Canaccord Genuity Limited

Public Disclosures
March 2022

Canaccord Genuity

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1. Overview

1.1. Introduction

The FCA's Investment Firm Prudential Regime ("IFPR") came into effect on 1 January 2022.

This new regime required firms, previously subject to IFPRU and BIPRU, to make a number of changes, among which the categorization of the investment firms, the calculation of own funds requirements and liquidity requirements, and the introduction of a new overall framework the ICARA (Internal Capital and Risk Assessment).

Changes also included the required disclosures previously covered by Pillar 3 which are now replaced by MIFIDPRU 8.

Under this new regime Canaccord Genuity Limited ("CGL", the "Company" and/or the "Firm") has to provide disclosures around the following areas:

- Own funds requirements
- Concentration risk
- Liquidity requirement
- Governance and risk management
- Remuneration and investment policies

The following disclosures for CGL are prepared in accordance with this new regime MIFIDPRU, which sets out certain capital adequacy requirements standards and disclosure requirements to be implemented by non-SNI and SNI MIFIDPRU investment firms.

1.2. Basis and scope of disclosure

These disclosures are for CGL (FRN: 182011) on an entity, or solo, basis.

CGL is a non-SNI MIFIDPRU firm and is subject to the provisions of the FCA's MIFIDPRU handbook (Prudential sourcebook for MiFID Investment Firms). This report is not required to be reviewed by the Firm's auditor but has been considered and approved by the Firm's governing body.

1.3. Frequency of disclosure

This report will be updated to reflect any significant changes to the Firm's business profile and in any case at least annually. Unless otherwise stated, all figures are as at 31 March 2022, the Firm's financial year end, with comparative figures for 31 March 2021 where relevant.

1.4. Location

This report is available on the Firm's website at www.canaccordgenuity.com under the UK Regulatory and Legal Disclosures section.

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1.5. Covid-19 and Remote Working

At the beginning of the COVID-19 pandemic in March 2020, the Company responded promptly by successfully implementing a comprehensive remote working capability. During the evolution, and as we look towards the end, of the pandemic, the Company has further developed and rolled out a Remote (or flexi) Working Policy which was utilised for much of the year ended 31 March 2022. Working from home using remote access systems initially enabled the Company to ensure both the wellbeing of its staff and the ability to continue servicing its clients during this period of uncertainty. Reflecting a change in market practice and working practices, the Company continues to employ a Remote Working Policy which is reviewed by the Company's senior management on a regular basis.

Even though the Company's operating resilience during the pandemic was successful, there is a risk that such systems, processes and procedures may not be successful in the event of future pandemics or in the event that conditions under the COVID-19 pandemic deteriorate or persist for a further extended period of time.

Therefore, CGL continues to keep its trading positions in line with previous year limits in order to minimise the Firm's exposure (net Market Making books of £3m) whilst maintaining operational capacity and liquidity in the markets.

1.6. Ukraine conflict

The Russia invasion into Ukraine on 24 February 2022 caused another significant disruption in the global market activity after the Covid-19 outbreak.

The Company promptly responded by pro-actively disabling trading on all sanctioned listed Russian stocks and closely monitored any open exposure on banned securities. Except for some market volatility on the first days of the invasion, the Company did not report any losses, given the initial pro-active Management response.

The Firm continues to monitor the Ukraine situation and take cautious approach.

1.7. Acquisition of Results International Group LLP

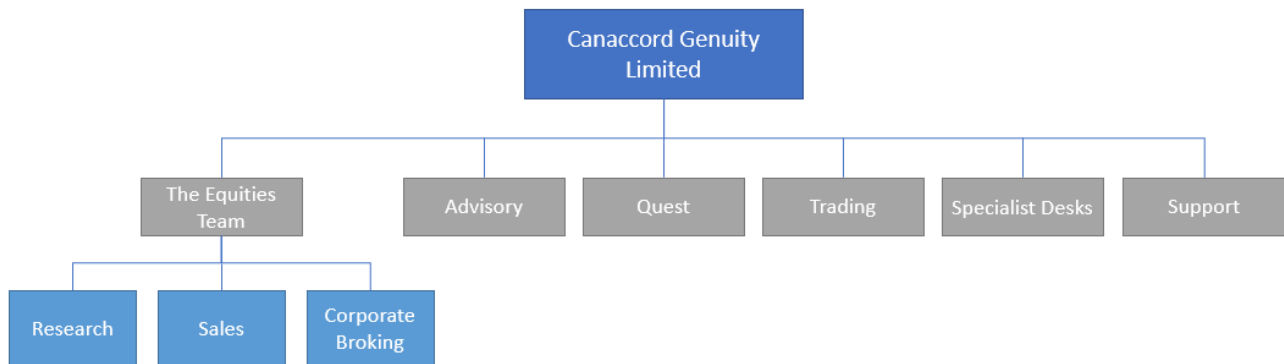
On 17 August 2022, the Company completed the acquisition of the business of Results International Group LLP ("Results"), an independent London based advisory firm focused on the Technology and Healthcare sectors. Through this acquisition the Firm has expanded its advisory capability and increased its European domain expertise in the Technology and Healthcare sectors.

