



QEIS ICAAP PILLAR III DISCLOSURE 2020



IMPORTANT INFORMATION

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FCA ICAAP Pillar 3 Disclosure

The Internal Capital Adequacy Assessment Process (**ICAAP**) Pillar 3 disclosure is made in accordance with the UK Financial Conduct Authority's (**FCA**) Prudential Sourcebook for Banks, Building Societies and Investment Firms (**BIPRU**) as laid out in section 11. The BIPRU Pillar 3 disclosure rules implement the European Union's Capital Requirements Directive (**CRD**) which came into effect on 1 January 2007.

The FCA capital adequacy framework consists of three "pillars":

1. Pillar 1 sets out the minimum capital requirements by a business dependent on the size and nature of the entity;
2. Pillar 2 deals with the ICAAP and seeks to identify firm-wide risk within the context of the risk management framework to determine whether the capital required under Pillar 1 is sufficient to support those risks.
3. Pillar 3 complements Pillar 1 and Pillar 2, through capital requirement disclosures, to enable market participants to assess key information on the capital, risk exposures and risk assessment processes of the entity.

The QEIS Pillar 3 Disclosure is unaudited and applies solely to QIC European Investment Services Limited (**QEIS**).

Scope and Application of Requirement

QEIS was established in December 2011 and received FCA authorisation on 16 May 2012 as a "**BIPRU €50,000 limited licence firm**". While not authorised to hold or administer client assets / monies, QEIS is also subject to CRD III requirements given its limited activity licence.

QEIS' principal business is to provide discretionary investment advisory services to its parent company, QIC Limited (**QIC**). These services are provided in relation to QIC's Australian domiciled investment funds and mandates, and its Irish UCITS Fund.

Location and Frequency

QEIS Pillar 3 disclosures are published and available on QIC's external website in accordance with **BIPRU 11.3.10R**

QEIS' Pillar 3 disclosures are published annually as of QEIS's Accounting Reference Date (**ARD**), **30 June**, or more frequently as required under **BIPRU 11.3.8R**.

Materiality

BIPRU Pillar 3 rules (**BIPRU 11.3.5R** and **BIPRU 11.4.1R**) provide that Pillar 3 disclosures are only required where the information would be considered material to a user relying on that information to make economic decisions. Where disclosures are considered not material, QEIS's Pillar 3 disclosures include a statement to that effect.

Risk Environment

The material risks to which QEIS is exposed are operational and business strategy related as QEIS does not invest its own capital. QEIS is therefore not materially exposed to credit, market or liquidity risks.

Business Risk: Risk to earnings and capital arising from changes in the business environment and from adverse business decisions, improper implementation of decisions or lack of responsiveness to changes in the business environment. The possibility that QEIS may not be able to achieve the targets set out in its business plan. The QEIS Board reviews company strategy at each meeting. QEIS' revenue is based on a "cost-plus" model with QIC Ltd. As such only a parent failure would impact QEIS' revenue and capital. The Business Risk is deemed Low due to the nature of QIC's business activities and strong risk and control environment.

Operational Risk: Risk of loss resulting from inadequate internal processes and failures in relation to people and systems. Given QIC's mature operational risk framework, subject to routine reviews, oversight and audit, the risk of a moderately severe operational risk event is rated as Low

Credit risk: Risk of loss as a result of default by creditors. Credit risk is currently deemed as Very Low with QEIS serving only one customer, its parent QIC Ltd, and with working capital deposited with highly rated counterparties. QEIS does not use its balance sheet to invest.

Market Risk: The risk of loss resulting from fluctuations in the market value of investments attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness is considered to be Very Low as QEIS carries no principal investment positions and only holds cash in Pound Sterling.

