MIFIDPRU Annual Disclosures

Guy Butler Limited

Guy Butler Limited (190911)

For the Financial Year Ended 31/03/2023

Contents

1. Overview

Introduction

This Disclosure document sets out the governance arrangements of Guy Butler Limited (“GBL”, “the Firm”), own funds and own funds requirements as required by MIFIDPRU 8.

Background

The Investment Firms Prudential Regime (IFPR) came into force on 1 January 2022 and applies to all MiFID investment firms authorised in the UK.

Under the IFPR’s firm categorisation, GBL is categorised as a Non-SNI MIFIDPRU Investment Firm.

The public disclosure is an important part of the IFPR because it increases transparency and confidence in the market and gives stakeholders and market participants an insight into how the Firm is run.

2. Risk Management Objectives and Policies

Risk management is implemented and overseen by the Management Committee and Board. The Management Committee and Board is responsible for determining the Firm's business strategy and risk appetite, taking into account the risks that the firm is likely to meet.

The main area of the firm's business specialises in idea-driven trading strategies and relative value ideas in investment grade bonds, distressed debt and equities and as such risk is an inherent part of it.

GBL's risk management framework incorporates an analysis of the impact of each material risk on the firm, its clients and on the market, the probability of each risk occurring and the procedures in place for mitigation. The Internal Capital Adequacy and Risk Assessment ("**ICARA**") process provides periodic management information to the Management Committee and Board, focusing on business and operational risk management issues, and including any notification that the Firm is likely to breach an early warning indicator regarding the Firm's own funds and liquid assets requirements.

The Firm considers that the potential for harm associated with its business strategy is low. The fixed income brokerage operations are a low risk activity, as trades settle and cash builds up with the settlement agent who then transfers it to GBL's bank account monthly. Losses can occur, for example on counterparty failure or trading errors but in the normal course of events the activity is profitable every day. Trading errors do not occur on a regular basis and if there is an error, they tend to be immaterial.

GBL will at all times deal on its own account and therefore will be subject to the calculation of Net Position Risk (K-NPR) and Daily Trade Flow (K-DTF) for its trading book activities. The aim is to hold low levels of risk as small positions (in terms of risk) are taken from time to time both to facilitate client orders by warehousing partial fills and on an "odd lot" trading book. The overriding intention is to match both purchases and sales transactions.

Pershing Securities Limited acts as clearing and settlement agent on behalf of GBL on a Model B basis where they assume the settlement risk of trades. GBL is required to leave a security deposit and is subject to a daily margin requirement with Pershing for the service.

The Firm's counterparts are large institutions, i.e. asset managers, mutual funds, hedge funds, commercial banks and private banks, insurance companies, pension funds and sovereign wealth funds, classified as Professional or Eligible counterparties. GBL does not deal with retail or high net worth individuals and does not hold ant client money or assets..

Settlement of bond transactions typically occurs on Trade Date + 1 day or Trade Date + 2 days timescales on a Delivery versus Payment basis, which is handled by GBL's clearing and settlement agent.

The firm has applied the following approach to dealing with material harms:

- **Identification:** of all material harms that could result from ongoing operations or winding down.
- **Monitoring and mitigating harms:** considering the systems and controls in place to mitigate material harms.
- **Additional own funds or liquid assets:** assessment of any additional financial resource required above controls to mitigate harms.

Please note the Firm's risk management objectives and policies for the categories of risk addressed by the below:

Own Funds Risks

The level of own funds required to be held by the Firm is driven by material harms that might be incurred by the firm, its clients and the markets it operates in. Material own funds risk identified in the ICARA process include:

- Operational Risk
- Client Risk
- Key person Risk
- Regulatory & Legal Risk
- Credit & Counterparty Risk
- Market Risk
- Liquidity Risk
- Regulation Change
- Strategic Risk
- Succession Planning
- Reputational Risk

The likelihood of a risk crystallising, the financial impact if it materialises and the systems and controls in place to mitigate these risks are reflected in the assessment of own funds requirements in the ICARA process. This determines the own funds necessary for ongoing business operations or to wind down the business in an orderly manner. This assessment is refreshed at least annually or where material changes require and review.

Concentration risk

GBL is required to monitor and control all sources of concentration risk. The Firm has identified the following concentration risks and has put in place the control strategies discussed below.

- **Positions and Exposures**

The firm does run a trading book and consequently holds some exposure to counterparties. Market risk is managed and mitigated by daily position reporting and trading limitations. Credit and counterparty risk is managed and mitigated by: active management of credit limits and credit exposures; periodic review of the clearing and settlement agent; due diligence and monitoring of creditworthiness of counterparties; counterparty diversification; counterparty limits; legal documentation setting out rights in event of default or unsettled trades.