2. Corporate Background

CGL is a wholly owned direct subsidiary of Canaccord Genuity Group Inc. ("CGGI" or "Canaccord"), a publicly listed company on the Toronto Stock Exchange. Through its principal subsidiaries, CGGI is a leading independent, full-service financial services firm, with operations in two principal segments of the securities industry: wealth management and global capital markets.

2.1. Core business lines

The Firm operates as a single integrated Capital Markets business out of its head office in London. Within the overall Capital Markets segment, the business can be sub-divided into six main teams: The Equities Team, Advisory, Quest, Trading, Specialist Desks and Support. These verticals were created as a proactive response in anticipation of MiFID II challenges and with the aim to create better ownership of both revenue and costs, to create a leaner more client focused Firm, to align risk and compensation with each respective business and to increase sustainability. As at 31 March 2022 CGL had 84 retained clients for which it acts as nominated adviser and/or broker, and for whom it provides ongoing corporate finance advice, feedback on investor opinion and guidance on the client's continuing market obligations.



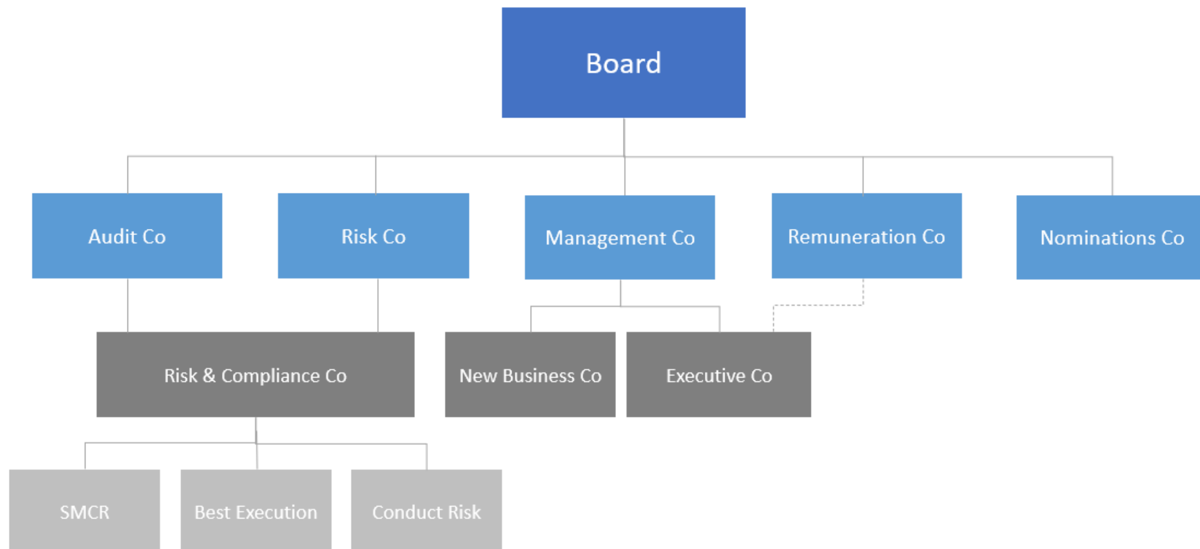
3. Overview of Governance & Risk Management Framework

3.1. Governance

CGL operates with an independent Board, with the following sub-committees thereof: Risk, Audit, Remuneration and Nominations. All the sub-committees, including the Audit Committee and the Risk Committee are headed by an independent non-executive Director. Membership of the Board also includes a non-executive Chairman, Chief Executive, and an independent non-executive director. In addition, two executive directors of CGGI also hold non-executive positions on the Firm's Board. The Board and its sub-committees operate within defined terms of reference which include clear objectives, authorities and requirements for management information. They also receive the minutes from other sub-committees.

Following a revision to the Firm's Governance structure, the Management Committee represents the principal forum for conducting the business of the Firm and takes day to day responsibility for the efficient running of the business. In addition, the Management Committee is responsible for the formulation and implementation of Board approved strategies and plans. This governance structure is further supplemented by various other committees including the (a) Executive Committee which has primary responsibility for overseeing and reporting on the Firm's front office business activities and (b) the Firm's Risk & Compliance Committee.

The Chief Financial Officer has the responsibility to review this document at a minimum each year and implement any required changes. The Risk & Compliance Committee will evaluate any suggested changes and present them to the Audit Committee. CGL's Audit Committee has the authority to approve this document and any changes related to it.



The Risk and Compliance Committee is responsible for ensuring that appropriate risk mitigation is in place, and that the control environment is commensurate to the Firm's needs, based on the strategy adopted by the Firm's Board. Accordingly, it receives various management information from Finance & Risk, Compliance, IT, and Operations.

