ASSOCIATED
CAPITAL GROUP

CAPITAL REQUIREMENTS DIRECTIVE
PILLAR 3 DISCLOSURE
GABELLI SECURITIES INTERNATIONAL (UK) LIMITED

As at June 2020

Capital Requirements Directive - Pillar 3 Disclosure (2019)
Gabelli Securities International UK Limited
FRN: 536841

1. INTRODUCTION and BACKGROUND

The European Union's ('**EU'**) Capital Requirements Directive ('**CRD'**), as amended from time to time, has established a regulatory capital framework across the EU governing the amount and nature of capital that credit institutions and investment firms must maintain. In the United Kingdom ('**UK'**), the CRD has been implemented by the Financial Conduct Authority ('**FCA'**) through rules and guidance set out in the General Prudential Sourcebook ('**GENPRU'**) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms ('**BIPRU'**).

The framework established by the CRD for the management of regulatory capital consists of three pillars. The three pillars are set out in the revised Basel Accord, which has been written into EU Law through the CRD, and further developed in the Pillar 2 guidance issued by the European Banking Authority ('**EBA'**).

Collectively Pillars 1, 2 and 3 form an overall framework for prudential supervision of banks, credit institutions and investment firms.

- Pillar 1 specifies the minimum regulatory capital requirements for the three major components of risk that firms face: credit, market, and operational risk.
- Pillar 2 requires firms to assess the amount of internal capital they consider adequate to cover all of the risks to which they are, or likely to be, exposed and the need to hold additional capital against the risks not covered by Pillar 1; and
- Pillar 3 requires firms to disclose their policies for managing risk and their capital resources.

The purpose of this Statement is to meet the BIPRU requirements as regards Pillar 3. This Statement is produced on an annual basis, shortly after the accounts for Gabelli Securities International UK Limited ('**GSIL UK'**) (the '**Firm'**) have been audited and the completion of its Internal Capital Adequacy Assessment Process ('**ICAAP'**).

The Pillar 3 disclosure must be done in accordance with a formal disclosure policy which sets out GSIL UK's policies for assessing the appropriateness of its disclosures, including their verification and frequency. The FCA's Rules provide that the Firm may omit one or more of the required disclosures if it believes that the information is immaterial. Where GSIL UK has considered a disclosure to be immaterial, it has stated this 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, which if it such information was shared, would undermine GSIL UK's competitive position. Information is considered to be confidential where there are obligations binding the Firm to confidentiality with its customers and counterparties. Where GSIL UK has omitted information for either of these two reasons, the Firm has stated this in the relevant section and the reasons for this.

1.1. INFORMATION COVERED UNDER THIS DISCLOSURE

In this document the Firm discloses information, unless it has been determined as immaterial or of a proprietary or confidential nature, on:

- GSIL UK's risk management objectives and policies;

- The scope of application of directive requirements;
- GSIL UK's capital resources;
- GSIL UK's compliance with the rules in BIPRU and on Pillar 2 requirements; and
- GSIL UK's remuneration.

1.2. SCOPE AND BASIS OF THE DISCLOSURE

This Statement is made in respect of GSIL UK only. GSIL UK is authorised and regulated by the FCA to provide advisory and discretionary investment management services. This disclosure does not include any statement for any other member of the Associated Capital Group, Inc. ('**ACG'**) Group of companies. The Firm is not required by the FCA to report its financial returns on a consolidated basis.

The FCA has authorised GSIL UK with the following Part 4A Permission:

- Advising on investments (except on Pension Transfers and Pension Opt Outs);
- Agreeing to carry on a regulated activity;
- Arranging (bringing about) deals in investment;
- Dealing in investments as agent;
- Making arrangements with a view to transactions in investments;
- Managing investments; and
- Arranging safeguarding and administration of assets.

GSIL UK is a BIPRU Limited Licence Firm and, it does not have the permission to hold Client Money and/or Client Assets, it does not operate a Trading Book, and therefore it is outside of the scope of CRD IV. GSIL UK benefits from the FCA's Capital Requirements Regulation ('**CRR'**) derogation, which permits the Firm to continue to comply with the CRD III requirements and as such, the following disclosures are in accordance with the requirements of BIPRU 11, which 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.

2. RISK MANAGEMENT

2.1. OVERVIEW

The FCA's Principle 3 requires that GSIL UK takes reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems. To do this the Firm has established and operates a Risk Matrix. This Risk Matrix sets out the standards and requirements for risk management, control, and assurance at GSIL UK. The Risk Matrix aims to ensure that the Firm manages and controls its risks. It also informs and is directed by the business strategy in which risk management considerations are integral. Due to GSIL UK's size and proportionality, it has not established an independent audit function.