- **Intragroup Exposures**

The firm is not part of a group and consequently holds no intragroup exposures.

- **Client Money**

The firm does not hold client money, nor does it have permission to do so. Consequently, there are no concentrations in this context.

- **Client Securities**

The firm does not hold or safeguard client assets, nor does it have permission to do so. Consequently, there are no concentrations in this context.

Firm's own cash

The firm deposits its cash with two institutions of at least 'A' on the S&P ratings scale.

Earnings

GBL has a wide a diverse client base which naturally reduces any concentration risk around client income. GBL's top five clients in terms of income equates to approximately 16% of fees and commission which the firm does not believe is of any concern at this stage given all five (like much of the GBL client base) are long term, well established professional and institutional clients.

The Firm's assessment in relation to each concentration risk is that, given its control strategies, it does not present a material risk to the Firm, its clients or the market.

Liquidity Risk

This is the risk that the firm either does not have sufficient resources available to meet its obligations when they fall due or can only secure them at an excessive cost. GBL maintains liquid assets significantly in excess of the regular cost base of the firm. The Finance Director and Chief Operating Officer review the Management Accounts on a monthly basis and will inform the Management Committee of any exceptional variances. GBL does not consider that liquidity risk presents a material risk to the Firm, its clients or the market.

3. Governance arrangements

The Firm has governance arrangements, which include a clear organisational structure with appropriate lines of responsibility and effective processes to identify, manage, monitor and report the risks that it is, or might be, exposed to.

The Firm is managed by its Management Committee and Board of Directors whose reporting lines are defined within the organisation structure. The firm ensures that the members of the Management Committee and Board of Directors possess sufficient knowledge, skills and experience to perform their duties (as well as a sound understanding of the Firm's activities and main risks). The Firm ensures that it dedicates sufficient resources to the induction and ongoing training of members of the Management Committee and Board of Directors.

Risk management is implemented and overseen by GBL's Management Committee and Board of Directors. The Board comprises of seven senior individuals of the business. Day to day running of the business is delegated to the Management Committee, which comprises all board members with the exception of the Chairman. The Management Committee formally meets quarterly. It is the responsibility of each of the senior individuals at GBL to identify any new risk, or if a risk is crystalising, and report these risks to the Chief Operating Officer who will then collate these risks and report them to the Board.

The risks are reviewed annually by the Management Committee unless a specific risk issue has arisen, or in the view of the Chief Operating Officer a specific risk has changed, in which case an update of the Risks will take place. This Risk Assessment is prepared by the Chief Operating Officer and circulated prior to the relevant Management Committee meeting and the Committee review and assess each risk considering the impact of each risk and the likelihood of that risk crystalising before deciding how to manage and / or mitigate these risks. Where applicable, GBL will detail the reason why this risk cannot be completely mitigated or controlled under 'residual risk'.

The Management Committee and Board of Directors meets at least four times per calendar year.

Directorships

The table below relates to the appointments of directors, in both executive and non-executive capacities, held at external commercial organisations as at 31/03/2023.

SMF / Role	Name	Number of Other External Directorships
SMF 1, SMF 3	Mark Reynolds	0
SMF3, SMF16, SMF17	Nicholas Dargan	0
SMF 3	Peter Evans	0
SMF 3	Paul Curtis Hayward	1
SMF 3	Andrew Blackwell	0
SMF 3	Jonathan Stone	0
SMF 3	David Mindel	1

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

Conflicts of Interest

GBL has a Conflicts of Interest Policy which identifies the circumstances which constitute or may give rise to a conflict of interest entailing a material risk of damage to the interests of one or more clients, whilst specifying the procedures to be followed and the measures to adopt to manage the conflicts. The Management Committee and Board of Directors reviews GBL's conflicts of interest register and policy periodically and at least annually.

4. Own Funds Disclosure

GBL's regulatory capital consists of Common Equity Tier 1 (CET 1) capital, which is comprised of share capital, other audited reserves and retained earnings.

GBL is required by MIFIDPRU 8.4 to provide a breakdown of its Own Funds instruments and to provide information on how these reconcile with the Firm's balance sheet. Furthermore, the Firm is required to disclose a description of the main features of the Own Fund instruments it has issued.

The firm does not hold any Additional Tier 1 (AT1) or Tier 2 (T2) Capital. The table below summarises the firm's capital and liquidity situation against its regulatory capital requirements as at 31/03/2023.