It also acts as management's tool for implementing policy directed by the Management Committee and is responsible for co-ordinating the Firm's approach to fighting financial crime.

3.2. Risk management overview

The Firm utilises the same Enterprise Risk Management methodology that is applied globally across the CGGI Group and which is discussed in more detail below. This requires a systematic approach to the risk management process which encompasses all functional areas and necessitates ongoing communication, judgment and knowledge of the business, products and markets. The Firm is responsible for its local implementation of risk management policies and to ensure there is a clear organisational structure with defined layers of responsibility throughout the Firm. A cornerstone of the Firm's risk philosophy is that all employees at every level are responsible for the management and escalation of risks (the "3 Lines of Defence Model"). This first line of defence includes responsibility for managing risk within prescribed limits by department heads and trading desk managers. Second lines of defence are provided by the Compliance and Risk Management functions which are further complemented by Internal Audit which provides a third line of defence. The monitoring and control of risk exposure is conducted through a variety of separate, but complementary, financial, credit, operational, and compliance reporting systems.

The Board has delegated day to day responsibility to the Management Committee and other appropriate sub committees but meets at least quarterly and considers reports from a number of areas of the business including Finance and Compliance.

Both the Firm's Audit Committee and Risk Committee meet quarterly and are chaired by an independent non-executive director with membership including the Board's other independent non-executive director. The Committees are also attended by the Chief Executive Officer ("CEO"), Chief Financial Officer ("CFO"), Chief Operating Officer ("COO"), General Counsel, Head of Compliance and Risk & MLRO, internal and external audit as required. The Risk Committee's terms of reference include review of the risk management framework and reported exceptions. The Audit Committee is responsible for considering plans and reports from both the external and internal auditors.

The Management Committee is chaired by the CEO and meets at least on a monthly basis. The Management Committee is the principal forum for conducting the business of the Firm and takes day-to-day responsibility for the efficient running of the business. The Committee is responsible for the implementation of Board strategy, and to ensure the Management Committee remains informed on financial and risk matters, the Finance department produces one extensive monthly information packs and one quarterly.

The first of these, the Management Information Report, highlights the financial performance and position of the UK Capital Markets Group, both overall and by entity. The report contains a detailed review of revenue and expenditure current performance, monthly trends and comparison to budget. It also contains balance sheet information and an analysis of own funds and own funds requirements. Further general analytics include commission and trading results by client/stock and revenue generated from corporate finance transactions.

The Key Risk Indicator ("KRI") quarterly report highlights a number of financial and operational risk indicators presented in the form of a summary risk dashboard. The dashboard presents a clear snapshot of each risk and allocates a red, amber or green status to it. Whilst the green flags are still reviewed for completeness, particular attention is given to amber and red flags allowing users to quickly focus on the key areas under which the Firm can then allocate resources.

As at 31 March 2022 the KRI report highlighted 43 specific risks, 37 with a green status, 4 with an amber status and 2 with a red status. Financial risks currently reported include:

- Book positions values against book limits
- Stale position summary
- Foreign currency exposure summary
- Asset impairment summary
- Asset concentration risk
- Failed trade statistics
- ICARA capital and liquidity metrics

- Free delivery statistics
- Large exposure statistics
- Insurance coverage
- Ops control statistics
- Risk policy document reporting
- Treasury statistics (cash recs, balances and FX transactions)
- IT Controls and BCP

The Risk & Compliance Committee is specifically responsible for monitoring risk exposure and for the general oversight of the risk management process. This Committee meets weekly and is attended by the head of each operating area, along with a representative from the trading floor. Further representatives from the business attend as necessary. The Firm has taken the view that the management of risk is best achieved by embedding this process within function heads and the sub committees. Whilst the risk management function within the Firm reports to the Risk & Compliance Committee, it is responsibility of the Head of Risk, Legal and Compliance for daily risk management and to report on their areas of risk management to this committee.

Whilst various risk reports are reviewed at each weekly meeting of the Risk & Compliance Committee, which is responsible for identifying risks and developing appropriate risk mitigation strategies, the KRI report which presents a summary of these findings, is reviewed on a quarterly basis. The Risk & Compliance Committee helps to shape the content and detail included within the KRI report. The Compliance department also has a comprehensive monitoring program as approved by the Executive Committee which is reported to the Risk & Compliance Committee.

The Firm has outsourced its internal audit function to chartered accountants, BDO, which allows it to benefit from a range of specialist skills in cases where individual audits require such expertise. The internal audit function reports directly to the Head of the Audit Committee. The internal audit plan is derived from a risk-based approach and is compiled from known risk areas identified by both the Risk & Compliance and Audit Committee. All internal audit reports are tabled at the Audit Committee. In addition to the Firm's own internal audit arrangements, the CGGI Group internal audit function has oversight of the UK and performs regular Internal Control over Financial Reporting ("ICFR"). The output of ICFR reviews is reported to the Audit Committee and shared with Ernst & Young, the Firm's external auditor.

