



**Dolmen Securities Ltd**

**Pillar 3 Disclosure**

**Position as at 31<sup>st</sup> of December 2010**

**TABLE OF CONTENTS**

1. BUSINESS STRUCTURE.....	3
2. BACKGROUND.....	3
3. RISK MANAGEMENT .....	4
4. CAPITAL MANAGEMENT .....	5
5. CAPITAL RESOURCES AND CAPITAL REQUIREMENTS .....	6
6. PUBLICATION .....	6

## **Dolmen Securities Limited**

### **Pillar 3 Disclosures as at 31 December 2010**

This policy has been approved by the Board of Directors of Dolmen Securities Limited (“DSL”) and is subject to annual review by the Board.

#### **1. BUSINESS STRUCTURE**

The business of Dolmen Securities Limited (“DSL” or “the Company”) and its subsidiaries (“Dolmen” or “the Group”) is the business of institutional stockbroking, private client stockbroking, the provision of investment advice, management of third party funds, securities and dealing on a proprietary basis. The Company and its principal subsidiary Dolmen Stockbrokers are authorised under the European Communities (Markets in Financial Instruments) Regulations 2007 (S.I. No. 60 of 2007) (“MiFID”).

DSL is regulated by the Central Bank of Ireland (“CBoI”) and is a member firm of the London Stock Exchange. Dolmen Stockbrokers is regulated by the CBoI and is a member firm of the Irish Stock Exchange and the London Stock Exchange. All other companies in the Group are unregulated.

The Group is managed and controlled on a consolidated basis and reports to the CBoI each month on its capital requirements and resources.

#### **2. BACKGROUND**

The Capital Requirements Directive (“CRD”) which was implemented by the European Communities (Capital Adequacy of Investment Firms) Regulations 2006 (S.I. No. 660 of 2006) and the European Communities (Capital Adequacy of Credit Institutions) Regulations 2006 (S.I. No. 661 of 2006) introduced a revised capital adequacy framework across Europe aiming to reduce the risk to consumers of financial loss and to minimise the effects of market disruption. The CRD focuses on ensuring that financial resources held by banks and certain financial firms are adequate in relation to their business model, risk profile and control framework. The CBoI is responsible for the implementation of the CRD in Ireland.

The CRD framework consists of three pillars:

- **Pillar 1** sets out the minimum capital requirements that firms are obliged to meet for credit, market and operational risk.
- **Pillar 2** requires the firm to assess, as part of its supervisory dialogue with the CBoI, whether any additional capital should be maintained against risks not covered under Pillar 1. The process by which this is achieved is the Internal Capital Adequacy Assessment Process (“ICAAP”), which includes an assessment of each of the risks faced by the firm and the internal controls in place to manage or mitigate those risks.
- **Pillar 3** requires firms to publish certain details of their risks, capital and risk management unless such details are considered immaterial, proprietary or confidential.

### 3. RISK MANAGEMENT

The Board of DSL has established a comprehensive framework for the management of risk within the Group and has overall responsibility for risk management systems and related controls and for reviewing their ongoing effectiveness. This responsibility is delegated to management in the first instance. The Board monitors the Group's various risk exposures, including those which arise through trading and holding financial instruments. The Board also reviews financial performance, oversees regulatory compliance and monitors key performance indicators.

The Board has delegated certain of its responsibilities in relation to internal controls, internal audit, financial reporting and certain key areas of risk to the Audit Committee comprised of non-executive directors.

The day-to-day business is jointly managed by the Chief Executive and the Deputy Chief Executive, the Deputy Chief executive taking primary responsibility for the Group's risk management.

Ongoing reporting on performance of risk management and monitoring is generated by Department Heads, reported on for the most part on a daily basis, and channeled through the Deputy Chief Executive to the Board on a monthly basis (or more frequently on an as needs basis). The Head of Compliance reports to the Board on a monthly basis.

#### **Financial Instruments and risk profile**

DSL's financial instruments comprise cash and cash equivalents, trading positions, long term investments, available for sale investments, and net working capital arising from operations. DSL has recognised the following risks arising from these financial instruments:

- Credit risk
- Market risk
- Liquidity risk
- Operational / Strategic risk.

#### **Credit risk**

Credit risk is the risk arising from an obligor's failure to meet the terms of any contract with the Group. Credit risk is managed as follows:

- robust client account opening and vetting procedures
- general policy on limiting exposure to concentration risk
- control over timely settlement of market debtors
- review of daily settlement reports.

#### **Market risk**

Market risk is the risk arising from adverse movement in bond and security prices, commodity prices and foreign exchange rates. This risk can arise from dealing and position-taking or from a failure of a client to take up his/her commitment. Market risk is also taken to include interest rate risk.

The Group manages market risk by establishing position limits within overall investment criteria and policy, and management reports are prepared daily in support of a review regime. The Board reviews such investments on a monthly basis. The risk of the failure of a client to fulfill an obligation is mitigated through a strict invoicing policy and strong debtor management.

### **Liquidity risk**

Liquidity risk is the risk arising from the Group's inability to meet its obligations as and when they fall due. It is managed as follows:

- maintaining a strong capital base with significant surplus cash
- surplus cash is invested only in highly rated, marketable and liquid securities or deposited with counterparties with a strong credit rating
- forecasting future cash flow requirements
- monitoring of cash positions on a daily basis
- strict control over timely settlement of debtors and creditors.

### **Operational / Strategic risk**

Operational risk is the risk resulting from inadequate or failed processes, people and systems and the impact on an entity's operations from external events. It includes, inter alia, more specific sub-categorisations such as legal, tax, professional liability and negligence, investment performance, concentration, reputational, business continuity and outsourcing risks.

Operational risk is managed on a day-to day basis by the Deputy Chief Executive. A key aspect of this management of operational risk in the stockbroking division is the outsourcing of settlement and custodial functions to Pershing Securities International Limited (ultimately a subsidiary of BNY Mellon), coupled with close supervision of that entity's performance in the role by the Group's Compliance function.

The Group also has developed contingency plans to cover loss of systems, property and other eventualities and has in place, Professional Indemnity and Directors and Officers Liability insurance policies.

The Group has chosen to use the basic indicator approach for operational risk thus requiring capital equal to 15% of the three-year average of the firm's net income.

## **4. CAPITAL MANAGEMENT**

The Group's policy in respect of capital adequacy is to maintain a strong capital base so as to ensure client, investor, creditor, employee and market confidence. During the years ended 31 December 2007, 2008, 2009 and 2010, capital available has been maintained considerably in excess of minimum CBoI requirements. Capital is also measured by reference to Dolmen's ICAAP assessment. The Group's capital resources consist of Tier 1 equity capital and retained earnings.

The Group maintains its cash in highly rated, liquid OECD government securities and with a number of reputable financial institutions. All cash and cash equivalents are short-term and are readily convertible into known amounts of cash.

## **5. CAPITAL RESOURCES AND CAPITAL REQUIREMENTS**

The Group is adequately capitalised and maintains capital in excess of the capital requirement stipulated by pertaining regulations. As at 31 December 2010, after adjusting for goodwill and other required adjustments, the Group's capital exceeded its regulatory capital requirement by 2.4 times. The Group's capital requirement has been calculated by reference to the sum of the Group's credit risk, market risk, operational risk and other/transitional capital requirements. The Group's ICAAP does not identify any further capital requirements under Pillar 2.

## **6. PUBLICATION**

The Board has approved the publication of this Pillar 3 disclosure document on the firm's website [www.dolmensecurities.com](http://www.dolmensecurities.com).