Where totals are zero these have been omitted for clarity.

	Table 1 - Composition of regulatory own funds	**As at 31/03/2023 ('000s)**
	Own Funds Total	10,593
	T1 Total	10,593
	CET 1 Total	10,593
1	Paid up capital instruments	1,638
2	Share premium accounts	0
3	Retained earnings	8,619
4	Accumulated other comprehensive income	0
5	Other reserves	0
6	Funds for general banking risk	0
	AT 1 Total	0
11	Capital instruments (where the conditions laid down in Article 52(1) are met)	0
12	Share premium accounts (related to the instruments above are met)	0
13	Art 56 deductions (inc holdings)	0
	T2 Total	0
14	Capital instruments (where the conditions laid down in Article 63 are met and to the extent specified in Article 64)	0
15	Share premium accounts (related to the instruments above are met)	0
	Less	
16	Art 66 deductions (inc holdings)	0

Table 2 - Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements			
	Balance sheet as in audited financial statements	Under regulatory scope	Cross reference to Table 1
	As at 31/03/2023 ('000s)	As at 31/03/2023 ('000s)	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements			
Retained earnings	0	8,619	3
Accumulated other comprehensive income	2,117	0	4
Other reserves	13,446	0	5
Funds for general banking risk	0	0	6
Fixed assets	375		
Total	15,563	8,619	
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements			
Trade Creditors	23		
Corporation Tax	152		
Other taxation and social security	94		
Other creditors	100		
Accruals and deferred income	4,974		
Financial Instruments	2		
Total	5,345		
Shareholders' Equity			
Paid up capital instruments	1,638	1,638	1
Share premium accounts	0	0	2
Capital Redemption Reserve	336		
Profit and Loss account	8,619		
Total	10,593	1,638	3

Table 3 Main Features of Own Funds Instruments	
Initial Capital	Instrument Type: Amount Recognised in Regulatory Capital: Nominal amount of instrument: Accounting Classification:
Reserves	Instrument Type: Amount Recognised in Regulatory Capital: Nominal amount of instrument: Accounting Classification:
Retained Earnings	Instrument Type: Amount Recognised in Regulatory Capital: Nominal amount of instrument: Accounting Classification:

5. Own Funds Requirements

GBL must disclose its K-Factor requirement and Fixed Overheads Requirement amounts in relation to its compliance with the requirements set out in MIFIDPRU 4.3 (Own Funds Requirements).

Own Funds Requirement	As at 31/03/2023 ('000s)
Permanent Minimum Requirement (PMR)	750k
Sum of K-AUM, K-CMH and K-ASA	0k
Sum of K-COH and K-DTF	54k
Sum of K-NPR, K-CMG, K-TCD and K-CON	294k
Fixed Overhead Requirement (FOR)	1,182k
IFPR Capital Requirement	1,182k

Overall financial adequacy rule

GBL must at all times, hold own funds and liquid assets which are adequate, both as to their amount and their quality, to ensure that:

- The firm is able to remain financially viable throughout the economic cycle, with the ability to address any material potential harm that may result from its ongoing activities; and
- The firm's business can be wound down in an orderly manner, minimising harm to consumers or to other market participants.

Risk of harms analysis

The Firm analyses its risk of harms to clients, market and itself through its risk assessment framework. Fundamental to this is the Firm's risk and harms matrix which identifies risks that the firm's business could give rise to. Each categorised risk holds a description of the harm that crystallisation of the risk event could visit on the three broad categories of entities interacting with the firm; clients, market and firm itself. Each categorised risk is then graded with measures of harm and severity of consequence before and after controls and mitigations are put in place.

This methodology also codifies a means of allocating capital provision at the risk category level in order to inform the Firm of its own analysis capital requirement in comparison to its Own Funds requirement.

The current methodology for capital allocation involves the allocation of impact bands on a per risk driver basis, alongside harm mitigation costs. Within each category of risk (i.e. group of drivers), the highest impact is taken as a basis for capital allocation.

Wind Down Capital Requirement

The firm has carried out wind-down simulation within its ICARA with the aim of establishing the amount of regulatory capital and liquidity needed to ensure the firm winds down in an orderly manner. As part of the wind-down simulation, the firm identifies the cost and time for the firm to effectively wind down its operations if a significant stressed event was to either breach the Own Funds requirement or, if for whatever reason, the firm's management body decided to cease operations.

6. Remuneration Policy and Practices

GBL is subject to the FCA Rules on remuneration as they apply to a Non-SNI MIFIDPRU Investment Firm. These are contained in the FCA's MIFIDPRU Remuneration Code located in SYSC19G of the FCA's Handbook.