3.3. Recruitment and diversity

The current and future needs of the Firm including equality and diversity are considered as part of the recruitment process. Board and committee membership, along with succession planning, draws upon a range of criteria including relevant skills and expertise, suitability for the role, and relevant knowledge in order to achieve a balanced approach to challenge and decision making.

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4. Summary of own funds & own funds requirements

The table below sets out the Firm's Own funds requirements, as at 31 March 2022.

Composition of regulatory own funds			
	Item	**Amount (GBP thousands)**	**Source based on reference numbers/letters of the balance sheet in the audited financial statements**
1	**OWN FUNDS**	**34,511**	This row is the sum of row 2 and 25
2	**TIER 1 CAPITAL**	**34,511**	This row is the sum of row 3 and 20
3	**COMMON EQUITY TIER 1 CAPITAL**	**34,511**	Total sum of rows 4 to 19
4	Fully paid up capital instruments	35,000	Template OF2 Shareholder equity row 1 column a
5	Share premium		
6	Retained earnings		
7	Accumulated other comprehensive income		
8	Other reserves	2,893	
9	Adjustments to CET1 due to pridential filters		
10	Other funds		
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	(3,382)	Template OF2 Asset row 3 column a
19	CET1: Other capital elements, deductions and adjustments		
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 TIER 2		
29	Tier 2: Other capital elements, deductions and adjustments		

Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statement				
(£ 000) unless noted otherwise		a	b	c
		Balance sheet as in published/audited financial statements	Under regulatory scope of consolidation	Cross-reference to template OF1
		As at period end	As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Right of Use Assets	7,068	No difference in the firm's scope of accounting consolidation and regulatory consolidation	
2	Property, Plant and Equipment	2,429	As above	
3	Investments in and loans to subsidiaries	3,382	As above	Template OF1 row 11
4	Deferred tax asset	2,495	As above	
5	Cash and cash equivalent	22,570	As above	
6	Securities owned	8,201	As above	
7	Trade and other receivables	348,698	As above	
8	**Total Assets**	**394,843**	As above	
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
1	Securities sold short	1,216	As above	
2	Trade payables and other accrued liabilities	344,221	As above	
3	Lease Liability (current)	2,049	As above	
4	Corporation tax	-	As above	
5	Lease Liability (non-current)	7,122	As above	
6	**Total Liabilities**	**354,608**	As above	
Shareholders' Equity				
1	Share capital	35,000	As above	Template OF1 row 4
2	Retained Earnings	5,235	As above	
3	**Total Shareholders' equity**	**40,235**	As above	

Own funds: main features of own instruments issued by the firm		
		Free text
1	Issuer	Canaccord Genuity Limited
2	Unique identifier (e.g. ISIN)	N/A
3	Public or private placement	Private
4	Governing law(s) of the instrument	United Kingdom
1	Instrument type	Ordinary shares
3	Amount recognised in regulatory caoutal (GBP thousands, as of most recent reporting date)	35,000
4	Nominal amount of instrument	35,000
5	Issue price	£1 per share
6	Redemption price	£1 per share
7	Accounting classification	Shareholders equity
8	Original date of issuance	09/09/2020
9	Perpetual or dated	N/A
10	Maturity date	N/A
11	Issuer call subject to prior supervisory approval	N/A
12	Optional call date, contingent call dates and redemption amount	N/A
13	Subsequent call dates, if applicable	N/A
14	Coupons/ dividends	N/A
15	Fixed or floating dividend/ coupon	N/A
16	Coupon rate and any related index	N/A
17	Existence of a dividend stopper	N/A
18	Covertible or non-convertible	N/A
19	Write-down features	N/A
20	Link to the terms and conditions of the instrument	N/A

4.1. Tier one capital

Tier one capital comprises share capital of £35.0m and positive reserves of £2.9m. The total, of £37.9m, is eligible CET 1 and the Firm has no other forms of tier one capital. The £2.9m reserves exclude the profit after tax for the year ended 31 March 2022 which only became eligible for inclusion in CET1 following the signing of the Firm's fiscal 2022 Report and Financial Statements.

4.2. Deductions from capital

Deductions mainly include material holdings of £3.4m, consisting of £0.4m investment in the Firm's French subsidiary and £3.m advanced to an Employee Benefits Trust. The latter has been used to purchase shares in CGGI in order to satisfy outstanding share awards granted to the Firm's employees.

4.3. Capital reduction and distribution

On 30 June 2022, having obtained FCA approval, the Company undertook another capital reduction, reducing de facto its share capital from £35m to £25m with the difference being allocated to retained earnings.

The acquisition of Results International Group LLP (section 1.7) resulted in a £5m capital injection which increased the Company share capital to £30m as at 31st August 2022.

4.4. K-factor requirement and fixed overheads requirement

The key factors informing the overall capital requirement for the Firm are summarised below.

