ADG Securities LLP

MIFIDPRU 8 Public Disclosure 2022

1. INTRODUCTION AND CONTEXT

The Investment Firms Prudential Regime (IFPR) is the FCA’s new prudential regime for MiFID investment firms which aims to streamline and simplify the prudential requirements for UK investment firms. IFPR came into effect on 1st January 2022, and its provisions apply to ADG Securities LLP (“ADGS or the “firm”) as an FCA authorised and regulated firm. ADGS is a wholly-owned subsidiary of ADG Corporate Ltd. Under IFPR, ADGS is required to disclose on an individual entity basis and the information in this document relates solely to ADGS unless otherwise specified.

The public disclosure requirements of IFPR are set out in MIFIDPRU 8, replacing the previous Pillar 3 requirements under the Capital Requirements Regulation (“CRR”).

ADGS is authorised and regulated by the Financial Conduct Authority (FRN:807897) as a non-small and non-interconnected (“non-SNI”) MIFIDPRU Investment Firm, to deal in investments as principal.

Each year ADGS will make disclosures on its website following the end of its financial year. For the financial year ending 31 March 2022 ADGS is making disclosures in line with the FCA’s transitional provisions as set out in MIFIDPRU TP12. This means that disclosures are limited to those relating to governance, own funds and own funds requirements. Next year, the disclosures will be extended to cover risk management and remuneration. This remuneration disclosure has been produced in line with the rules set out under CRR.

2. GOVERNANCE

2.1. Overview of Governance Arrangements:

ADGS has two governance forums. The designated members, who are set out below, meet together to discuss matters which by law or under the terms of the members’ agreement are reserved for their decision only. The Board has delegated certain matters to a management committee, which meets on a quarterly basis with agreed terms of reference. The Board sets out its expectations for the LLP’s governance arrangements including segregation of duties and management of conflicts of interest, attitude to risk and statements about its appetite for taking these risks. The Board sets these expectations with due regard to ensuring effective and prudent management and promoting market integrity and clients’ interests. The management committee receives information regarding risk and compliance matters at each of its quarterly meetings, in addition to financial and other metrics.

The Management Committee

The Management Committee has adopted a risk management governance structure, and is responsible for providing review, challenge and oversight of the firm's risks.

Given the size of the firm and its limited number of employees the Committee is the only governance forum within the firm. Additional oversight is provided by Committee of ADG Corporate Ltd.

The Management Committee is made up of the following LLP Designated Members:

- Andrew Guy: ADG Corporate Ltd- LLP Designated Member
- Dominic Guy: ADG Corporate Ltd- LLP Designated Member
- Julian Woods: ADG Corporate Ltd- LLP Designated Member
- Rhys Rogers: LLP Designated Member

The Management Committee is responsible for the risk management of the firm. All individuals involved with ADGS shall report to the Committee, and it is consequently the Committee's responsibility to ensure that everyone is aware of their own duties and responsibilities. The Committee shall also be responsible for the overall management and setting of the business and strategy of the firm. A Committee meeting is held quarterly for regular updates of the business, and is an opportunity for the Committee to make collective decisions on the most important issues facing the business.

Diversity

The firm recognises that diversity of the Management Committee and Board of Directors improves the quality and objectivity of the decision-making process by bringing new voices to the table. It fosters innovation, creativity and a better understanding of customer insights through a greater variety of problem-solving approaches, perspectives and ideas. The firm approaches diversity in the broadest sense, recognising that successful businesses embrace diversity at all levels, including the Management Committee and Board of Directors and senior management. The firm's Management Committee and Board of Directors considers diversity aspects including but not limited to:

- Ethnicity
- Gender
- Educational and professional background
- Age
- Geographical provenance

Directorships

In accordance with the FCA Handbook (SYSC):

(1) Directorships within the firm and its parent undertakings are counted as a single directorship; and

(2) Directorships in organisations which do not pursue predominantly commercial objectives are not included.

Name	Internal Directorship within ADG Group	External Directorship
Andrew Guy	1	2
Dominic Guy	1	1
Julian Royle Woods	1	1
William Rhys Rogers	1	0

3. OWN FUNDS

Composition of Own Funds

OF1 - Composition of regulatory own funds		
Item	**Amount (GBP thousands)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
OWN FUNDS	**27,000**	
Tier 1 Capital	**27,000**	
Common Equity Tier 1 Capital	**27,000**	
Fully paid-up capital instruments	**27,000**	
Share premium		
Retained earnings		
Accumulated other comprehensive income		
Other reserves		
Adjustments to CET1 due to prudential filters		
Other funds		
(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1		
CET1: Other capital elements, deductions, and adjustments		
Additional Tier 1 Capital		
Fully paid up, directly issued capital instruments		
Share premium		
(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1		
Additional Tier 1: Other capital elements, deductions, and adjustments		
Tier 2 Capital		
Fully paid up, directly issued capital instruments		
Share premium		

(-) TOTAL DEDUCTIONS FROM TIER 2		
Tier 2: Other capital elements, deductions, and adjustments		

Reconciliation to audited financial information

The table below shows a reconciliation with own funds in the balance sheet where assets and liabilities have been broken down by asset and liabilities classes respectively. The information in the table below reflects the balance sheet in the audited financial statements.