However, independent assurance of the effectiveness and appropriateness of the Risk Matrix is provided by the Firm's Governing Body, the Board of Directors (the '**Board'**). The Risk Matrix is reviewed by GSIL UK's Compliance Officer ('**CO'**) and will be approved by its Board. The implementation and operation of the Risk Matrix is the responsibility of the CO.

GSIL UK defines risk tolerance as the type and level of risk that it, as an advisory and discretionary investment manager, is willing to accept in pursuit of its business objectives. A number of risk tolerance levels have been established by the Board and the Firm's Senior Managers in order to monitor the key risks that the Firm faces, and these are outlined in the Risk Matrix.

Although the Firm believes that its risk management arrangements outlined herein are appropriate for the size and complexity of its business and that the capital resources GSIL UK holds is adequate to meet the risks that it faces, the Firm cannot guarantee that this will actually be the case in the event any particular risk arises. There will always be some unlikely risks with unusually high impact which may require additional capital.

GSIL UK's risk management policy reflects the FCA requirement that it must manage a number of different categories of risk. These include, credit, market, business, operational, liquidity, insurance and group risk. In respect of this disclosure it is the first five of these risks that are relevant and further information is provided on these risks below.

2.2. CREDIT RISK

As a Limited Licence BIPRU Investment Firm, GSILUK neither holds Client Money nor Client Assets nor does the Firm lend money, and it is, therefore, not exposed to Credit Risk in its traditional sense. The Firm's direct exposure to Credit Risk is the risk that its investment management and/or investment advisory fees cannot be collected and its exposure to the banks where its income/revenue is deposited. All bank accounts are held with large international credit and regulated institutions.

The Firm regularly monitors amounts due from its clients and it has appropriate credit control procedures in place. GSIL UK's credit control process is operated by its CEO together with the Firm's independent accountants and any outstanding balances are reported to senior management on a monthly basis via the Firm's management accounts. All management accounts are subject to an annual audit. Given the nature of its exposures, it has not been deemed necessary to implement a specific policy for hedging and mitigating credit risk and to apportion additional capital.

GSIL UK's Board has set its Credit Risk appetite as 'LOW'. Credit Risk, for the purpose of Pillar 2, is assumed to be that calculated at Pillar 1. Consequently, the Firm has a limited number of credit exposures in respect of which it uses a risk weighted exposure of 8% of the total balance due in accordance with the provisions applied under the simplified standardised approach detailed in BIPRU 3.5 of the FCA Handbook. Consequently, credit risk is not considered by the Firm to be material for the purposes of this disclosure.

2.3. MARKET RISK

As a Limited Licence BIPRU Investment Firm, GSIL UK does not have a Trading Book, does not hold Client Money and/or Client Assets; and, is therefore not directly exposed to Market Risk. The Firm's only potential direct exposures is Non-Trading Book Exposures that relate specifically to Foreign Exchange Risk in respect of the accounts receivable and cash balances held in currencies other than in GBP.

Therefore, the Firm does not have any material exposure to either Foreign Exchange Risk or Position Risk, which together make up Market Risk. Disclosures in relation to its Market Risk have been considered immaterial under BIPRU 11.3. of the FCA Handbook, as the Firm's capital requirement under GENPRU 2.1 of the FCA Handbook is Base Capital Requirements ('**BCR'**) rather than the Fixed Overhead Requirement ('**FOR'**) or the sum of its Credit Risk Capital Requirement ('**CR'**) and Market Risk Capital Requirement ('**MR'**).

The Firm has not adopted a specific strategy in order to mitigate the risk of currency fluctuations arising from receipt of its investment management and/or advisory fees in currencies other than GBP. Any exposures are monitored on a regular basis and reported to GSIL UK's senior management via its monthly management accounts. The Firm calculates its Foreign Exchange Risk as set out in BIPRU 7.5 of the FCA Handbook. GSIL UK applies an 8% risk factor to any foreign exchange exposure. All the Firm's reserves and cash balances are held in GBP. GSIL UK's Board has set its Market Risk appetite as "LOW" and, for the purposes of Pillar 2, is assumed to be that calculated at Pillar 1. Foreign Exchange Risk, and therefore Market Risk, is not considered to be material for the purposes of this disclosure.

2.4. BUSINESS RISK

Business Risk might arise from external sources such as changes to the economic environment or one-off economic shocks, and also from internal sources such as poor investment decisions or allocation of capital resulting in poor performance and damage to the Firm's reputation. The Firm conducts a formal assessment of any Business Risk to which it may be exposed on an annual basis, though given the size and nature of its business, no separate Risk Management function is considered necessary in respect of its own balance sheet. Matters arising from the review are considered and mitigating or remedial action is taken where appropriate.

