

Capital Requirements Directive Pillar 3 Disclosure

Stockcube Limited group and Stockcube Research Limited

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Background

The Capital Requirements Directive ('CRD') implements the Basel II Accord within the European Union. It comprises three elements

Pillar 1 the minimum capital requirements of firms to cover credit, market and operational risk;

Pillar 2 the requirements for firms and regulators to assess the need to hold additional capital to cover risks not covered under Pillar 1; and

Pillar 3 a set of disclosure requirements which enable market participants to assess information on firms' risks, capital and risk management procedures.

The Financial Conduct Authority ('FCA') has set out its minimum disclosure requirements in its handbook under BIPRU 11. The information set out herein represents Pillar 3 disclosures in respect of Stockcube Research Limited (the 'Company') which is authorised and regulated by the FCA.

Management Approach to Risk

1. Overall supervisory control

The Company is a wholly-owned subsidiary of Stockcube Limited and is the principal operating company of the Stockcube group.

The Stockcube group is directed by the Board of Stockcube Limited comprising an executive and two Non-Executive directors. The directors hold board meetings at which operating and financial reports are considered. The board of Stockcube Limited which meets 4 times per year delegates the following functions within the Company to its board of directors which comprises five executive directors who meet formally six times a year. The executive director is common to both boards.

The key elements of management and financial control are as follows:

Control Environment - presence of a clear organisational structure and well-defined lines of responsibility and delegation of appropriate levels of authority.

relevant, reliable, comparable and understandable information;

- additional disclosures to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- state that the Company has complied UK Accounting Standards, subject to any material departures disclosed and explained in the financial statements; and
- confirm that they have complied with these requirements and, having a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, continue to adopt the going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Stockcube Limited conducts a review of the internal controls and risk management across the group

The process and systems of internal control are designed to manage, rather than eliminate, the risk of failure to achieve the Group's objectives, and can therefore only provide reasonable and not absolute assurance against material misstatement or loss

The Company's principal financial instruments are an inter-company loan to Stockcube Limited and cash. The Company has other financial instruments such as trade debtors

and trade creditors that arise directly from its operations. The Company's policy is not to enter into any derivative transactions such as interest rate swaps or financial foreign currency contracts.

The Company has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty for Stockcube Research is subject to a notional 'benchmark' limit, which is reassessed annually by the board, currently at £20,000.

The Board reviews the Company's funding and capital structure from time to time. The Company has no interest-bearing liabilities and has no current intention of assuming such liabilities.

2. Business strategy

The Company produces research and technical analysis of the relative strengths and weaknesses of price trends of stocks, stock and sector indices, currencies, bonds and financial data to assist institutional and private investors with the timing of investments.

The Company's investment analysts are supervised by the directors and they are not permitted to be involved in any activities which could be seen as conflicting with the Company's provision of independent investment research to its clients.

Staff remuneration is not linked to dealing or other activities which customers carry out as a result of the independent analysis they provide.

No employee of Stockcube may carry out any personal account dealing which could create a conflict of interest which might affect the impartiality of the Company's investment research. Any proposed personal account dealing by employees is subject to pre-approval by a director of the Company and no dealing which could create a conflict of interest between the Company's employees and its customers is permitted. In addition, a prohibited list of securities is maintained. The Company does not hold securities on its own account. All outside business activities of employees are subject to prior approval by a director of the firm.

The Company does not execute, manage or trade in financial instruments on its own behalf or on behalf of third parties.

The Company has no other regulated or unregulated business activities which conflict with its provision of independent research.

The Board will consider expanding its customer base by acquisition of other related businesses if it can perceive clear economic benefits of doing so. A more favoured approach is to pursue co-operative marketing agreements with business to business partners who already have established customer bases.

Stockcube Limited operates a treasury function which invests the group's surplus cash holdings in a spread of bank deposit accounts and marketable fixed income

Risk Management

The Company's material risks fall into (i) product and advisory risks specific to the Company's business activities and (ii) operational risks generic to being in business.

(i) Assessment and management of product and advisory risk

Each piece of written research is subject to review and sign off by an executive other than its author prior to publication. This process is in turn subject to verification by the group's compliance advisers. All client-facing executives are approved persons (for conduct of financial services business) by the Financial Services Authority and undergo a period of in-house training before they are permitted to advise clients or otherwise are experienced professionals in respect of the group's IT business activities who deliver services against detailed specifications agreed in advance with customers.

The timing and manner of publication and distribution of investment research and of the communication of its substance must be approved in advance by a director of the Company. Before being issued, all research documents must be approved and signed-off by a director or senior analyst. No-one outside the Stockcube group may comment on draft investment research before publication, other than, where necessary, to verify factual information.

Certain disclaimers may be included in the Company's research where appropriate, for example for legal reasons and its policy and procedures require investment research to be distributed in an appropriate manner.

