings is committed to promoting a diverse workplace in recognition of the firm's employees being one of the firm's greatest strengths.

Members of the Executive Committee are either owners of the company or the holders of specific roles within the firm. Pillings acknowledges that these members are therefore nominated to the committee, by virtue of their roles at the firm and governance/prudential requirements incumbent on the firm. Therefore, the suitability and diversity of the Executive Committee is closely linked to the suitability and diversity of senior management.

One of the company's objectives is to ensure that the composition of the Executive Committee is always suitable for it to be an effective decision-making body and to provide successful oversight and stewardship. Suitability of members of the Executive Committee is reassessed periodically, in line with the requirements of the Senior Managers and Certification Regime (SMCR).

3. Own Funds (MIFIDPRU 8.4)

3.1. Composition of Regulatory Own Funds and Reconciliation to Balance Sheet in the Audited Financial Statements

The firm's own funds are exclusively CET1 capital. The firm has complied with all externally imposed capital requirements in IFPR from its introduction on 1st January 2022. Tier 1 capital consisted of fully issued ordinary shares, satisfying all the criteria for a Tier 1 instrument as outlined in IFPR, and audited reserves with deductions as required:

Composition of regulatory own funds at 31st December 2023			
	Item	**£'000**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
1	**OWN FUNDS**	**6,804**	
2	**TIER 1 CAPITAL**	**6,804**	
3	**COMMON EQUITY TIER 1 CAPITAL**	**6,804**	
4	Fully paid-up capital instruments	4,000	**Note 19**
5	Share premium	-	
6	Retained earnings	2,951	**Note 20**
7	Accumulated other comprehensive income	-	
8	Other reserves	-	
9	Adjustments to CET1 due to prudential filters	-	
10	Other funds	-	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	-	
19	CET1: Other capital elements, deductions and adjustments	(147)	**See (a)**
20	**ADDITIONAL TIER 1 CAPITAL**	-	
21	Fully paid up, directly issued capital instruments	-	
22	Share premium	-	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
24	Additional Tier 1: Other capital elements, deductions and adjustments	-	
25	**TIER 2 CAPITAL**	-	
26	Fully paid up, directly issued capital instruments	-	
27	Share premium	-	
28	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	-	
29	Tier 2: Other capital elements, deductions and adjustments	-	

(a) Intangible assets

Item	£'000	Audited financial statements note reference
Per intangible assets on balance sheet	147	**10**
Included within tangible fixed assets in financial statements	-	**11**
Total Shareholders' Equity	**147**	

3.2. Reconciliation of regulatory own funds to balance sheet in the audited financial statements as at 31st December 2023

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements as at 31st December 2023				
		a	**b**	**c**
		£'000	**Under regulatory scope of consolidation**	**Cross-reference to composition table above**
Assets – breakdown by assets classes according to the balance sheet in the audited financial statements				
1	Intangible assets	147	N/A	
2	Tangible assets	30	N/A	
3	Investments	-		
4	Debtors	1,666	N/A	
5	Bank and cash	7,011	N/A	
	Total Assets	**8,854**	**N/A**	
Liabilities – breakdown by assets classes according to the balance sheet in the audited financial statements				
1	Creditors: Amounts falling due within one year	1,900	N/A	
2	Creditors: Amounts falling due after one year	-	N/A	
3	Provisions for liabilities	3		
	Total Liabilities	**1,903**	**N/A**	
Shareholders' Equity				
1	Share capital	4,000	N/A	**4**
2	Profit and loss account	2,951	N/A	**6**
	Total Shareholders' Equity	**6,951**	**N/A**	
Less	Net book value of intangible assets (IFPR definition)	(147)	N/A	
	OWN FUNDS	**6,804**	**N/A**	1

3.3. Main features of own instruments issued by the firm

Own funds: main features of own instruments issued by the firm	
Instrument type	Ordinary shares
Nominal amount of instrument	£1
Amount recognised in regulatory capital	£4,000K
Public or private placement	Private
Dividends	Non-cumulative