GSIL UK's Pillar 2 assessment principally takes the form of a fall in assets under management following a market downturn that leads to lower investment management fees and/or a market downturn that leads to lower other income. Different economic scenarios are modelled as part of the Pillar 2 assessment to establish the impact of economic and market downturns on its financial position. The Firm's senior management are responsible for monitoring the impact of any market downturn on its business. Controls implemented include the continuing monitoring of its budgets and expenses and performance to determine any market risk. All figures are reviewed monthly by the senior management with management accounts prepared by the finance team of the Firm's parent company, ACG.

2.5. OPERATIONAL RISK

Operational Risk can be defined as the risk of losses arising from inadequate or failed internal processes, people and systems, administrative errors, fraud and/or theft or from external events, including Legal Risk. Most of the Firm's risk management efforts are focused on Operational Risk. GSIL UK's policy is to operate a robust and effective risk management process, embedded within the governance and management structures of its business.

The Firm's risk management framework defines what Operational Risk means to the business and this is reviewed as part of the Firm's Annual review of its ICAAP and will be submitted for approval by the Board. The main initiative is the establishment of a "Risk Matrix" which includes analysis of the key risk areas identified by the senior management. These areas cover specific risk items within the following areas: Financial; Strategy; Customer Service; Third Party Outsourcing; Operational; and Legal and Regulatory.

The Firm seeks to identify the impact and probability of each risk item and rank it as High, Medium, or Low. GSIL UK also identifies and implements measures to mitigate the risk and monitor any residual risk on an ongoing basis. GSIL UK conducts a formal assessment of its Operational Risk to which it is exposed on an annual basis. Whilst no separate risk management function is considered necessary in respect of the Operational Risks which the Firm faces, given its size and the nature of the risks faced, risk management remains a key function of the business in respect of the investment business conducted by the Firm. Matters arising from the review are considered and mitigating or remedial action is taken where appropriate.

GSIL UK has professional indemnity insurance in place to mitigate against the risk of costs being incurred. The Firm is reliant on its ability to attract and retain key investment personnel. Appropriate arrangements are in place to mitigate this, including thorough vetting procedures and an appropriate remuneration structure. The Firm has alternative arrangements in place should a disaster recovery event occur. These arrangements are tested from time to time in order to ensure that they would be effective should they be required to be invoked.

GSIL UK seeks to minimize any Operational Risk that it might face through its internal systems and controls arrangements. The Firm considers risks which may impact the business directly or indirectly. The most significant operational risks facing the Firm would most likely be a catastrophic systems failure and it has in place Business Continuity and Disaster Recovery arrangements that are monitored and overseen by its CEO. Any Operational Risk identified is addressed by the senior management promptly and will either be resolved as a priority or GSIL UK's Board will allocate Pillar 2 capital to cover the potential impact of the risk.

2.6. LIQUIDITY RISK

As a Non-ILAS firm, GSIL UK is subject to only a limited number of the FCA's liquidity requirements as set out in BIPRU 12 of the FCA Handbook. However, the Firm is required, at all times, to maintain liquidity resources which are adequate, both as to amount and quality, and to ensure that there is no significant risk that the Firm's liabilities cannot be met as they fall due. To meet its overall liquidity requirements, GSIL UK ensures that it holds sufficient assets which are marketable, or otherwise realisable; that it is able to generate funds from those assets in a timely manner; that it maintains a prudent funding profile in which its assets are of appropriate maturities, taking account of the expected timing of its liabilities; and that it is able to generate unsecured funding of appropriate tenor in a timely manner.

Management accounts are prepared that detail the Firm's reserves, income, and expenditure and these are compared to its rolling twelve month cash flow forecasts. The nature and level of its liquidity risk is regularly reviewed by the senior management such that adjustments would be made to GSIL UK's model for, by example, persistent late fee payers. In accordance with the FCA's requirements, the Firm's Board has established a risk tolerance level against which its actual liquidity position is compared. GSIL UK's Board considers that the BCR, which is €50,000, is the minimum level of liquidity that it seeks to retain at all times. This has been deemed appropriate for the Firm's business model as GSIL UK does not deal for its own account, maintains neither a Trading Book nor holds Client Money and/or Client Assets. The maintenance of this level of liquidity would ensure that the Firm would either be in a position to implement its contingency funding plans or seek an orderly wind-down of its business.