Business Continuity Risk: The risk of not being able to carry on critical business activities due to loss of resources. The likelihood of a serious risk event such as a disaster impacting QEIS' London office is considered Rare. QIC Ltd would be able to arrange for replacement staff to take over critical functions during a transitional period during which QEIS staff were prevented from conducting business. QEIS' business continuity planning has been a key factor to the success of continuing operations with minimal disruption during the COVID-19 pandemic.

People Risk: The risk of loss or adverse consequences arising from inadequate strategic and operational processes and decisions relating to the recruitment, retention and management of staff. In the event of a key person departure, QIC Ltd would be able to arrange coverage for critical functions by staff based in Australia during a transitional period. Therefore, the people risk is rated as Low.

Risk Appetite and Mitigation

The firm seeks to operate within an overall low risk environment by ensuring that risk management systems and controls are embedded at all levels of the business and subject to regular monitoring and adjustment. Key Risk Registers and a Risk Appetite Statement are used to identify and rank risks and establish mitigating controls subject to board review and approval.

Governance Framework

QEIS is a limited company with a Board of Directors (**the Board**) as its governing body. The Board meets quarterly and reviews the risk management and control frameworks, regulatory updates, any work required to address regulatory developments, and internal and external audit reports.

Capital Adequacy and Resources

As of June 30, 2020, QEIS' capital resource is £1,000,001 which consists entirely of Tier 1 capital and no deductions. As QEIS is a BIPRU 50K limited licence firm, its Pillar 1 capital requirement is based on the greater of:

- The base capital requirement of €50,000;
- The Sum of QEIS' Credit **and** Market Risk Capital Requirements; or
- QEIS' Fixed Overhead Requirement.

As per the FCA's Capital Requirements Directive, and in line with QEIS' scope of permissions, the firm's capital requirement has been determined at £867,000 which constitutes QEIS' Fixed Overhead Requirement (FOR).

ICAAP & Stress Testing

QEIS maintains an Internal Capital Adequacy Assessment Process outlining the firm's Pillar 1 ("core") and Pillar 2 ("other") capital requirements. In assessing the amount of "other" (aka Pillar 2) capital required, the firm considers the impact of operational, regulatory, and business risk as well as the cost of winding down the business. No additional Pillar 2 capital is deemed to be required at this time.

Remuneration Practices

The FCA sets out a code of conduct in section **SYSC 19C** of its Handbook with regards to remuneration practices ("The Remuneration Code"). The code aims to establish risk-conscious compensation policies that have the effect of promoting sound risk management.

Remuneration Governance and Proportionality

Given the nature and scale of its business, QEIS falls into "Proportionality level 3" for Pillar 3 disclosure and has therefore applied (or dis-applied), where relevant, the provisions of the FCA's Remuneration Code.

QIC's Remuneration Policy governs the design and management of all compensation arrangements across the firm. The QIC Board is responsible for the application and maintenance of this policy, with delegations in place to manage any conflicts and that local regulatory requirements are met..

Link between Pay and Performance

The Remuneration Policy seeks to recruit and retain high calibre staff through competitive Total Target Remuneration packages while balancing long term and short-term incentives through a mixed-pay structure. This structure comprises 3 components:

- Total Fixed Remuneration – calibrated to a market median benchmark for each employee
- Short Term Incentive* – subject to achievement of Key Performance Indicators
- Long Term Incentive* – profit sharing to encourage long term retention and value creation

*eligibility dependent



Aggregated Remuneration of Code Staff

QEIS has identified 7 “Code Staff” who materially exert influence over the firm’s risk profile. These 7 staff comprise senior management in front office / investment teams, risk, and finance divisions and two non-executive directors.

Aggregate Code Staff Compensation for 2019-20 fiscal year: **£ 1,623,834**

NB1: Two code staff members are employees of QIC Limited (the Parent Company) and receive no compensation from the UK regulated entity. Nevertheless, they have been included in the above disclosure in light of their significant influence on QEIS activities.

NB2: Non-Executive Directors of QEIS receive a fixed fee for their services which is unconnected to the performance of QEIS or its Parent Company.