



**Pershing Securities International Limited**

**PILLAR 3 DISCLOSURE  
DECEMBER 31, 2014**



**BNY MELLON | Invested**

## Pillar 3 Disclosure

Pillar 3 disclosures are published in accordance with the requirements of the Central Bank of Ireland.

### Policy and Approach

Pillar 3 disclosures are required for a consolidated group and for those parts of the group covered by the Basel III framework. These disclosures have been prepared for Pershing Securities International Limited ("PSIL").

These disclosures have been approved by Pershing Securities International Limited's Board of Directors who has verified that they are consistent with formal policies adopted regarding production and validation.

Information in this report has been prepared solely to meet Pillar 3 disclosure requirements of the entity noted, and to provide certain specified information about capital and other risks and details about the management of those risks, and for no other purpose. The disclosures does not constitute any form of financial statement on the business nor do they constitute any form of contemporary or forward looking record or opinion about the business.

Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP content e.g. disclosure about risk management practices and capital resources at year end.

Unless indicated otherwise, information contained within this document has not been subject to external audit.

Disclosure will be made annually based on calendar year end and will be published as soon as possible after publication of the consolidated annual accounts. The company will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant change to the relevant characteristics of its business including disclosure about capital resources and adequacy and information about risk exposure and other items prone to rapid change.

Disclosures will be published on The Bank of New York Mellon group website ([www.bnymellon.com](http://www.bnymellon.com)), see section Investor relations, Financial reports, other regulatory filings on the Company's website. Pershing Securities International Limited's disclosure will also be published on the Pershing website ([www.pershing.co.uk](http://www.pershing.co.uk)), see section Financial and Regulatory Disclosures.

The Board may omit one or more disclosures if the information provided is not regarded as material. The criterion for materiality used in these disclosures is that the Bank will regard as material any information where omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions.

The Board may omit one or more disclosures if the information provided is regarded as confidential. In this circumstance, the Board will state in its disclosures the fact that specific items of information are not disclosed and the reason for non-disclosure, and will publish more general information about the subject matter of the disclosure requirement except where these are to be classified as secret or confidential.

The company undertakes no obligation to revise or to update any forward looking or other statement contained within this document regardless of whether or not those statements are affected as a result of new information or future events.

This policy will be periodically reassessed and updated in light of market developments associated with Pillar 3.

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# 1 Introduction

The Bank of New York Mellon (BNY Mellon) is a global investments company dedicated to helping its clients manage and service their financial assets throughout the investment lifecycle. Whether providing financial services for institutions, corporations or individual investors, BNY Mellon delivers informed investment management and investment services in 35 countries and more than 100 markets. As of December 31, 2014, BNY Mellon had \$28.5 trillion in assets under custody and/or administration, and \$1.71 trillion in assets under management.

These 2014 Basel III Pillar 3 disclosures relate to Pershing Securities International Limited and are published in accordance with the requirements of the Central Bank of Ireland. Pershing Securities International Limited uses the Basel III Standardised Approach for calculating credit, market and operational risk.

This disclosure is for Pershing Securities International Limited and its subsidiary undertakings (together the 'group') as at December 31, 2014.

These disclosures were approved for publication by the Pershing Securities International Limited Board of Directors (hereafter the 'Board') on 30 June 2015.

## 1.1 Purpose of Pillar 3

Basel III is the international banking accord intended to strengthen the measurement and monitoring of financial institutions' capital. The Basel II framework was implemented in the European Union (EU) through the Capital Requirements Directive (CRD). The Basel III framework establishes a more risk sensitive approach to capital management and is comprised of three pillars:

- **Pillar 1** establishes rules for the calculation of minimum capital requirements for Credit, Market and Operational Risk.
- **Pillar 2** requires firms and supervisors to take a view on whether a firm needs to hold additional capital against risks not adequately covered in Pillar 1 and to take action accordingly.
- **Pillar 3** complements the other pillars and effects market discipline through public disclosure. Expanded disclosure about capital and risk enables interested parties to gauge the capital adequacy and risk profile of individual firms and to make comparisons.