GSIL UK's liquidity position is determined solely from the reserves that it holds, and the fee income received on an ongoing basis from its respective business lines. Current fee income is based on investment management and/or advisory fees and/or other income. All reserves and surplus income are held as cash with large international credit and regulated institutions.

3. CAPITAL REQUIREMENTS AND RESOURCES

As a BIPRU Limited Licence Firm, GSIL UK's Pillar 1 capital resources requirement is calculated in accordance with the GENPRU as the higher of its FOR, or the sum of its MR and CR requirements, or its BCR of €50,000.

Due to the limited regulated activities conducted by GSIL UK, it is the opinion and decision of GSIL UK's Board that it is the BCR that is the higher capital resource requirement and therefore, the Firm's Market Risk and Credit Risk capital requirements are deemed immaterial. GSIL UK's Pillar 1 capital resources requirement is determined by its BCR.

As at 31 December 2019	£000
CORE TIER 1 CAPITAL ******No innovative tier one capital is held*	**277.1 ***
Deductions from Tier 1 Capital – Intangible assets	0
TIER 2 CAPITAL	**0**
Deductions from Tier 2 Capital	0
TIER 3 CAPITAL	**0**
TOTAL CAPITAL/OWN FUNDS	**277.1**
Base capital resource requirement	43.6
Credit risk capital requirement (under the standardised approach)	0.0
Fixed overhead requirement	30.8
OWN FUNDS SURPLUS	**233.5**

4. COMPLIANCE WITH RULES IN BIPRU AND PILLAR 2 REQUIREMENTS

GSIL UK's overall approach to assessing the adequacy of its internal capital and to meet its Pillar 2 obligations is set out in its ICAAP. The purpose of the ICAAP is to inform the Firm's senior management and its Board of the ongoing assessment of the risks faced by the business, how GSIL UK mitigates those risks and, having considered those mitigating factors, how much current and future capital is required to meet those risks.

The ICAAP process involves separate consideration of risks to the Firm's capital combined with:

➢ ***Scenario analysis and stress testing.***

These are financial scenarios are determined by GSIL UK's Risk Management arrangements that are used to help assess whether the Firm is appropriately capitalised to withstand a range of adverse circumstances and events.

- ***Wind down analysis.***

The objective of the wind down analysis is to demonstrate that GSIL UK has sufficient capital resources to be able to wind-down its regulated activities in an orderly manner. The level of capital required to cover risks is a function of impact and probability. The Firm assesses impact by modelling the changes in its income and expenses caused by various potential risks over a twelve month time horizon. Probability is assessed subjectively.

A review of GSIL UK's ICAAP is completed (and updated where applicable) at least annually or more frequently if material internal or external factors make it prudent to do so. The ICAAP and the reporting on the risks contained within it, is considered, and owned by GSIL UK's Senior Managers. It is formally approved on an annual basis by GSIL UK's Board.

The Firm's ICAAP analysis has not indicated a need to hold financial resources in excess of our Pillar 1 capital requirements. The ICAAP confirms that GSIL UK has appropriate financial resources to meet its business requirements over the coming twelve month period and it has assessed that that no additional capital is currently necessary to meet its business requirements over the coming twelve month period.

However, GSIL UK applies a prudent internal policy to the management of its capital and holds capital resources materially in excess of its regulatory requirement. Currently, GSIL UK's capital resources requirement is its BCR (€50,000) but should the Firm increase its regulated activities during the year, then its resources requirement could become its FOR. The Firm monitors its expenditure and revenues on a monthly basis in order to take account of any material fluctuations which may cause the FOR to be reassessed. The Firm ensures that at all times it has sufficient capital to meet its FOR and it verifies this on a monthly basis. No fixed methodology is used to calculate the excess to be held over the Firm's regulatory requirements and is determined by GSIL UK's CEO's and CO on a continuing basis. This ensures that the Firm maintains flexibility to make decisions on its capital resources appropriate to the prevailing circumstances in the financial services industry and the risks faced by its business.

5. REMUNERATION CODE POLICY STATEMENT

Under SYSC 19C of the FCA Handbook, GSIL UK is required to provide information on its remuneration arrangements. As a firm that is subject to the CRD III and therefore still subject to the FCA's BIPRU and GENPRU requirements, The FCA's BIPRU remuneration principles proportionality rule requires GSIL UK, when establishing and applying the total remuneration policies for BIPRU Remuneration Code staff, to comply in a way and to the extent that is appropriate to its size, internal organisation and the nature, the scope and the complexity of its activities. This allows the Firm's Board to adopt a simplified approach (on a proportionate basis) to the UK Remuneration Code. The Firm is therefore subject to the minimum prescribed levels of UK Remuneration Code disclosures and have disapplied various requirements under SYSC 19C.