4. Own Funds Requirements (MIFIDPRU 8.5)

4.1. K-Factor Requirement and Fixed Overheads Requirement

In accordance with MIFIDPRU 8.5.1, the table below shows the K-Factor requirements for the firm broken down into three groupings, as calculated on 1st July 2024 in accordance with MIFIDPRU 4.6, plus the firm's fixed overheads requirement ("FOR"), calculated in accordance with MIFIDPRU 4.5, based on the audited financial statements for the year ended 31st December 2023:

		£'000
K-Factors	∑ K-AUM, K-CMH & K-ASA	**790**
	∑ K-DTF & K-COH	**1**
	∑ K-NPR, K-CMG, K-TCD & K-CON	**-**
Fixed Overheads Requirement		**1,118**

4.2. Approach to Assessing the Adequacy of Own Funds

Pillings is further required to disclose its approach to assessing the adequacy of its own funds in accordance with the Overall Financial Adequacy Rule ("OFAR") as outlined in MIFIDPRU 7.4.7R.

The OFAR requires an investment firm, at all times, to hold adequate own funds and liquid assets to:

- ensure it can remain viable throughout the economic cycle, with the ability to address any potential harm from its ongoing activities;
- allow its business to wind-down in an orderly way.

To monitor this the FCA introduced the 'Own Funds Threshold Requirement' and 'Liquid Assets Threshold Requirement' which firms will determine through their ICARA process.

In MIFIDPRU 4.3 the own funds threshold requirement is defined as the higher of:

- Permanent Minimum Capital Requirement (PMR) [MIFIDPRU 4.4];
- Fixed Overhead Requirement (FOR) [MIFIDPRU 4.5];
- K-Factors Requirement [MIFIDPRU 4.6].

The Internal Capital Adequacy and Risk Assessment looks at the potential harms to the firm's clients, the firm itself and to the market. It considers whether increases to the MIFIDPRU 4.3 capital requirements are necessary.

There is also a liquidity requirement defined as:

- The Basic Liquid Assets Requirement; plus

- the higher of:
  - Liquid Assets Required for Ongoing Activities;
  - Additional Liquid Assets Required for Wind-down.

4.2.1. ICARA Process

The purpose of the ICARA process is to inform the Executive Committee of the firm of the ongoing assessment of the firm's risks and potential harms it could cause. It should:

- Identify and monitor harms;
- Undertake harm mitigation;
- Undertake business model assessment, planning & forecasting;
- Undertake recovery action planning;
- Undertake wind-down planning;
- Assess the adequacy of own fund and liquidity requirements.

The ICARA process comprises three primary phases:

- Collating the different MIFID 4 minimum capital figures PMR, FOR & K-factor requirement and MIFID 4 Own Funds Threshold Requirement that is derived from them;
- Conducting a detailed, structured review of the potential harms the company could cause and assessing whether each was material to the firm and how much capital needed to be put aside to cover those risks;
- Developing a forward-looking financial model of the firm's operations and subjecting it to scenario testing and stress testing.

For the third phase, a three-year financial model is produced that is driven by a fully adjustable set of parameters and assumptions to generate phased profit and loss accounts, balance sheets and cash flow forecasts. As such, forecasts under many different scenarios can be generated.

The latest ICARA process for the Firm has been completed, with the ICARA document signed off by the Executive Committee on 24th June 2024.

The ICARA process and assessments will be reviewed at least annually, and more frequently should there be any material changes to the risks or potential harms considered.

4.2.2. Control Environment and Risk Management

Generally, the Directors' policy is not to take on the risks attached to conducting any form of contingent liability or margined business, providing credit facilities, conducting business outside normal settlement periods, dealing in foreign currencies, taking principal positions or providing banking facilities. The Directors' appetite for risk can therefore be described as low.