## 1.2 Highlights and Key Events

The following events took place in 2014 and are considered important events that impacted PSIL:

- The Company intends to develop its relationships with clients that fall within its target market and supports the Pershing Limited's policy to continue to invest in the systems, equipment and management infrastructure, which are required to sustain its activities and grow business in partnership with the Company's clients. However, in the current economic environment in Ireland the directors continue to focus on expense management and keeping the market under review to identify opportunities that will enhance and develop the Company's business.

## 2 Scope and Application of Directive Requirements

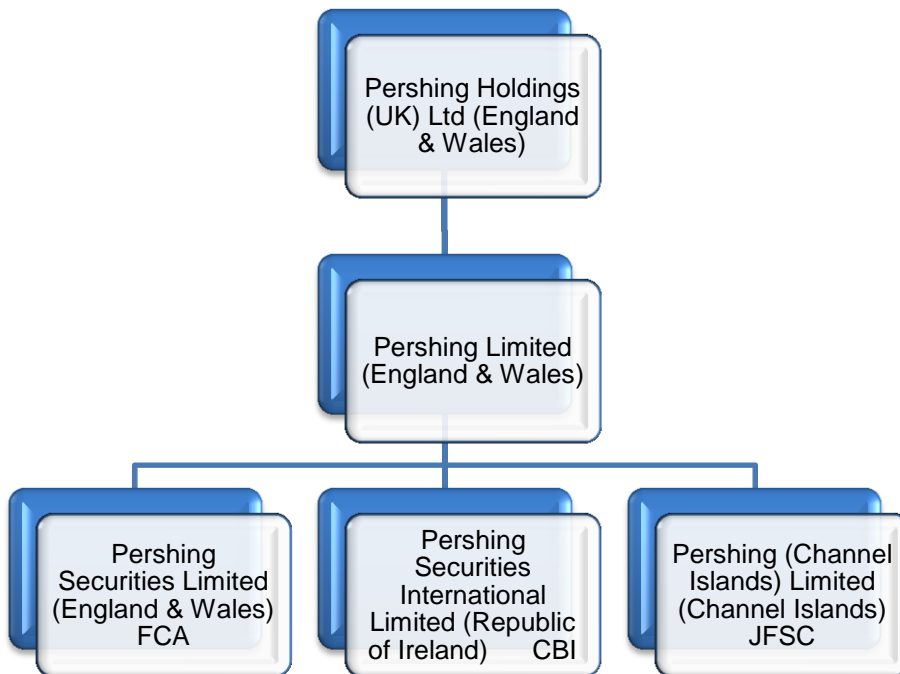
Pershing Securities International Limited is the Dublin based, wholly owned subsidiary of Pershing Limited, which is, in turn, a subsidiary of Pershing Holdings (UK) Limited with the Bank of New York Mellon Corporation as the ultimate parent.

As a full scope investment firm regulated by the Central Bank of Ireland (CBI), Pershing Securities International Limited is required to operate under the CBI's Basel III implementation rules, which include the disclosures provided in this document.

There is no current or foreseen material or legal impediments to the prompt transfer of capital resources or repayment of liabilities among the parent undertaking and its subsidiary undertakings.

The corporate structure of PSIL is illustrated in Figure 1.

Figure 1: PSIL corporate structure



## 3 Risk Management Objectives and Policies

### 3.1 Risk Management Framework

Pershing shares a common framework of risk management objectives and policies with other subsidiaries of Pershing Holdings (UK) Limited. Please refer to section 3 of the Consolidated Disclosures for further details on the management policies & processes implemented.

PSIL's approach to risk management is to ensure that all material risks are defined, understood and effectively managed according to well-designed policies and controls. Due to reasons of operational efficiency, PSIL has outsourced many of its processing and support activities within the PHUK group. While PSIL Senior Management provides an oversight of these arrangements on a day to day basis, it was nevertheless agreed by the PLC Boards that a common risk framework and appetite would be the most effective and consistent means of managing risk across the group.

The activities of PHUK group are managed on a business line basis, as opposed to a legal entity basis. PSIL's risk appetite requires the maintenance of an appropriate Risk Management Framework that promotes a risk-aware and transparent culture and the identification, assessment, mitigation, measurement and escalation of risk and control issues.