OF2: Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
		a	b	C
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross reference to template OF1
		31 March 2022	31 March 2022	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Debtors	29,818	29,818	N/a
2	Cash at bank and in hand	217	217	N/a
	Total Assets	**30,035**	**30,035**	N/a
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Creditors: amounts falling due within one year	50	50	N/a
	Total Liabilities	**50**	**50**	N/a
Shareholders' Equity				
1	Amounts due to members in respect of profits	2,985	2,985	N/a
2	Members' capital classified as equity	27,000	27,000	Fully paid-up capital instruments
XXX	Total Shareholders' equity	**29,985**	**29,985**	

Main features of the firm’s own funds instruments

Own funds: main features of own instruments issued by the firm
Members Capital Classified as Equity • £27,000,000 of paid up, permanent, members capital

4. OWN FUNDS REQUIREMENT

Own Funds Requirements

ADGS's basic own funds requirement under the IFPR is calculated as the higher of the:

- Permanent Minimum Requirement ("PMR") - The PMR is the minimum own funds a firm must hold, based on the firms permissions and services;
- Fixed Overhead Requirement ("FOR") - The FOR is calculated as one quarter of a firm's annual fixed expenditure, less allowable deductions;
- K-Factor Requirement ("KFR") - The KFR has been introduced to calibrate the own funds needed to meet the risks of an investment firm. K-factors are quantitative indicators or factors which represent the risks that an investment firm can pose to customers, market, and the firm itself. The total KFR is calculated as the sum of the Risk to Client, Risk to Market, and Risk to firm K-factors;

In addition to the basic own funds requirement, ADGS is also required to calculate its additional ongoing own funds requirement. The ongoing own funds requirement requires firms to address any firm specific, residual harms that are not adequately covered by the basic own funds requirement addressed above. This is to ensure that sufficient own funds are held against all sources of harm that the firm can pose.

Similarly, there is also a wind down requirement which addresses ADGS's requirement under the IFPR to hold the amount of own funds required to support a wind down of the business in an orderly manner.

The above assessments are made through the firm's Internal Capital Adequacy and Risk Assessment process ('ICARA'). The ICARA is prepared with input by subject matter experts from across the business, with guidance provided by the firm's compliance function.

The firm's senior management and the management body is involved in the process, providing oversight and approving the review of the process. The process is reviewed and formally documented on an at least an annual basis - or more frequently where there is a material change in the firm's activities or risk profile.

a. Permanent Minimum Requirement

A firm regulated under the IFPR is subject to MIFIDPRU 4.4, which requires the firm to hold a minimum own funds amount before any business operations can begin, and during on-going operations. ADGS is required to hold a minimum PMR of £750k at all times.

b. Fixed Overhead Requirement

The FOR is calculated as one quarter of the firm's annual fixed expenditure in accordance with the rules set out under MIFIDPRU 4.5.

The starting point of the FOR calculation is the total audited expenditure of the firm, per the most recent audited accounts, less deductions permitted under MIFIDPRU 4.5.3. The firm's FOR is currently £64k.

c. K-Factor Requirement

The firm's K-factor requirement as at 31 March 2022 was £6,294k, broken down as follows:

K-Factors	**Capital Requirements Amount £'000s**
Assets for which the firm is responsible: Sum of K-AUM, K-CMH and K-ASA	0
Execution activity undertaken by the firm: Sum of K-COH and K-DTF	115
Exposure based risks: Sum of K-NPR, K-CMG, K-TCD and K-CON	6,134
Total	**6,294**

Following its analysis and assessment of the risks faced by the firm, its risk to the market and to clients, the Committee has concluded that the business is and will remain adequately capitalized across the three year forecast period – including under stressed conditions. Alongside the firm's demonstrated own funds and liquidity adequacy, the conclusion of the ICARA is that the business will remain profitable across the forecast period. The ICARA assessment was reviewed and approved by the LLP designated members.

5. REMUNERATION

The firm will rely on the transitional requirements set out under MIFIDPRU TP 12.8 and therefore will continue use of the Pillar 3 disclosures for the reporting period.

ADGS must comply with the remuneration rules as set out in the FCA's General Guidance on Proportionality: The MIFIDPRU Remuneration Code (SYSC 19A) and Pillar 3 Disclosures on Remuneration (Article 450 of the Capital Requirements Regulations), as an IFPRU Limited Activity Firm, ADGS falls within proportionality level 3 and is required to provide the following disclosures regarding its remuneration policy and practices for those categories of staff whose professional activities have a material impact on its risk profile. The firm has established a remuneration policy in accordance with the FCA's rules on Remuneration Code. Due to the size of the Firm, we do not consider it appropriate to have a separate remuneration committee. Instead this function is undertaken by the Management Committee. The pay and benefits of Members is determined by ADG Corporate Limited, taking into account performance and market conditions. The Members' drawings and profit share will be reviewed annually and when a change of responsibility occurs.

This will be kept under review and should the need arise, the firm will consider amending this arrangement to provide greater independent review. The Remuneration Codes can (subject to certain conditions being met) be applied in a proportionate way.

Quantitative Information

The firm considers both individual and firm level performance as factors to determine bonus payments. The firm classifies those staff who are senior personnel, and those whose role impact the risk profile of the firm as Code Staff. This will be kept under review and should the need arise, the firm will consider amending this arrangement to provide greater independent review. ADGS has identified six staff who have a material impact on the risk profile of the firm; for the financial year to 31 March 2022, the total remuneration for these staff was £3,023,650.