Fixed overhead requirement ("FOR")

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As mentioned previously in section 1.1 under IFPR CGL is subject to a FOR based on 25% of its relevant expenditure during the preceding year as recorded within the firm's latest audited accounts. However, where there is material change in the Firm's projected relevant expenditure of 30% or it would result in a £2m increase in the firm's FOR, the projected relevant expenditure must be used to calculate the FOR. Furthermore, if a change in the expenditure projections occur post completion of the ICARA, the FOR and basic liquidity requirement must be recalculated immediately. This would result in the ICARA being updated.

The calculation of the fixed overhead requirement is as follows as per MIFIDPRU 4.5.1

(Firm's relevant expenditure) at 25%

Based on audited 2021 financials, CGL had an overall base amount of £30,722,800 which multiplied by 25% resulted in a FOR of £7,680,700 as outlined in the table below.

K-factors requirements

As mentioned in section 1.1, the K-factor capital requirements are a set of metrics for non-SNI firms to consider. In total there are nine k-factors to be considered, dependent on the investment firm's business model. Based on CGL business model, six of the K-factors apply, which are as follows:

- K-ASA – Client assets safeguarded and administered
- K-CMH – Client money held
- K-NPR – Net position risk
- K-TDC – Trading counterparty default
- K-CON – Concentration risk
- K-DTF – Daily trading flow

Management regularly monitors the K-factors on as part of its regulatory capital review and has developed a series of tools to enable the firm to track its k-factors on a monthly basis. The sum of the K-factors is to be considered against the FOR to assess which measure should be the base capital requirement.

	Factor amount	K-factor requirement
Asset under management		
Client money held	7,710,404	30,842
Asset safeguarded and administered	342,294,573	136,918
		167,759
Client orders handled		
Daily trading flow - cash	224,948,273	224,948
		224,948
Net position risk		1,953,226
Clearing margin given		-
Trading counterparty default		313,476
Concentration risk requirement		-
		2,266,702
Total K-factor requirement		**2,659,410**

Fixed overheads requirement	30,722,800	**7,680,700**

5. Concentration risk

All FCA investment firms are now required to monitor and control all sources of concentration risk, as it constitutes one of the nine applicable k-factors.

For CGL concentration risk includes location of client money and client assets, location of firm money, large groups of connected clients, and any concentration risk to trading counterparties. The FCA expects this to form part of an investment firm's normal risk management processes.

MIFIDPRU 5 outlines the provisions relating to the calculation of the K-CON requirement. The Firm must calculate an exposure value (EV) for each client or group of connected clients by adding together:

1. The net long positions in all the trading book financial instruments issued by the client in question, using the approach specified for K-NPR
2. The exposure value of contract and transactions calculated under the approach specified for K-TCD

The EV with regard to a group of connected clients must be calculated by adding together the exposures to the individual clients within the group, which must be treated as a single exposure.

Under MIFIDPRU 5.5 concentration risk soft limits are set at 25% of a firm own funds subject to:

a. Individual client is a MIFIDPRU-eligible institution, the concentration risk soft limit for that client will be the higher of:
    i. 25% firm own funds
    ii. £150m or 100% firm own funds, whichever is the lower
b. Where a group of connected clients includes one or more MIFIDPRU-eligible institutions, the concentration risk soft limit for the group is the higher of:

i. 25% of the firm's own funds; or
ii. £150 million or 100% of the firm's own funds, whichever is the lower, provided that for the sum of exposure values with regard to all connected clients that are not MIFIDPRU-eligible institutions, the concentration risk soft limit remains at 25% of the firm's own funds.

For as long as a firm exceeds the concentration risk soft limit for one or more clients or groups of connected clients, it must calculate the K-CON requirement.

When a firm exceeds the concentration risk soft limit for a client or group of connected clients, it must notify the FCA without delay of the amount of the EVE, and the name of the individual client or group of connected clients.

As of 31st March 2022 the firm had no reportable K-CON exposure, as all its exposure to clients or group of connected clients were below 100% of own funds (£ 34.5m) as the table in section 4.4 demonstrates.

6. Liquidity risk and Liquidity requirement

Liquidity risk is the risk that the Firm is unable to generate sufficient cash or other liquid resources in a timely and cost-effective manner in order to meet its commitments as they fall due.

As mentioned under section 4.1 the Firm has set out a series of key metrics to assess and monitor its liquidity position. These are summarized below:

1. The level of own funds over own funds threshold requirement (the "capital surplus metric"). This metric is reported as green over 150%, amber at levels between 150% & 110% and red below 110%.

2. The level of liquid assets over the basic liquid asset requirement which is reported as green at over 150%, amber at levels between 150% & 110% and red below 110%.

3. Level of liquid assets over the liquid asset threshold requirement, which is reported as green at over 150%, amber at levels between 150% & 110% and red below 110%.