The Company's investment research is published and distributed either in hard copy or on line. No employee may communicate the substance of any investment research, except in accordance with the Company's policy of independence.

The group carries product liability insurance appropriate to its activities.

(ii) Operational risks

The Company is subject to common commercial risks of being in business and has put in place and maintains the following processes and procedures to minimise its exposure to operational risk.

- *Overall risk management*

The Company operates within a clear organisational structure and well-defined lines of responsibility and delegation of appropriate level of authority.

- *Control of financial risks*

The Company operates a comprehensive system of budgets and forecasts with monthly reporting of actual results against targets.

The board ensures that the Company's income is derived either from investment businesses that are themselves subject to financial regulation, in respect of consultancy fees agreed in advance for services to be rendered, or from subscription customers who pay in advance for services to be rendered.

Company expenditure is predictable and generally evenly spread from month to month.

- *Containment of Credit risk*

The Company requires appropriate credit checks on potential customers to which credit might be extended before sales are made. Exposure to any individual counterparty is subject to limits (currently set at a notional benchmark of £20,000) which are reassessed annually by the board. In practice credit is extended only to investment businesses that are subject to independent financial regulation.

- *Interest rate and liquidity risk*

The Company's cash resources are managed as part of the group treasury functions of the Stockcube group.

The Stockcube group has interest-bearing assets which comprise bank deposits and marketable fixed income securities with no interest bearing liabilities. The group treasury function actively invests in a combination of bank and marketable fixed income securities that is designed to ensure that sufficient funds are available for operations of the Company and its fellow subsidiaries.

- *Financial assets, derivatives and other financial instruments*

The main financial asset of the Stockcube group is its cash deposits and fixed income securities, held in/issued by businesses regulated by the FCA. The investments have fixed and floating interest rates that the Board considers appropriate to the prevailing circumstances and the fixed income securities include Gilts and investment grade corporate bonds..

The policies set by the board of directors are implemented by the company's finance department.

- *Foreign exchange*

In view of the low level of foreign currency transactions, the board does not consider that there are significant risks in this respect. Substantially all of the financial assets and liabilities are denominated in £ sterling.

- *Credit risk*

There are no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying value of each financial asset, in the main trade debtors, in the balance sheet.

- *Capital Risk Management*

The Company's primary objectives when managing capital (share capital plus reserves) are to safeguard its ability to continue as a going concern and to comply with its regulatory obligations.

- *Technological and outsourcing risk*

The Stockcube group includes a software and website development company, Ecube Limited, that owns the IPR to the software that the Company uses to generate its income..

The Company's data security and disaster recover procedures are based on overnight back ups. They are well established and reviewed regularly.

- *Insurance risk*

The Company provides advisory services to its customers and does not hold, invest, manage or transmit third party funds. To date it has not experienced a claim for loss from any customer arising from poor advice or other negligence or from any third party. The group carries both PI insurance (up to £1mn limit single claim or in aggregate) and D&O insurance (up to £0.5mn single claim or in aggregate) with FSA regulated insurers.

- *Securitisation risk*

The Company has no securitisation risks.

Capital Resources and Requirements

At 31 December, 2012, the Company's regulatory capital (Tiers 1, 2 & 3, comprising share capital and reserves, less a deduction for intangibles) was £2.223mn and £2.523mn for the Group.

	Stockcube Research Ltd	Group
	£'000	£'000
Tier 1 capital		
Permanent share capital	501	622
Capital Redemption reserve		339
Merger Reserve		568
Share premium account	1,099	-
Reserves	0	7
Profit & loss account	<u>94</u>	<u>10</u>
	1,695	1,546
<i>Deduct: Intangible assets</i>	<u>0</u>	<u>(17)</u>
Total Tier 1 capital after deductions	1,695	1,529
Lower Tier 2 Capital adjustments	<u>0</u>	<u>0</u>
Total Tiers 1 & 2 Capital	1,695	1,529
Upper Tier 3 Capital adjustments	<u>0</u>	<u>0</u>
Total Tiers 1, 2 & 3 Capital	<u>1,695</u>	<u>1,529</u>

The Board has considered how much additional capital would be required in the event of a winding up. It has concluded that the Company has sufficient surplus net assets, backed by bank deposits and marketable securities, for an orderly winding down of the business and repayment of all creditors and a surplus to the shareholders, after expenses.

Accordingly, the Board considers that the Company has sufficient resources to meet foreseeable and unforeseeable probable risks.

Compliance with Pillar 2

The Board has considered the impact of an economic downturn on (i) the Company's financial position and on (ii) its business plans. Its cost base is fairly predictable and is within the Board's control. The Board believes that the Company can cope with the current and unprecedented downturn in economic activity. Should income drop to an extent that significant and/or sustained losses are forecast the Board will take steps to reduce the cost base accordingly or could resolve to stop trading and liquidate the business.