PSIL's risk appetite is aligned to the risk appetite of BNYMC which is to maintain a balance sheet that remains strong across market cycles to meet the expectations of its major stakeholders, including clients, shareholders, employees and regulators.

## **3.2 Credit Risk**

Credit risk is the risk of default from counterparties or clients for deposits, loans, commitments, securities and other assets where the realisation of the value of the asset is dependent on its ability to perform. Credit risk could also arise from off-balance sheet items including counterparty credit risk and securities lending indemnifications and letters of credit identifying exposures (balance sheet and non-balance sheet).

Credit risk is the risk of financial loss to Pershing in the event that a client, underlying client or market counterparty fails to meet its contractual obligations. The majority of Pershing's credit risk arises from exposures existing between trade date and actual settlement date.

Pershing manages credit risk exposure by establishing various limits for its clients.

### **3.2.1 Credit Risk Exposure**

The legal structure of the Model B agreements provides Pershing with the right to set-off any indebtedness of underlying clients against any credit balance in the name of the same underlying client. Pershing also has recourse to investments and cash as collateral and indemnities from clients in respect of any underlying clients. Consequently there is no single point of failure that could lead to a major credit loss.

Credit exposure is computed under the Standardised approach. This method for calculating credit risk capital requirement uses supervisory risk weights.

Except where stated, exposure is defined as **Exposure at Default (EAD) pre Credit Risk Mitigation (CRM)** i.e. a regulatory exposure value after the application of Credit Conversion Factors (CCF) for off balance sheet items (including undrawn commitments) and, after netting but before application of Credit Risk Mitigation factors (e.g. property, other physical collateral). The calculation of EAD therefore takes into account both current exposure and potential drawings prior to default over a 12 month time horizon. As such, exposure in this context may differ from statutory GAAP accounting balance sheet carrying values.

The following credit risk exposure tables (1) to (5) summarise the credit exposure for PSIL.

i) *Standardised gross Credit exposure (EAD pre CRM)*<sup>1</sup>

The following table summarises the standardised gross credit exposure by class as at December 31, 2014.

**Table 1: Standardised gross credit exposure by exposure class**

Standardised gross credit exposure by exposure class (€000s)	EAD post CRM & CCF		Average EAD pre CRM		Capital Requirement	
	2014	2013	2014	2013	2014	2013
Central governments or central banks	0	3	0	18	0	0
Institutions	26,285	0	23,960	0	483	0
Corporates	191	0	163	0	0	0
Short term claims on Institutions and Corporates	0	27,959	1,848	24,794	0	416
Retail	1,611	150	1,316	241	0	0
Past due items	0	3	0	2	0	0
Other	18	24	22	27	1	2
<b>Total</b>	<b>28,105</b>	<b>28,139</b>	<b>27,309</b>	<b>25,082</b>	<b>485</b>	<b>418</b>

ii) *Standardised gross Credit exposure (EAD pre CRM) by credit quality step*<sup>2</sup>

The following table summarises the standardised gross credit exposure by industry sector as at December 31, 2014.

**Table 2: Standardised pre-mitigated credit exposures by Credit Quality Step**

Standardised Pre-mitigated Credit Exposures by Credit Quality Step (€000s)	Central Governments and Central Banks		Institutions: Total Maturity <= 3m		Corporates		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
1	0	0	0	2,299	0	0	0	0	0	2,299
2	0	3	0	0	0	0	1	177	1	180
3	0	0	25,080	25,491	0	0	0	0	25,080	25,491
4	0	0	0	0	4	0	0	0	4	0
5	0	0	1,205	169	187	0	0	0	1,392	169
6	0	0	0	0	0	0	0	0	0	0
<i>Unrated</i>	0	0	0	0	0	0	1,628	0	1,628	0
<b>Total</b>	<b>0</b>	<b>3</b>	<b>26,285</b>	<b>27,959</b>	<b>191</b>	<b>0</b>	<b>1,629</b>	<b>177</b>	<b>28,105</b>	<b>28,139</b>