Satisfactory assurance of compliance with the basic liquid asset requirements and the liquid asset threshold requirement is achieved where no metric is red. An amber rating operates as a potential negative watch flag depending on the overall trend of the metric. The metrics will be reported each quarter as part of the KRI pack, together with the metrics for the previous two months.

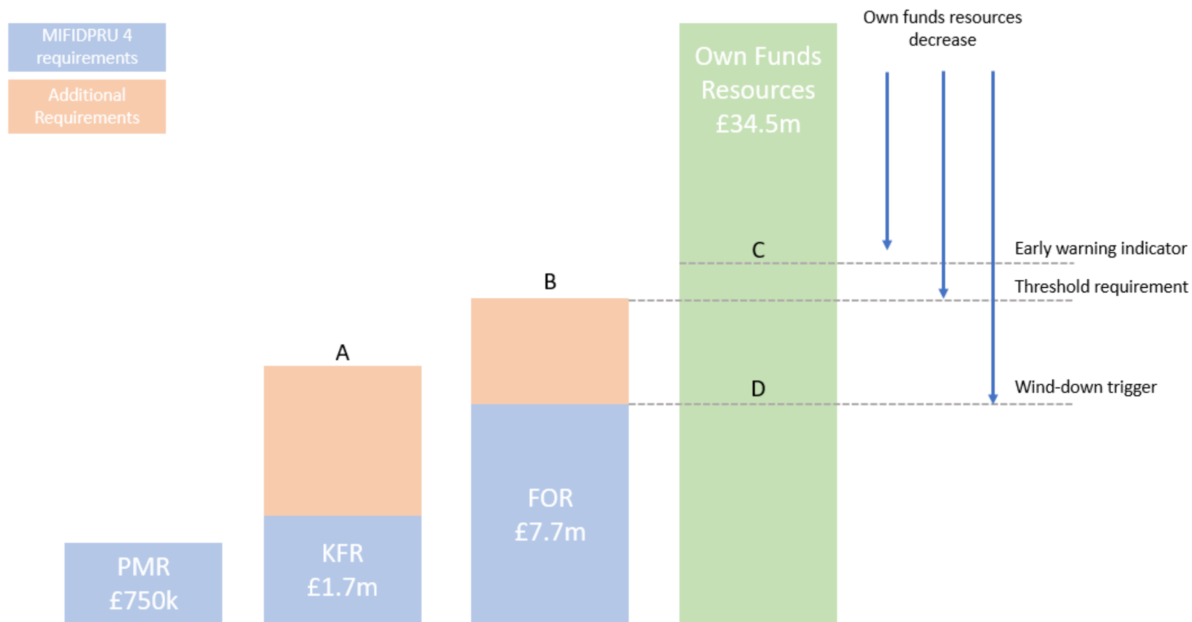
As mentioned previously in section 1.1, the FCA has implemented a basic liquid assets requirement for all investment firms. All firms are required to hold an amount of liquid assets that is at least equal to the sum of:

- One third of the amount of its FOR, and
- 1.6% of the total amount of any guarantees provided to clients (not applicable to CGL)

In accordance with the CGL FOR, the Firm's basic liquid assets requirement is set at £2.6m. The Firm as at 31st March 2022 held £22.6m in cash at approved banks and therefore comfortably meets the applicable basic liquid asset requirement.

7. Additional funds requirements and the ICARA

Given the Firm's categorisation as a non-SNI firm, CGL is required to identify its OFTR and ensure it has sufficient own funds to meet it. The Firm OFTR comprises the OFR plus any AFR driven by the higher of the firm's assessment from ongoing operations, considering also risk of harms, and the firm's assessment from orderly wind-down.
Below a graphical representation of the OFTR identification for the firm.



The Firm has determined that its K-factor requirement (KFR) is not enough to cover all the risks of harm posed by its ongoing operations, therefore it is holding additional own funds to mitigate this (A).
The Firm has also determined that it will need additional own funds beyond the FOR to allow for an orderly wind-down. The total own funds required for wind-down is (B). In this case the KFR plus the additional own funds (A) is lower than the FOR plus additional own funds (B) which becomes the Firm own funds threshold requirement. The FCA as indicated in section 3.2.5 requires firms to use 110% of their threshold requirement as an early warning trigger (C). As per the FCA definition under MIFIDPRU 7.6.4 the FOR will always be the Firm's own funds wind-down trigger.

As the Firm is subject to the FCA's capital adequacy regime at a solo level, the ICARA is formulated at the CGL entity level and, accordingly, shares the same scope as the overall MIFIDPRU 8 disclosures.

The Firm has assessed the amount of capital it feels is necessary to hold to support the risks it faces. This was achieved through the application of the ERM methodology, which defines the level of risk appetite that the Firm is prepared to take. Risk appetite, along with capital, is apportioned by business lines and key risk and harm categories, namely financial, operational, conduct and other risks.