Approach to Remuneration

Guy Butler operates a very simple remuneration structure which is believes is proportionate to the nature of business it carries out. GBL operates a relatively simple business model, the vast majority of revenue is derived from broking fixed income instruments. GBL only faces professional and Eligible Counterparty Clients and the continued level of income and use of service depends upon sound investment decisions and high levels of client service. The firm's proprietary dealing activities are focused on serving client needs rather generating profit from high levels of trading volume on the firm's own books. The firm's business objectives are based on building long term relationships with its clients, staff and other stakeholders. The firm has regulatory permission to deal on account, which is used both to facilitate client trading and to take small (in terms of risk) book positions. Staff are remunerated with a fixed salary that is adequate to ensure that they are motivated to deliver the required level of service to achieve its business strategy, objectives and long-term interests. The ability for staff to earn variable remuneration is then dependant on ensuring that the long-term interests of its clients are serviced. The decisions of the governing body on setting remuneration are based on, amongst other things, risk management, supporting business strategy, objectives, values and interests and avoiding conflicts of interest, governance, control functions, and measurement of performance.

Objectives of financial incentives

GBL's Remuneration Policy provides a framework to ensure all staff are fairly and competitively rewarded in return for a high level of service to the firm and is clients. In setting remuneration levels, GBL recognises the importance of attracting and retaining experienced staff. The amount of fixed remuneration paid to an employee will be based on market rates relevant to the employee's role and their knowledge, experience, and competencies. Discretionary bonuses are made to employees to reward them for good performance with a view to increasing and maintaining their productivity. The principal objective in determining variable bonus awards is to reward individual contribution to the firm whilst ensuring that such payments are warranted given business results.

Decision Making

The firm is relatively small in terms of size, internal organisation and in the nature, scope and complexity of its activities and thus has not established a separate remuneration committee. The Management Committee is responsible for the overall direction and control of the business which will include oversight of remuneration arrangements and that decisions taken in that regard will be consistent with the firm's financial condition and future revenues. This policy will be reviewed and approved by the Management Committee at least annually to ensure it continues to remain fit for purpose with the input from the firm's Compliance Officer.

Characteristics of Remuneration Policy and Practices

Remuneration typically comprises of fixed and variable elements. Fixed remuneration consists of base salary, pension contribution and other benefits such as defined contribution pension, private medical insurance, life assurance which constitutes the fixed payment made to an employee for their services.

The firm has defined variable pay as annual discretionary bonus, which is awarded based on company performance, departmental performance and individual performance. The Firm's policy on variable remuneration is to set aside a proportion of the firm's profits to form a bonus pool out of which awards will be made. The total bonus pool amount is determined by reference to the firm's risk-adjusted criteria, which include both quantitative and qualitative measures.

The firm uses financial and non-financial objectives when assessing an individual performance. When assessing an individual's financial performance the firms considers the revenue generated by an individual through their day to day client interactions. When assessing an individual's non - financial performance, the firm considers the individuals contribution to the firm's corporate values such as building positive customer relationships and contributing towards team culture. The firm also considers the individuals contribution to ensuring the firm is compliant with its regulatory requirements. For example, this includes checking an individual's compliance training record for the assessment period.

Risk adjustment of remuneration of remuneration will be considered by the Management Committee should an individual breach conduct rules, fail to meet the standards of fitness and propriety

GBL does not currently consider it appropriate to award Guaranteed Variable Remuneration or severance pay.

Under no circumstances will the firm make any variable remuneration awards that which would impact upon the firm's capital base, either from the need to retain required regulatory capital or where the firm has identified the need to build its capital base.

Material Risk Takers

The firm has identified Material Risk Takers (MRTs) in accordance with the criteria set out in SYSC 19G.5.3 for the definition of material risk takers for remuneration purposes. For the performance year 2022/2023 there were seven 7 MRTs identified in Guy Butler due to their membership of the Management Committee and/or Board.

Remuneration for year ending 2023

Senior Management remuneration (GBP)	
Fixed remuneration	£974k
Variable Remuneration	£3,464k
Total Remuneration for Senior Management	£4,438k

Other MRTs remuneration (GBP)	
Fixed remuneration	£0
Variable Remuneration	£0
Total Remuneration for other MRTs	£0

Other Staff remuneration (GBP)	
Fixed remuneration	£1,164k
Variable Remuneration	£4,062k
Total Remuneration for other staff	£5,226k

No guaranteed variable remuneration or severance payments were awarded to senior managers or material risk takers.