**Table 3: Standardised post-mitigated credit exposures by Credit Quality Step**

Standardised Pre-mitigated Credit Exposures by Credit Quality Step (€000s)	Central Governments and Central Banks		Institutions: Total Maturity <= 3m		Corporates		Other		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
1	0	0	0	2,299	0	0	0	0	0	2,299
2	0	3	0	0	0	0	1	177	1	180
3	0	0	24,251	25,471	0	0	0	0	24,251	25,471
4	0	0	0	0	3	0	0	0	3	0
5	0	0	1,190	111	0	0	0	0	1,190	111
6	0	0	0	0	0	0	0	0	0	0
<i>Unrated</i>	0	0	0	0	0	0	17	0	17	0
<b>Total</b>	<b>0</b>	<b>3</b>	<b>25,441</b>	<b>27,881</b>	<b>3</b>	<b>0</b>	<b>18</b>	<b>177</b>	<b>25,462</b>	<b>28,061</b>

iii) *Standardised gross Credit exposure (EAD pre CRM) by geographical area*<sup>3</sup>

<sup>1</sup> Average exposure is based on 2014 quarterly capital adequacy reporting.

<sup>2</sup> Standardised pre and post credit exposure by Credit Quality Step as per CRR.

The following table summarises the standardised gross credit exposure by geographic area as at December 31, 2014.

**Table 4: Standardised gross credit exposure by geographic area**

Standardised exposure classes (€000s)	Europe		Americas		Africa		Asia Pacific		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Central Governments and Central Banks	0	3	0	0	0	0	0	0	0	3
Institutions	24,969	27,959	1,312	0	4	0	0	0	26,285	27,959
Corporates	191	0	0	0	0	0	0	0	191	0
Short term claims on Institutions and Corporates	0	0	0	0	0	0	0	0	0	0
Retail	1,611	150	0	0	0	0	0	0	1,611	150
Past due items	0	3	0	0	0	0	0	0	0	3
Other	18	24	0	0	0	0	0	0	18	24
<b>Total</b>	<b>26,789</b>	<b>28,139</b>	<b>1,312</b>	<b>0</b>	<b>4</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>28,105</b>	<b>28,139</b>

*Standardised gross Credit exposure (EAD pre CRM) by residual maturity*

The following table summarises the standardised gross credit exposure by residual maturity as at December 31, 2014.

**Table 5: Standardised gross credit exposure by residual maturity**

Standardised gross credit exposure by residual maturity (€000s)	Less than 3months		3 months to 1 year		Over 1 year or undefined		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Central Governments and Central Banks	0	3	0	0	0	0	0	3
Institutions	26,285	0	0	0	0	0	26,285	0
Corporates	191	0	0	0	0	0	191	0
Short term claims on Institutions and Corporates	0	27,959	0	0	0	0	0	27,959
Retail	1,611	150	0	0	0	0	1,611	150
Past due items	0	3	0	0	0	0	0	3
Other	0	0	0	0	18	24	18	24
<b>Total</b>	<b>28,087</b>	<b>28,115</b>	<b>0</b>	<b>0</b>	<b>18</b>	<b>24</b>	<b>28,105</b>	<b>28,139</b>

### 3.2.2 Capital Resource Requirement

PSIL calculates Pillar 1 credit risk capital resource requirement using the Standardised Approach, as defined in Capital Requirements Directive.

### 3.3 Counterparty Credit Risk and Credit Value Adjustment

Counterparty credit risk is the risk that a counterparty to a contract recorded in either the trading book or non-trading book defaults before fulfilment of cash-flow obligations.

Pershing seeks to minimise market counterparty risk by only allowing clients to trade with approved counterparties that have been reviewed by Pershing. Counterparty credit risk arises mainly in the Model B settlement business in which Pershing interposes itself between a client and a market counterparty as principal to a transaction or series of transactions.

In the event that a client fails to deliver securities, Pershing is required to honour the failed trade, and in the event of client default may be required to settle the trade by closing out in the open market. Pershing also incurs credit risk in

<sup>3</sup> Geographic distribution is based on the domicile of the borrower or obligor.



such situations, although in some OTC markets this is limited to the impact of adverse price movements on failed trades in the event that Pershing's client defaults and a market counterparty has to settle the trade elsewhere.

Although Pershing regularly reviews credit exposure to clients, underlying clients and market counterparties to address credit concerns, default risk may arise from events or circumstances that are difficult to detect or foresee.