The methodology is based on the notion of an expected loss amount for each risk category at a given confidence level over a pre-determined time horizon for each key functional area, (e.g. Trading, Sales, Research, Banking, IT, Compliance, Finance, Settlements and HR).

The calculation of these individual risk exposures enables the Firm to determine a capital requirement for the levels of risk assessed, which in turn drives the assessment of the additional funds requirements. The outcome is documented in the Firm's ICARA, which has been approved by the Board.

8. Financial risks

8.1. Market Risk

The Firm applies the standardised approach to market risk, which is the risk that changes in market prices such as equities, interest rates and exchange rates will affect the Firm's income or the value of its holdings in financial instruments. Exposure to market risk arises principally from CGL's trading book activities. Trading positions are generally in quoted holdings in gilts, equities, bonds, PIBS and preference shares.

The Firm reporting currency is sterling, and it actively seeks to eliminate exposure in foreign currencies and the month end exposure in each currency is reported in the KRI pack. However, the Firm does not hedge its net investment in non-sterling denominated subsidiaries.

Monitoring & control

The Firm has strict limits, both at a book and individual stock level. Individual stock limits are set to incorporate metrics such as the average traded volume (e.g., 5 days at 3 month's average volume) thus ensuring that positions have sufficient liquidity to be unwound in an orderly manner within an acceptable timeframe. Limit utilisation is monitored on a daily basis and any temporary breach requires the prior approval from Risk Management and Finance. Changes to formal position limits require appropriate approval.

8.2. Credit risk

Credit risk represents the risk that the Firm may suffer a financial loss arising from a counterparty failing to meet its contractual obligations. The Firm is subject to credit risk in both the trading (counterparty credit risk) and non-trading book.

Counterparty credit risk

Counterparty credit risk arises from CGL's secondary trading activities which, in accordance with market practice, unsettled brought and sold security transactions are recognised gross as market receivables and payables respectively on the Firm's balance sheet.

In the case of free deliveries, these are deducted from capital resources. Other unsettled trades expose the Firm to risk if the market price has moved adversely to the contracted price and therefore the exposure is effectively akin to market risk.

The Firm's clients are largely entities who are authorised and regulated by the FCA, PRA, or equivalent overseas regulator and are therefore subject to a degree of independent oversight. Counterparty credit risk is managed in a number of ways. These include new client account opening procedures, which include the review and/or approval from senior business managers and Compliance.

The production and distribution of regular management information ensures senior management are made aware of material credit exposures.

The significant majority of the Firm's trades settle on a delivery versus payment basis and therefore the risk of non-settlement is considered to be low. A daily exposure report is produced and distributed to members of the Risk and Compliance Committee showing financial exposure and absolute cash receivable by counterparty and by instrument.

Credit risk in the non-trading book

With the exception of cash deposits, the majority of the Firm's credit exposures are to unrated counterparties.

The risk of non-payment by corporate clients is considered low, and the Firm ensures that corporate fees are held back from fund-raising activity to mitigate possible significant credit exposures.

The Firm has a rigorous policy of providing for aged receivables, which is consistent with that used throughout the CGGI Group. The table below shows the impairment provisions as at 31 March 2022 and 31 March 2021 together with the movement. Provisions are primarily against outstanding amounts arising from the Firm's Investment Banking activities.

Expected credit loss allowance under IFRS 9 Financial Instruments

(£000's)	12 months to 31 March 2022	12 months to 31 March 2021
Provision balance as the beginning of the year	1,072	1,258
Net increase/(decrease) in provision	(247)	(186)
Provision balance as the end of the year	**825**	**1,072**
Net increase / (decrease) in provision	(247)	(186)
Written off directly to statement to income	237	187
Net charge/(credit) through income statement	**(10)**	**1**

9. Use of ECAIs

The Firm uses External Credit Assessment Institutions ("ECAI") as part of its assessment of banks to use for the purpose of depositing its own cash resources as well as client money funds. Current policy requires the use of ratings from Moody's, Standard & Poor's and Fitch.

10. Operational risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, fraud, people and systems or from external events such as the occurrence of disasters or a security threat. It represents the Firm assessment from ongoing operations as per MIFIDPRU 7.6.4.

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Under ICARA, the Firm has assessed any residual risk by using the methodology set out below and in section three above.

10.1. Assessment

Operational risk is assessed through both a high-level top-down assessment and the process of Risk and Control Self-Assessment ("RCSA").

The top-down view of operational risk within the Firm is complimented by the operational risk profile through the annual (or more frequent if appropriate) performance review of the RCSA within each business area. This involves the heads of departments identifying the key operational risks within their area and assessing the effectiveness of the most significant controls associated with each risk. Mitigating actions, where appropriate, are identified which would reduce the risk and/or improve the effectiveness of the significant controls.

The results of the RCSAs are summarised and presented to the Risk and Compliance Committee, as well as being used to enhance the awareness of the operational risk profiles within the Firm and possible mitigating actions. Internal Audit also refers to RCSA documents in their risk-based approach to internal audit assignments.

