Downing LLP

Pillar III disclosures under Capital Requirements at 31 May 2020

Introduction

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 has been implemented by the Financial Conduct Authority ("FCA").

The FCA framework consists of three Pillars:

- Pillar I sets out the minimum capital amount that meets the Partnership's credit, market and operational risk;
- Pillar II requires firms to consider whether a firm should hold additional capital against risk not covered in Pillar I;
- Pillar III requires firms to publicly disclose certain details of their capital, risk exposures, risk assessment processes and remuneration arrangements.

BIPRU 11 Disclosure (Pillar 3) requires that a firm subject to the provisions of the Directive must disclose the relevant information required under this rule unless the information is believed to be immaterial, proprietary or confidential.

In our view, proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers, suppliers and counterparties.

We have made no omissions on the grounds that it is immaterial, proprietary or confidential.

Scope and application of the requirements

Downing LLP ("the Partnership") is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. The Partnership is categorised as a limited licence BIPRU investment firm by the FCA for capital purposes. It is an investment management firm and as such has no trading book exposures.

Risk management

The Partnership are accountable for all risks assumed in the business and responsible for the execution of appropriate risk management discipline within the framework of the policy and delegates authority set out by the Partnership. The Partnership has delegated this authority to the Risk Committee.

Senior Partners meet on a regular basis and discuss current projections for profitability, cash flow, regulatory capital management, business planning and risk management. They manage the Partnership's risks though a framework of internal policies and processes with regard for relevant laws, standards, principles and rules (including FCA principles and rules). This active management aims to minimise the firm's exposure to loss events except where such risk exposure confers the opportunity to further the firm's strategic goals and does not exceed the board's risk appetite.
The Senior Partners have identified that business and operational risks are the main categories of risk the Partnership is exposed. Bi-annually the Heads of Department formally review their risks, controls and other risk mitigation strategies to assess their effectiveness and adequacy. Where material residual

risks are identified the financial impact of these risks are quantified and feed into Downing's business planning and capital management processes where they are considered when concluding on the adequacy of Downing's regulatory capital.

Regulatory capital

The Partnership is a Limited Liability Partnership and its capital arrangements are established in its Articles. Its capital is summarised as follows:

The main features of the Partnership's capital resources for regulatory purposes are as follows:

	31 May 2020
	£'000
Partnership capital	**4,125**
Tier 1 capital	**4,125**
Total tier 2 and tier 3 capital	-
Deductions from tier 1 and tier 2 capital	-
Total capital resources, net of deductions	**4,125**

The Partnership is small with a simple operational infrastructure. There is no market risk and all cash held is in GBP and neither accounts receivable or payable are in foreign currency. Credit risk arises mainly from cash holdings and receivables. The Partnership follows the standardised approach to market risk and the simplified standard approach to credit risk.

The Partnership is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge though it considers this as part of its process to identify the level of risk based capital required.

The Partnership is a BIPRU firm and as such its capital requirements are the higher of:

- €50,000; or
- The sum of the market & credit risk requirements; or
- The Fixed Overheads Requirement

It is the Partnership's experience that the capital requirements for Market Risk and Credit Risk are exceeded by the Fixed Overhead Requirement.

	£'000
Credit risk capital requirements, calculated under the standard approach (8%)	1,346
Market risk capital requirement	-
Total credit and market risk capital requirements	**1,346**
Fixed overhead requirement	**3,665**

It is the Partnership's experience that the Fixed Overhead Requirement establishes its capital requirements.

FCA Remuneration Code

Decision-making process for remuneration policy

Downing has a single policy that applies to all employees and partners across the business. The policy covers all aspects of remuneration including partners salaries, bonuses, long term incentive schemes, hiring and severance packages and pension arrangements. Considering the size, internal organisation,

nature and scope of Downing, it is not considered to be proportionate to establish a separate remuneration committee.
All decisions on the remuneration of personnel are made by the Board and Partners, who own the business and are collectively responsible for remuneration practices of the firm.

Link between remuneration and performance

The Partners share between themselves the residual annual profits of the Partnership in line with the Members' Agreement.

Remuneration for employees is comprised of fixed pay (salary and benefits) and variable pay (discretionary performance-related bonuses). Performance related bonuses are designed to reflect performance in individual roles and success against a balanced range of targets. A proportion of variable pay is deferred each year.

Aggregate remuneration for Code Staff

The FCA classifies Code Staff as those staff whose activities could have a material impact on the firm's risk profile. The Partnership has defined Code Staff as the Partners being the individuals performing FCA significant influence functions (SIFs).

The Partnership is required to disclose the aggregate remuneration of Code Staff. For the year ending 31 May 2020 the annual remuneration was £8.1m.

The Partnership considers that it does not operate with distinct business areas given its position as a UK focused fund management business and therefore the aggregate information on remuneration is disclosed for the Partnership as whole. As a result of the limited number of Code Staff within the Partnership, the Partnership considers it appropriate to disclose aggregate remuneration across all Code Staff so as not to prejudice individuals with regard to disclosure of personal information.