### **3.4 Market Risk**

Market risk is the risk to a firm's financial condition arising as a result of adverse movements in the markets, such as foreign currency exchange rates, interest rates, equity and commodity prices.

#### **3.4.1 Market Risk Exposure**

For PSIL, market risk arises principally from fluctuations in the value of assets, interest or exchange rates. PSIL's foreign exchange exposure is limited to residual balances resulting from non-marketable amounts within specific intra-day and overnight limits on both an individual currency and overall book basis. Volumes and ticket sizes are thus immaterial. PSIL calculates the Pillar 1 market risk capital resource requirement for FX based on Standardised approach as defined in Capital Requirements Directive.

Interest rate risk at Pershing is also considered minimal as it only arises on interest rate movements that depress the value of securities held as collateral in mitigation of exposures.

#### **3.4.2 Capital Resource Requirement**

PSIL calculates the Pillar 1 market risk capital resource requirement for FX based on Standardised approach as defined in Capital Requirements Directive.

### **3.5 Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events (including legal risk but excluding strategic and reputation risk). It may arise from errors in transaction processing, breaches of internal control systems and compliance requirements, internal or external fraud, damage to physical assets, and business disruption due to systems failures, execution, delivery and process management or other events. Operational risk can also arise from potential legal or regulatory actions because of non-compliance with regulatory requirements, prudent ethical standards or contractual obligations, these being sub classified as compliance risk.

#### **3.5.1 Operational Risk Coverage**

The level of PSIL's operational risk is managed through rigorous operating policies, procedures and controls set by the Board and implemented by Risk Management.

PSIL business managers are responsible for Risk Control Self Assessments ("RCSA"), which includes identification of the risks associated with key business processes, identifying and measuring the effectiveness of controls in place to manage risk and for remediation of any weakness. RCSAs are reviewed on at least an annual basis with the guidance of the Business and Risk Management. The risk management teams have an independent oversight role for this reporting.

The Board monitors operational risks and the appropriateness of controls through the PRC and independent reporting from risk managers. This requires PSIL to update regularly its RCSAs, as well as monthly KRIs and prompt reporting of any significant financial impacts as a result of errors.

Risk Management performs monitoring appropriate to the business and identified risks, which includes KRI reporting, significant event analysis and ad hoc reviews. Risk Management is also required to formally review the ICAAP at least annually, coupled with quarterly ICAAP refresh processing. Moreover, the key elements of the RCSA, internal control environment, monitoring and governance arrangements are routinely reviewed and challenged by the Pershing Risk Committee.

### **3.5.2 Capital Resource Requirement**

The Pillar 1 variable capital requirement relates to credit risk and market risk, as well as to an expenditure-based requirement, the Fixed Overhead Requirement ('FOR').

The variable capital requirement is the higher of the sum of the credit risk and market risk requirements and the fixed overhead requirement.

## **3.6 Liquidity Risk**

Liquidity Risk is the risk that PSIL cannot meet its cash and collateral obligations at a reasonable cost for both expected and unexpected cash flow and collateral needs without adversely affecting daily operations or financial conditions.

Liquidity risks can arise from funding mismatches, market constraints from inability to convert assets to cash, inability to raise cash in the markets, deposit run-off, or contingent liquidity events. Changes in economic conditions or exposure to credit, market, operational, legal, and reputational risks also can affect PSIL's liquidity risk profile and are considered in the liquidity risk framework.

Intra-day Liquidity Risk is the risk that PSIL cannot fund and /or settle its obligations or clients' securities servicing obligations throughout the day, primarily due to disruptions or failures.

PSIL will at all times maintain liquidity resources which are adequate both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met in full as they fall due.

## **3.7 Compliance Risk**

Compliance risk covers the impact on earnings or capital from violation, or non-compliance with laws, rules, regulations, prescribed practices or ethical standards which may, in turn, expose PSIL and its directors to fines, payment of damages, the voiding of contracts and damaged reputation (with accompanying indirect costs).

PSIL establishes processes and procedures to ensure compliance with applicable laws, regulations, policies, procedures and the Code of Conduct. Emerging regulations and changes are monitored by the Compliance and Risk functions. Impact assessments are performed and implementation plans established where necessary to ensure compliance.. PSIL has never suffered from a sanction event where the regulator has imposed a fine.