For each inherent risk identified, existing controls to mitigate operational risks have been identified and are listed in the RCSA templates. An expected loss is calculated using the multiplication of residual risk impact and the likelihood after the consideration of controls and mitigating factors. The expected losses are represented in the Risk (Heat) Map to help communicate and prioritise management actions to further reduce risks to an acceptable level. The progress of any agreed actions is considered on a monthly basis at the Risk and Compliance Committee.

11. Conduct Risk

Conduct Risk is defined as "the risk that detriment is caused to Canaccord Genuity Limited, its customers, clients, counterparties or markets because of the inappropriate execution of its business activities".

Conduct Risk is a key consideration in the Firm's Risk Management Framework. The Firm has a Conduct Risk Policy, including a Conduct Risk Appetite Statement, which is supplemented and overseen by the Firm's Conduct Risk Committee,

12. Other specific risks

The Firm does not have any non-trading book equity exposures.

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13. Remuneration

13.1. Classification of the Firm

For the purposes of the disclosures at paragraph 13. 6 below (as at 31 March 2022), as set out in the FCA's General guidance on proportionality: The Remuneration Code (SYSC 19A) & Pillar 3 disclosures on remuneration, the Firm is classified as a level three proportionality tier firm for the purpose of remuneration disclosures on the basis that it has gross assets of less than £15bn.

Going forward, the Extended Remuneration requirements set out in IFPR will apply to the Firm for the financial year commencing 1 April 2022.

13.2. Remuneration Committee

CGL's Remuneration Committee remit covers the supervision and oversight the Firm's framework governing remuneration and reward, including overall responsibility for the implementation of and compliance with the FCA's Remuneration Code. The members of the Committee are all non-executive directors and are considered to be independent.

13.3. The role of relevant stakeholders

The CEO is not a member of the Remuneration Committee, although he may provide non-binding advice to it.

13.4. Material Risk Takers ("MRTs")

Under the new regulation (IFPR), the Firm will be required to identify staff whose professional activities may have a material impact on the Firm's risk profile (replacing the obligation with regards to Code Staff), this will come into effect for CGL from next reporting period FY2023.

CGL has reviewed and amended its remuneration policies and employee arrangements to include the new regulatory requirements and appropriate ratios for fixed and variable remuneration (including malus and clawback provisions).

13.5. The link between pay and performance

Remuneration is made up of fixed and variable elements designed to reward performance, with the overall package intended to generally reflect market practice for any given role. However, the Firm's policy is that compensation should not be based entirely on revenue attributable to an individual.

Individual performance is measured in a number of ways against agreed objectives, with annual appraisals providing a significant element of performance assessment. The variable element of remuneration includes the use of share schemes, with certain awards deferred to ensure that longer-term performance is considered, with suitable malus and claw-back in place in appropriate circumstances.

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13.6. Aggregate remuneration

The Firm operates as an integrated Capital Markets business and, although it has different revenue types, there are no identifiable business areas other than Capital Markets. The tables below set out the aggregate fixed, variable and deferred remuneration for Remuneration Code Staff for the years ending 31 March 2021 and 31 March 2022 respectively. Senior management is defined as members of the Board.

Year ended 31 March 2022 (£m unless stated otherwise)	Senior Management	Other Code Staff	Total
Fixed compensation	0.5	2.4	2.9
Variable compensation	1.3	5.4	6.7
Total Compensation	1.8	7.7	9.6
Number of Code Staff	6	13	19
Non-cash variable compensation awarded in shares included in the above	0.4	1.0	1.3

Year ended 31 March 2021 (£m unless stated otherwise)	Senior Management	Other Code Staff	Total
Fixed compensation	0.4	2.3	2.7
Variable compensation	0.9	5.7	6.6
Total Compensation	1.2	8.0	9.2
Number of Code Staff	5	13	18
Non-cash variable compensation awarded in shares included in the above	0.3	1.1	1.3

The non-cash variable compensation awarded in shares during the year represents the Company Employee Benefit Trust (EBT) award value. The vested amount recorded during the year represents the EBT vest value at vest date. The outstanding balance as at the year-end represents the unvested shares per year end share price.

Non-cash variable compensation outstanding for period ending 31 March 2022

Year ended 31 March 2022 (£m unless stated otherwise)	Awarded during the year	Vested during the year	Outstanding at 31 March 2022
Senior Management	0.4	0.1	0.9
Other Code Staff	1.0	0.6	4.3
Total	1.3	0.7	5.3

There were no severance payments both in fiscal 2022 and in fiscal 2021.

13.7. Higher paid employees

The table below shows the number of employees with total remuneration greater than €1m.

Number of staff	2022	2021
EUR 1.0m - EUR 1.5m	5	3
EUR 1.5m - EUR 2.0m	1	1
EUR 2.0m - EUR 2.5m	0	0
	6	4