The company maintains a Risk Register that contains a comprehensive list of risks to the business. All material risks in the register are assessed to determine appropriate own funds and liquidity reserves.

On a monthly basis, the Executive Committee consider whether there have been any significant changes in the risks and potential harms that can arise, and whether the ICARA assessment requires updating as a result.

4.2.3. Own Funds Adequacy

Daily, the firm assesses the own funds headroom against the K-Factor requirements and the ICARA assessment. Should any of the OFAR thresholds be breached, the firm would immediately inform the FCA.

In 2024 the firm added a new 'Internal Own Funds Warning Trigger' set at 125% of the Own Funds Threshold Requirement. This is higher than the early warning trigger required by the IFPR and will prompt earlier self-identified restorative action to be considered before the FCA must be informed.

On a monthly basis, the review of potential changes to the ICARA assessment will naturally lead to a revised consideration of the own funds headroom.

4.2.4. Liquid Assets Adequacy

On a daily basis, the firm assesses its core liquid assets against the IFPR Liquid Assets Threshold Requirement criteria and the ICARA assessment. Should this or the Wind-down Threshold be breached, the firm would immediately inform the FCA.

For the same reasons that the internal own funds warning trigger was implemented, in 2024 the firm added a new 'Internal Liquid Assets Warning Trigger' set at 125% of the liquid assets requirement.

On a monthly basis, the review of potential changes to the ICARA assessment will naturally lead to a revised consideration of the liquidity surplus.

5. Remuneration (MIFIDPRU 8.6)

5.1. Approach to Remuneration for All Staff

As the firm is a non-SNI MIFIDPRU investment firm it is subject to the 'basic' and 'standard' requirements of the MIFIDPRU Remuneration code. The fundamental objective of the firm's remuneration policies and practices is to establish and maintain a culture that is consistent with, and promotes, sound and effective risk management and does not encourage risk-taking which is inconsistent with the risk appetite of Pillings and the services that it provides to its clients.

The firm also recognises that remuneration is a key component in how quality staff are attracted, motivated and retained and sustains consistently high levels of performance, productivity and results. As such, the firm's remuneration policy is focused on the following objectives:

- Attract and retain. Remuneration is designed to attract and retain high-calibre individuals in a competitive international financial services industry and remunerate staff fairly and responsibly;
- Motivate and reward. Remuneration is designed to motivate excellence in the delivery of Pilling's business and investment objectives on behalf of our clients, to protect and nurture a strong culture of collaboration, communication and inclusion and reward achievement over the long term.
- Compliance with law and regulation. Remuneration is set in order to comply with any relevant regulations as set out by the FCA.

Staff performance is determined through the assessment of various factors that relate to the Firm's core values, and by making considered and informed decisions that reward effort and conduct.

5.2. Types of Staff Identified as Material Risk Takers

SYSC 19G.5 requires that non-SNI MIFIDPRU investment firms to identify staff who are material risk takers (MRTs), to whom additional remuneration rules must be applied. Pillings have identified the following types of staff as MRTs:

- SMCR Senior Management Function (SMF) staff;
- Other members of the Executive Committee;
- Senior investment managers;
- Heads of departments.

5.3. Key Characteristics of the Firm's Remuneration Policies and Practices

The firm's remuneration policy comprises of fixed and variable elements.

Fixed elements of remuneration are set with the intention of reflecting:

- Market value, for particularly recruiting staff of an appropriate level of skill and experience;
- Career development of staff, not least with the aim of retaining productive and successful employees.

Variable elements are targeted at particular types of staff. Some elements are based on financial performance criteria, while others are more qualitative.

Pillings is below the limits set in SYSC 19G.1.1R(2) and therefore is not required to apply the extended remuneration requirements of the regulations.

