Background

The Capital Requirements Directive ("CRD") of the European Union establishes a revised regulatory capital framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the United Kingdom, the Directive has been implemented by the Financial Conduct Authority ("FCA") in its regulations through the General Prudential Sourcebook ("GENPRU") and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). The CRD implementation is based on three 'Pillars', which form the cornerstones of the process.

- Pillar 1 is the prescribed or minimum capital requirement for an authorised Firm to meet its credit, market and operational risk.
- Pillar 2 requires a Firm to conduct an assessment known as an Internal Capital Adequacy Assessment Process (ICAAP) that considers risks and uncertainties that are not included in Pillar 1 to determine whether the Pillar 1 capital is adequate to meet its risks; and
- Pillar 3 complements the above and requires a Firm to publish certain information about its risks, capital and risk management controls and processes.

Disclosure Policy

The requirements for Pillar 3 disclosures are detailed in the FCA Handbook of Rules and Guidance under BIPRU 11.

The rules in BIPRU 11 provide that the firm may omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where the firm considers a disclosure to be immaterial, this will be stated in the relevant section.

The firm is also permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the firm's competitive position. Information is considered to be confidential where there are obligations binding the firm to confidentiality with its clients and counterparties.

Where the firm has omitted information for any of the above reasons, a statement explaining this will be provided in the relevant section.

Unless stated otherwise, all figures contained in this disclosure are based on the firm's audited annual reports for the year ending 2019.

This document is designed to meet the Pillar 3 obligations of Scalable Capital Limited. Scalable Capital Limited provides discretionary investment management services. It is a BIPRU 50k firm and a Limited Activity Firm for capital adequacy purposes.

Frequency

These Pillar 3 Disclosures will be reviewed on an annual basis as a minimum. The disclosures will be published as soon as is practical following the finalisation of the firm's Internal Capital Adequacy Assessment Process (ICAAP) and its annual accounts.

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Scalable Capital Limited is authorised and regulated by the Financial Conduct Authority No.672532
Scalable Capital Limited is a limited company registered in England and Wales.
Company Registration No. 09386303

Verification

The information contained in this disclosure has not been audited by the firm's external auditors and does not constitute any form of financial statement.

Publication

The firm's Pillar 3 Disclosure reports are published on the firm's website (https://uk.scalable.capital).

Risk Management

The firm is governed by its Board of Directors who determines its business strategy and risk appetite. The Board is responsible for establishing and maintaining the firm's governance arrangements including the design and implementation of a risk management framework, which recognises the risks that the business faces.

The Compliance Officer has responsibility to the Board of Directors to monitor and investigate any Compliance and Operational Risk aspect of the firm's activities. As the Compliance Officer sits on the Board of Directors, assurance that an effective risk management framework is in place is continuously provided.

Key Risks

The firm's focused business activities presents a very limited risk profile. Importantly, even though it is authorised to deal with Retail Clients as well as Professional Clients and Eligible Counterparties, as a discretionary investment manager and provider of financial advice, the firm does not hold client money or assets nor has any proprietary trading book exposure. There are a number of risks that management and the Board must consider and manage:

- Retaining and attracting new clients. The business revolves on our ability to provide a high quality service.
- Attracting and retaining talent. The delivery of a best in class service depends on experienced, talented and ethical professionals.
- Maintain high quality and rigorous compliance procedures. The firm's reputation and client confidence can only be maintained if the firm maintains the highest ethical standards. This will reduce conduct and operational risk.

Apart from the major risks that have been considered above, the firm is exposed to the following specific risks:

Credit Risk

The firm does not hold client funds nor does it extend credit to its clients. The firm's revenue comes from annual management charges received from clients based on a percentage of client assets under management. These charges are taken directly from the client portfolios and therefore the credit risk relating to this income is minimum. Furthermore, working capital is held at a reputable credit institution, and the credit risk on these exposures is considered as very low. The firm follows the simplified standard approach to credit risk.

Market Risk

The firm does not take proprietary positions. The firm also does not have any significant foreign exchange exposures. A small amount of market risk is present as fee income is a function of assets under management. However at this stage the variation of fee income due to market movements is negligible. Market risk is therefore considered minimal and a standardised approach to market risk is followed.

Interest Rate Risk

This is the risk that a movement in interest rates will impact the firm's profitability. The firm's balance sheet is not levered and cash balances are held on overnight deposit. Given this, and the historically low level of interest rates at present, the firm has assessed that no capital charge is required.

Business Risk

The firm's Pillar 2 business risk assessment principally relates to changes in the assets under management the firm manages to reach profitability. There is a risk that the firm is unable to grow to a level of assets under management however this risk has been mitigated by the following:

- The Board's expertise within financial services.
- A clearly defined strategy, understood and actively monitored.
- A strong corporate investor base.
- The diversification of marketing strategies to reduce concentration risk.
- A scalable business model.