The purpose of GSIL UK's Remuneration Code Policy Statement is to ensure that it has risk focused remuneration policies, which are consistent with, and promote effective risk management and do not expose and/or encourage its business to excessive risk taking. As part of the Firm's continuing governance, GSIL UK has in place remuneration arrangements designed to avoid conflicts of interest; are in line with its business strategy and objectives, the Firm's values and long term interests; and do not adversely impact its ability to meet the obligations that it may owe from a client, legal, regulatory and/or other financial perspective.

Due to the nature, scale and complexity of its business and the nature and range of the investment services and activities undertaken in the course of that business, GSIL UK has deemed it, on proportionality grounds, not to be appropriate to establish and maintain an independent Remuneration Committee. GSIL UK's Board reviews the remuneration policy and the remuneration of the Firm's Code Staff on an annual basis. The Board analyses GSIL UK's profits for the calendar period and determines whether to allocate a set amount of the profits for the year to:

i) Meet basic remuneration requirements;
ii) Meet an incremental increase in basic remuneration; and
iii) Meet any variable remuneration requirements.

Basic remuneration and any incremental increases are established after consideration of applicable industry levels. Variable remuneration levels are established on an individual basis dependent on that individual's contribution to the overall growth of the Firm's business and are not just determined on the individual contribution to profitability as outlined above. Total variable remuneration is either generally considerably contracted when the firm's performance is subdued or is not established for a period of negative performance. GSIL UK does not use a pre-set formulaic matrix to determine either basic remuneration and or variable remuneration.

Variable remuneration levels to be awarded are based on the individual's specific contribution to the business during the period in question. All members of GSIL UK's staff, including Remuneration Code Staff, receive a basic salary; pension benefits; sickness benefits and deaths in service benefits; and, where appropriate, a discretionary bonus. Once the basic and variable remuneration levels have been established, GSIL UK reviews the proposals for any risks and/or conflicts and as part of the Firm's continuing risk management arrangements before authorising the new remuneration package for each Code Staff. An individual's contribution to the overall business is a key factor in the determination of their specific remuneration.

Each individual's contribution (where applicable) to the Firm's profitability; the composition and the contribution of staff eligible to receive a bonus; current market practices and forces; achievement of objectives; business development in terms of clients, revenue, infrastructure and control; and the overall effective functioning of GSIL UK; and the Firm's budgeted expenditure and plans for the future are the main criteria in determining an individual's remuneration. It is not based solely on the level of revenue generated by each individual.

GSIL UK does not use the services of any external consultants to either determine or assist in the determination of its remuneration policy. The Firm has included the following categories of members of its staff as Remuneration Code Staff: GSIL UK has deemed that all Significant Influence Functions ('**SIFs'**), senior managers and investment managers should be included as Remuneration Code Staff.

GSIL UK has identified six Remuneration Code Staff in total for the period in question.

The long-term interests of the Firm's shareholders are represented by the Board and the long-term interests of the Firm's investment team are strongly aligned to the overall success of GSIL UK and its investment management business and are not dependent on the amount of revenue generated by a specific member of staff.

All Remuneration Code Staff report directly to the Board. The base remuneration is deemed appropriate to ensure that the Firm's Remuneration Code Staff are not overly dependent on any portion of remuneration which is related to the overall performance of the Firm's business. Remuneration arrangements are reviewed on an annual basis, and do not recognise and/or consider any future earnings streams. Any base and/or variable remuneration for any member of staff is determined and based firstly, on the overall profitability of the Firm's business; and secondly, on the contribution of the member of staff to the business. GSIL UK typically only pays variable remuneration from current profits. However, in certain circumstances, for example where the Firm is loss making, it may look to make small variable remuneration payments out of earnings retained from prior years.

Where senior management do hold an equity interest in the business this does not form part of their remuneration arrangements and is held on an individual basis. The firm does not buy out deferred variable remuneration for new joiners to the business and during the period in question, the Firm has not offered any specific retention awards to any Remuneration Code Staff. GSIL UK's Board and senior management recognise the application of the FCA's Remuneration Code and understand their obligations in this regard. Any remuneration scheme that facilitates the avoidance of the FCA's Remuneration Code would not be approved.

The breakdown of GSIL UK's remuneration for the financial year ended 31 December 2019:

Breakdown of remuneration of staff in respect of whom disclosure is required by business area		
Business Area	**Total remuneration**	
Investment Management	£90,076	
Aggregate quantitative information on remuneration broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm		
Senior management	**Other members of staff**	**Totals**
£0	£90,076	£90,076