5.3.1. Components of Remuneration

The components of the firm's remuneration structure are as follows:

Component	Fixed/Variable
Basic salary	Fixed
Medical cover	Fixed
Employer pension contributions	Fixed
Senior manager profit share	Variable
Other staff bonus pool	Variable
Commission	Variable
Fee shares	Variable

5.3.2. Financial and Non-Financial Performance Criteria

The tables below summarise the various financial and non-financial criteria of performance used when assessing the amount of variable remuneration to be paid. Different staff are assessed using different criteria applicable to their role:

Financial Performance Criteria
Company profit before tax
Value of clients' deals completed
Value of clients' portfolios managed
Levels of dealing errors

Many of the non-financial criteria are discussed with staff during the appraisal process:

Non-financial Performance Criteria
Compliance with applicable rules and regulations, including those of code of conduct and the firm's internal policies
Contribution to overall culture and good working of the firm
Attendance and punctuality
Successful completion of allocated training

5.3.3. Ex-ante and Ex-post Risk Adjustment of Remuneration

Whether financial criteria are applied or not in determining the level of variable remuneration to pay to a member of staff, the firm's remuneration committee reserves the right to reduce variable pay to any staff for poor performance.

Variable remuneration for the performance period does not consider future or indicative results, however instances of poor performance highlighted in future years will lead to reductions to variable remuneration when the circumstances come to light.

5.3.4. Policies and Criteria Applied for the Reward of Guaranteed Variable Remuneration

Any arrangement to make guaranteed payments would only be in exceptional circumstances and would be subject to the conditions of SYSC 19G.6.8 R.

5.3.5. Policies and Criteria Applied for the Award of Severance Pay

The Firm considers severance pay on a case-by-case basis. In this regard, the Firm will ensure that early termination of an employment contract reflects the individual's performance over the relevant period and does not reward failure or misconduct. Any severance pay awarded to a Material Risk Taker (MRT) would be classified as variable remuneration and subject to clawback.

5.3.6. Deferral and Vesting Policy

Pillings is below the limits set in SYSC 19G.1.1R(2) and therefore is not subject to the extended remuneration requirements, the firm does not defer variable remuneration.

5.4. Quantitative Disclosures

5.4.1. Number of Material Risk Takers

Number of Material Risk Takers at 31/12/2023
10

5.4.2. Analysis of Total Remuneration

For the calendar year 2023, remuneration for the firm's staff is analysed as follows:

Category	Fixed Remuneration (£'000)	Variable Remuneration (£'000)	Total (£'000)
Senior Managers	245.2	64.7	**309.9**
Other Material Risk takers	472.3	1,027.4	**1,499.**
Other Staff	930.1	333.1	**1,263.2**
TOTAL	**1,647.6**	**1,425.2**	**3,072.8**

5.4.3. Guaranteed Variable Remuneration Payments & Severance Payments

Category	Variable Remuneration (£'000)	Severence Payments (£'000)	Total (£'000)
Senior Managers	-	-	**-**
Other Material Risk takers	-	-	**-**
TOTAL	**-**	**-**	**-**

Category	Variable Remuneration (No of MRTs)	Severence Payments (No of MRTs)	Total (No of MRTs)
Senior Managers	-	-	-
Other Material Risk takers	-	-	-
TOTAL	**-**	**-**	**-**

The amount of the highest severance payment awarded to an individual material risk taker in 2023 was £nil.

5.4.4. Analysis of Variable Remuneration

Pillings is below the limits set in SYSC 19G.1.1R(2) and therefore is not subject to the extended remuneration requirements, the firm is not required to provide an analysis of the form of awarded variable remuneration nor of deferred remuneration.

6. Investment Policy

In accordance with MIFIDPRU 8.7.6, a firm is only required to disclose information in relation to its investment policy if the following circumstances are applied:

- Only in respect of a company whose shares are admitted to trading on a regulated market;
- Only where the proportion of voting rights that the MIFIDPRU investment firm directly or indirectly holds in that company is greater than 5% of all voting rights attached to the shares issued by the company; and
- Only in respect of shares in that company to which voting rights are attached.

As the Firm does not meet these requirements, it is not required to disclose any information relating to its investment policy.