Operational Risk

Operational risk is defined as the potential risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems, from the actions of people or from external events. Major sources or operational risk include: IT security, internal and external fraud, outsourcing of operations, accounting errors and regulatory non-compliance.

The firm operates a robust risk management process which is regularly reviewed and updated by the Board. All senior management will bear responsibility for internal controls and the management of business risk as part of their accountability to the Board. Individuals are responsible for identifying the risks surrounding their work, implementing controls over those risks and reporting areas of concern to their line manager. The Board formally reviews all significant risk issues annually as part of the ICAAP process.

The firm analyses its operational risk within the context of its risk management framework. This brings together an analysis of all possible risks that can have an effect on its business and considers the interconnectivity of those risks. The firm has identified a number of operational risks, which have been mitigated with systems and controls. The residual risks are perceived as low. The firm is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge.

Other Risks

The firm operates a simple business model. Accordingly, many of the specific risks identified by the FCA do not apply.

Capital Adequacy

The firm's total capital resources as at 31 December 2019 are comprised as follows:

	£k
Total Tier 1 capital (including share capital, share premium, profits and losses and deductions)	403
Total Tier 2 capital	0
Deductions from Tier 1 and Tier 2 capital	0
Total capital resources, net of deductions	403

Pillar 1

The capital requirement has been determined as being the higher of the fixed overheads requirement, the sum of the operational, credit and market risk requirements costs or the wind-down cost. The higher amount is the fixed overheads requirement and has been calculated as £154k. As at December 2019, the firm's capital resources were in excess of £249k over the minimum capital required to be held under Pillar 1.

Pillar 2

Our overall approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process (ICAAP). The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis.

The firm believes that the Pillar 1 requirements adequately cover Market and Credit Risk which are minimal and the majority of the Operational Risks. The firm is also satisfied through its risk management framework and stress tests that the firm has sufficient capital resources to withstand all of the stipulated stresses as well as an orderly wind down should there be a curtailment of business for whatever reason.

Regulatory Developments

Prudential regulation is likely to change in the coming year with the EU Investment Firms Regulation/Directive, due to be implemented around Q2 2021. This includes a potential increase in minimum capital adequacy requirements from €50k to €75k for BIPRU/MiFID firms and potential increased systems and controls around assessing capital adequacy, liquidity, remuneration and contingency planning. Although this is due post both Brexit and transition, it is anticipated that the UK will largely endorse the equivalent implementation of this legislation. The Directors will continue to monitor its developments. The biggest implication at this stage is the increased systems and controls as the firm is above the minimum capital requirement change of €75k by a significant margin.

Remuneration

The firm is required to comply with the FCA Remuneration Code although as a BIPRU Limited License Firm it falls into the FCA's third (and lowest) proportionality tier. This allows the firm to disapply the Remuneration

Code requirements relating to:

- The full extent of establishing a Remuneration Committee required by the Code;
- Payment of a proportion of variable remuneration as retained shares or other instruments;
- Deferral of bonuses;
- Performance adjustment of variable remuneration; and
- Setting ratios between fixed and variable components of total remuneration

The firm does not have a Remuneration Committee. Whilst appreciating the contribution that can be made by a remuneration committee, the firm considers that such a body would not be proportionate to the size and complexity of the business. The Board of Directors is responsible for the remuneration policy including:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk taking.
- Agreeing any major changes in remuneration structures.
- Reviewing the terms and conditions of any new incentive schemes and in particular, considering the appropriate targets for any performance related remuneration schemes.
- Considering and recommending the remuneration policy for the senior employees taking into account the appropriate mix of salary, discretionary bonus and share based remuneration.
- In determining remuneration arrangements, the Directors will give due regard to best practice and any relevant legal or regulatory requirements including the BIPRU Remuneration Code.

Competitive salaries form the basis of our firm's remuneration package. In addition, there is an element of variable pay for all staff which is based on firmwide, team and individual performance. Whilst most of the variable reward components are awarded to employees across the firm, the structure, balance and amounts may differ. Variable remuneration is considerably reduced where subdued or negative financial performance of the firm occurs. When assessing individual performance we use a robust performance review process, with reviews which do not relate solely to financial criteria, but will also look at skills acquisition, compliance with regulatory obligations, and adherence to effective risk management over both the short and long term time horizon.

The FCA rules require certain firms to disclose aggregate information on remuneration in respect of its BIPRU Remuneration Code Staff broken down by business area, senior management and other Code Staff, including "risk takers".

The firm has identified 2 Code Staff in total for the year ending 2019. These are assessed as Board Directors and Senior Management. Code Staff received aggregate remuneration of £247,200 for the year ending 31 December 2019.

Code Staff did not participate in any firm bonus scheme, however an employee virtual share option program is in operation for selected employees and Directors. The option scheme is designed to reward these employees and Directors on the long-term performance of the firm.