

Capital Requirements Directive - Pillar 3 Disclosures

For the year ended 30 September 2011

Capital Requirements Directive - Pillar 3 Disclosures FY11



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Introduction

Raymond James Investment Services Ltd ('RJIS') is classified as a Limited Licence €125,000 firm and, as such, is required to comply with the three "Pillars" of the Capital Requirements Directive. These are:

- Pillar 1, which sets out the minimum amount of capital that we need to meet our basic regulatory obligations;
- Pillar 2, which requires us to calculate how much (if any) additional capital we need to maintain to mitigate other prudential risks (e.g. credit risk, market risk and operational risk) that are specific to this firm;
- Pillar 3, which requires us to disclose to market participants key information about our underlying risks, risk management controls and capital position.

The purpose of this document is to meet our obligation in respect of Pillar 3.

The rules allow for firms to omit certain information, in specifically-defined circumstances, where it believes that the disclosure contains information that is immaterial, proprietary or confidential. **We confirm that we have NOT omitted any disclosures on these grounds.**

All figures in this document are correct at 30th September 2011 unless stated otherwise.

Risk Management Policies and Objectives

RJIS was formed in 2000 as a joint venture between Raymond James Financial Inc. and Killik & Co. Limited. Our main activity is providing investment management and stockbroking services to UK clients, that are delivered either by individuals who are contracted to RJIS for services, or by directly-authorized firms using our 'wrap' platform.

Where possible, we seek to manage all of the risks that arise from our operations. We have devised a prudential risk management framework that is appropriate to the size and scope of this firm and our operations. It identifies the key prudential risks faced by RJIS, and reports them to the Board of Directors, which then determines the firm's risk appetite, and ensures that an appropriate amount of capital is maintained. Other risk management information is collected, reviewed and - where appropriate - acted upon as part of our established internal procedures.

A summary of the key risks that have been identified by RJIS, and their mitigants, is given below:

1. Environmental Risk

- Market correction due to economic factors and/or a geopolitical event: Mitigated by the retention of appropriate capital resources, which are determined on the basis of stress testing, sensitivity testing and modelling;
- Loss of key head office staff: Mitigated by the maintenance of competitive staff compensation, measured by benchmarking with our peers.

2. Concentration Risk

- Concentration of our operations in the UK private client market: Mitigated by the retention of appropriate capital resources, which are determined on the basis of stress testing, sensitivity testing and modelling;
- Concentration of income from a small number of high-producing fee-earners: Mitigated by diversification of income sources, both by product/service and by affiliate.

3. Operational Risk

- Suitability of Investment Advice and Management: Mitigated by internal policies and procedures (including our Training and Competence scheme), and professional indemnity insurance;
- Major IT system malfunction: Mitigated by internal controls and an appropriate Business Contingency Plan that is regularly tested.
- Failure of Custodians: Mitigated by the development of proprietary systems and databases which reduce our reliance on our custodians, and by the retention of sufficient capital to cover the cost of a switch to new custodians.
- Internal or external fraud: Mitigated by robust internal systems, controls and HR policies, and by insurance cover for losses due to fraud.

4. Reputational Risk

- Damage to our reputation either through censure by our regulator or by a perception in the market of poor quality and service. Mitigated by internal policies and procedures which include policies relating to client service, the fair treatment of customers and professional ethics.

5. Liquidity Risk

- Insufficient funds to meet liabilities as they fall due: Mitigated by the daily monitoring of funds, an overdraft facility with our custodian in case of need and a right of offset against client assets.

Risk Management Function

Structure

Given the size and scope of the firm, RJIS does not have a dedicated risk management function. Responsibility for risk management is divided between the Board and senior management of the firm.

Risk Reporting and Management Systems

Operational risks are identified as they arise and recorded on a standardised reporting template. These reports are assessed by Heads of Department on a regular basis, and reviewed by the Chief Executive, who will commission corrective action where required.

Other risks – including prudential risks discussed above – are reported to and considered by the firm's executive management, which includes the Board of Directors. Our internal capital adequacy assessment process is commissioned and approved by the Board on at least an annual basis.

Capital Resources

Capital is held to ensure that a suitable operating margin is maintained in excess of the higher of Pillar 1 and Pillar 2 capital requirements. Pillar 2 capital requirements are determined using a risk-based approach that explicitly takes into account management's view of specific risk exposures.

Pillar 1 capital requirements are the greater of:

- Base capital requirement of €125,000; or
- The sum of market and credit risk requirements; or
- The Fixed Overhead Requirement

We have determined that, as at 30 September 2011, the Fixed Overhead Requirement established our Pillar 1 capital requirements.

The firm has £102,000 of subordinated loans and this is made up as follows:

Amount	Maturity Date	Type	Loan from	Other information
£102,000	11 th April 2003 and 11 th April 2004	Fixed at 5% pa	Raymond James Financial Inc (RJF)	Repayment extended at RJF's discretion

The firm's tier 1 capital resources comprise entirely share capital and audited reserves.

The capital position of the firm as at 30 September 2011 is as set out below:

Regulatory capital as at 30 September 2011	£'000s
Total Tier 1 Capital after deductions	2,240
Total Tier 2 Capital	-
Total Tier 3 Capital	102
Total regulatory capital	2,342
Pillar 1 Minimum capital requirement	1,260
Surplus	1,082
Regulatory capital % of minimum capital requirement (solvency ratio)	186%

Integration into Business Strategy

Our current primary objectives are:

- To continue to operate in the UK private client wealth management market;
- To increase, through organic growth and through the acquisition of additional wealth managers and affiliated firms, the size of our operations;
- To achieve economies of scale that will allow us to operate profitably, thereby providing a return to our shareholders.

We intend to maintain sufficient capital resources to allow us to achieve these objectives whilst meeting our regulatory obligations. Accordingly, our Internal Capital Adequacy Assessment Process ('ICAAP'), which considers the prudential risks that we are exposed to, is undertaken on at least an annual basis and reviewed and approved by the firm's governing body to ensure that there is sufficient capital within the firm to meet our future plans and anticipated risks.

Remuneration Code

The RJIS Board has reviewed and considered the requirements of the FSA Remuneration Code. The Compliance Department has drawn up a policy in this respect and the Board has adopted this and determined that the Company is compliant with all aspects of the Code. As a Tier 4 firm there are various proportionality exemptions within the rules and these have been used where appropriate to do so.

RJIS has 5 Code Staff and their total aggregated remuneration for the year ended 30 September 2011 was £818,000. The remuneration of Code Staff is compliant with the Code.