Dowgate Capital Limited

Pillar 3 Disclosure

August 2022

1. Introduction

1.1 Background

The purpose of this document is to set out the Pillar 3 disclosures of Dowgate Capital Ltd as at 31st March 2022

The Capital Requirements Directive (CRD) for the financial services industry is a supervisory framework in the European Union which reflects the Basel II and Basel III rules on capital measurement and capital standards. The capital framework consists of three "Pillars":

- Pillar 1 sets out the minimum capital requirements that a firm will need to meet its credit, market and operational risk;
- Pillar 2 requires a firm to assess whether it should hold additional capital against risks not covered by Pillar 1. This involves preparing an Internal Capital and Risk Assessment ("ICARA") which replaced the ICAAP, on at least an annual basis; and
- Pillar 3 requires disclosure of specified information about firms' risks, management controls and capital position.

The CRD came into effect on 1 January 2007, establishing a revised regulatory capital framework, governing the amount and type of capital that must be maintained by credit institutions and investment firms based on the provisions of the Basel II Capital Accord

CRD IV, effective from 1 January 2014, implements the Basel III agreement in the European Union. It was designed primarily for credit institutions and banks but is also applicable to certain investment firms.

The CRD is implemented in the United Kingdom by the UK regulators, The Prudential Regulatory Authority (PRA) and the Financial Conduct Authority (FCA)

1.2 Implementation at Dowgate

Dowgate's Pillar 3 disclosures are set out in this document as required by the FCA's sourcebook, specifically BIPRU 11.3.3R.

Dowgate intends to up-date these Pillar 3 disclosures on at least an annual basis. Disclosures will be published as soon as practicable after the publication of the Annual Reports and finalisation of Dowgate's ICARA

1.3 Verification

The information contained in this disclosure has not and is not required to be audited by Dowgate's external auditors and does not constitute any form of financial statement. The information should not be relied on in making any judgement on Dowgate.

2. Scope and Application of the Requirements

Dowgate Capital provides wealth management services including Discretionary, Advisory and Execution Only services, as well as providing Corporate Broking and Research services to corporate clients. Dowgate Capital is authorised and regulated by the FCA and is subject to minimum regulatory capital requirements.

Dowgate is classified as an FCA MIFIDPRU non SNI for capital requirements and therefore needs to maintain minimum capital of £750k. For FCA reporting purposes though capital requirements are based on a consolidated group level (see below for further information)
Dowgate currently is not authorised to "deal on own account" other than on a matched principal basis only. Dowgate is authorised to control but not to hold client money.

Dowgate clears its Wealth Management business via Global Prime Partners ("GPP") under a Model A clearing agreement, as well as via Jarvis Investment Management under a Model B clearing arrangement. All relevant client assets and money are held through Bank of New York Mellon, who are Custodian to GPP, whilst Jarvis hold the assets under their own Custody.

Dowgate is part of a consolidation group for prudential reporting, along with Dowgate Wealth and Dowgate Group. All reporting in this document is based on the consolidated group as per IFPR regulations.

3. Risk Management and Policies

3.1 Framework and Objectives

Dowgate is governed by its seven directors who determine its business strategy and risk profile.

The directors of Dowgate are responsible for establishing Dowgate's governance and risk management arrangements. Dowgate is a small business with total headcount of 31. Therefore, risk is managed on a day to day basis by the directors with assistance from the compliance manager: there is no separate risk management function.

The directors of Dowgate have sought to adopt a low risk approach to running the business and there is no plan to change this. This low risk approach is reflected in Dowgate's business model and internal controls. In particular, Dowgate does not engage in hedging strategies and does not invest in derivatives or on a geared basis.

The directors meet regularly and informally to discuss current projections for profitability, cash flow, regulatory capital, and business planning and as noted previously the ICARA will be updated and approved annually. The directors manage risk through a framework of policies and procedures which are up-dated as required. The key risks and policies adopted to mitigate those risks are set out below.

3.2 Liquidity Risk

Liquidity risk is the risk that the business will be unable to meet its financial obligations as the fall due.

Dowgate's policy is to maintain sufficient cash deposits to meet its obligations as they fall due without recourse to bank borrowing. In particular, Dowgate aims: to maintain such cash deposits at a level above a "worst case scenario" net expenditure requirement, to maintain financial resources at or above 120% of Dowgate's ICARA Requirement.

As at 31 March 2022, Dowgate at group level had cash and liquid reserves of £ 4.1M. The firm's outflows are stable and predictable which helps to reduce liquidity risk. In addition, payment of invoices and transfer of funds between current and deposit accounts is tightly controlled on a day to day basis by the Directors. Cash flow is also reviewed by the Board on a quarterly basis.

3.3 Counterparty Credit Risk

Counterparty credit risk refers to the risk that a third party will default on its contractual obligations resulting in financial loss to the Company.

Third party receivables will mainly consist of amounts due from GPP/Jarvis, numerous customers, and Dowgate's principal banker, Barclays Plc. As Dowgate clears its stockbroking business on a Model A basis via GPP and Model B via Jarvis it does not have to manage market counterparty risk on a day-to-day basis but would be liable to its customers in the event of a failure of a market-maker counterparty. To help reduce this risk Dowgate may only use market-makers permitted by GPP/Jarvis.

The more likely risk is a default by a customer not settling its bought instructions. This risk is tightly controlled by real time monitoring of trading and a daily review of all trading and late settlements by the Head of Operations. The policy is to pay away commission only on settled trades. Additionally, Dowgate's self-employed investment advisers are liable for any client defaults should they arise.

3.4 Market Risk

Market risk is the risk of loss resulting from fluctuation in the market value of a firm's positions or investments attributable to changes in market variables, such as interest rates, foreign exchange rates, equity and commodity prices or an issuer's credit worthiness.

Dowgate does not act as a market marker, does not deal on its own account, and does not trade in foreign currencies. Therefore, Dowgate is only exposed to market risk to the extent that poor market conditions lead to a fall in the value of its current asset investments. Dowgate has adopted an investment policy to mitigate this risk, which is approved at Board level.

Under this policy the only persons authorised to make investments on behalf of the company are the Directors. Investments are only made in bonds or equities and are fully funded. Internal Investment guidelines are in place to ensure no more than 20% of net assets can be invested, with a maximum upper limit per investment of 150k.
The company does not invest on a geared basis and does not deal in derivatives. Therefore, Dowgate's market risk is considered to be relatively small.

3.5 Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Dowgate has documented its key operational risks and controls to identify, monitor, manage and mitigate losses arising from people, processes and systems and external events.

The key risks will be reviewed annually as part of the ICARA process, which also considers whether additional capital should be set aside to cover such risks.

4. Capital Requirements

Dowgate reports to FCA on a consolidated group level under IFPR and as such its consolidated capital requirements are the greater of:

- Its PMR (Permanent minimum requirement) of £825,000;
- Fixed overhead requirements
- Winddown costs

Dowgate's Own Funds Threshold requirement was calculated to be £1.22M.

5. Capital Resources

As at 31 March 2022, Dowgate Group on a consolidated basis had capital liquid resources in excess of £4M. This significantly exceeds capital requirements and this does not include its investment portfolio.

Simon Carter
Dowgate Capital Limited