## **3.8 Business Risk**

Business risk is the risk of loss caused by unexpected changes in the macro-economic environment, client behaviour, inappropriate management actions, performance of competitors or events that impact earnings, for example, market contraction, reduced margins from competition, adverse customer selection and business concentration.

Business risk could arise from exposure to a wide range of macro-economic, geopolitical, industry, regulatory, client behaviour, inappropriate management actions, and other external risks that might deflect from desired strategy and business plans.

## **3.9 Concentration Risk**

Concentration risk is the risk of loss arising from significant interrelated asset or liability exposures, which in cases of distress associated with markets, sectors, countries, or areas of activity, may threaten the soundness of the institution.

Traditionally analysed in relation to credit activities, concentration risk arises from exposures that may arise within or across different risk types, including intra-risk concentration where exposure concentration exists within a single risk type, and inter-risk concentrations arising from interactions between different risk exposures across different risk categories connected by a common risk factor (e.g. counterparties, vendor, economic sector, geographic region, and/or financial instrument/product type).

PSIL is exposed to concentration through:

- Credit
- Client
- Operational
- Market

### **3.9.1 Credit Concentration Risk**

Credit concentration risk results from concentration of exposures to a single counterparty, borrower or group of connected counterparties or borrowers. This includes on and off-balance sheet exposures.

PSIL is exposed to credit concentration risk through exchanges and central counterparties, correspondent banks and issuers of securities. The settlement and receipt of securities and related cashflows to and from these entities represents a fundamental inherent risk within PSIL's business model. These risks are managed and mitigated through the establishment of various limits, on-going monitoring of exposure, collateral and contractual obligations upon the client, including margin calls.

### **3.9.2 Client Concentration Risk**

PSIL is exposed to client concentration risk. Client concentration risk remains stable. The group would also be willing to diversify products and activities, increase the number of new client take-ons, review the pricing, possibly cease relationship with unprofitable clients and would be seeking to increase productivity.

### **3.9.3 Operational Concentration Risk**

Concentration risk in operations can arise from a number of operational risk factors, including external suppliers providing key products and services, external market counterparties, and the geographic concentration of operations.

PSIL has a number of operational dependencies on the BNY Mellon Group, for instance intra-group outsourcing.

### **3.9.4 Market Concentration Risk**

PSIL business model is to facilitate client trading and settlement activity for financial services firms within Ireland, therefore a natural concentration exists as regards a geographical and industry sector concentration within its business. However, there is a diversity within the industry sector in that there is a fairly even split between Institutional Broker Dealer business as against the Wealth and Advisor Solutions business. In addition, many of these businesses are owned by international or global firms which further mitigate the risk of the local firm failing.

## **3.10 Group Risk**

Group risk is the risk that the financial position of PSIL may be adversely affected by its relationships (financial and non-financial) with other entities within BNYMC or by risks which may affect the financial position of the whole Group, for example reputational contagion or Group default.

As part of a large complex and interconnected company, PSIL has a number of dependencies with PHUK group and BNY Mellon. These range from business leadership, dependency on certain IT systems and support services provided by central functions.

### **3.11 Interest Rate Risk in Non-trading Book**

Interest rate risk (IRR) is the risk associated with changes in interest rates that affect net interest income (NII) from interest-earning assets and interest-paying liabilities. IRR exposure in the non-trading book arises from on and off-balance sheet assets and liabilities, and changes with movements in domestic and foreign interest rates.

PSIL does not have any material exposure to interest rate risk in its non-trading book.

### **3.12 Legal Risk**

Legal risk is the risk associated with a breach of contract, law, regulation and fiduciary responsibility.

PSIL reduces its legal risk through strict policies and procedures defined to ensure contractual obligations are fulfilled, and to minimise the risk of legal action; and through dedicated internal counsel and the use of external counsel.

### **3.13 Model Risk**

Model risk is defined as the error in estimation or measurement resulting from the inherent limitations in the financial models used in assessing and managing risk.

PSIL uses models in its risk management framework. All models are subject to the BNY Mellon Model Risk Management Policy under the Model Risk Management Group who maintains the model inventory and oversees model review and validation.

### **3.14 Pension Obligation Risk**

Pension Obligation Risk is caused by contractual liabilities or moral obligation to a company's staff pension scheme. BNY Mellon in EMEA operates a number of defined contribution and defined benefits pension arrangements where contributions are paid into separate arrangements, typically to an insurer or trusts. PSIL recognises payments to the staff pension schemes in the profit and loss account on the basis of a deferred compensation scheme.

### **3.15 Reputation Risk**

Reputation risk covers the current or prospective risk to earnings and capital arising from adverse perception of the image of the financial institution on the part of the customers, counterparties, shareholders, investors and regulators.

BNYMC relies heavily on its reputation and standing in the market place to retain and attract clients. PSIL identifies and assesses the impact of reputation risk through its risk management processes and using scenario analysis.

### **3.16 Strategic Risk**

#### ***3.16.1 Strategic Risk***

Strategic risk is defined as the risk of earnings reduction and capital loss arising from changes in the business environment and from adverse business decisions or improper implementation of decisions. Strategic risk can result from either a misalignment of business line decisions which impact the group, or failure to deliver business value through new strategic initiatives.

PSIL relies on robust governance processes to monitor and/or mitigate strategic risk. PSIL will maintain an integrated Enterprise Risk Management Framework to ensure that risks inherent in its business activities are identified, measured, managed and monitored and adequate business acceptance controls and mitigation exist.

## 4 Capital Requirements and Adequacy

The following table details the Pillar 1 capital requirements by exposure class for PSIL as at 31 December 2014.

The Pillar 1 variable capital requirement is calculated as the higher of the sum of credit risk and market risk requirements and expenditure-based requirement, the Fixed Overhead Requirement ('FOR').

**Table 6: Capital requirements by risk type**

As at 31 December Capital Requirements and Adequacy (€000s)	PSIL	
	2014	2013
<b>Credit Risk Standardised Approach</b>		
Central Governments and Central Banks	0	0
Institutions	483	0
Corporates	0	0
Short term claims on Institutions and Corporates	0	416
Collective Investment Undertakings	0	0
Other	2	2
<b>Total Credit Risk capital requirement</b>	<b>485</b>	<b>418</b>
<b>Market Risk</b>		
Foreign currency Position Risk Requirement	6	10
<b>Total Market Risk capital requirement</b>	<b>6</b>	<b>10</b>
<b>Settlement/Delivery Risk</b>		
Settlement/Delivery Risk Requirement	1	0
<b>Total Settlement/delivery Risk capital requirement</b>	<b>1</b>	<b>0</b>
<b>Total variable capital requirements</b>	<b>492</b>	<b>428</b>
<b>Total fixed overhead capital requirements</b>	<b>1,310</b>	<b>919</b>
<b>Total Pillar 1 Capital Requirements (higher of variable capital requirement and fixed overhead requirement)</b>	<b>1,310</b>	<b>919</b>
<b>Total Capital Resources</b>	<b>21,870</b>	<b>18,900</b>
<b>Capital surplus</b>	<b>1669%</b>	<b>2057%</b>

## 5 Remuneration Disclosure

### 5.1 Governance

Subject to its charter, The Human Resources and Compensation Committee (HRCC) of The Bank of New York Mellon Corporation (BNY Mellon) oversees BNY Mellon's enterprise-wide employee compensation and benefit policies and programs. It reviews and is responsible for other compensation plans, policies and programs in which the executive officers participate and the incentive, retirement, welfare and equity plans in which all employees participate. During 2014, the HRCC met 8 times.

The members of the HRCC are non-executive board members, delegated by BNY Mellon's Board of Directors to act on behalf of the Board on remuneration matters.

With respect to employees broadly, the company's compensation plans are also monitored by a management-level compensation oversight committee (COC). The members of the COC are members of BNY Mellon's senior management and include the Chief Human Resources Officer, the Chief Risk Officer, the Chief Financial Officer and the Risk Management and Compliance Chief Administrative Officer. An important responsibility of the COC is to advise the HRCC on any remuneration risk-related issues.

To ensure alignment with local regulations in BNY Mellon's EMEA (Europe, Middle-East and Africa) region, the EMEA Remuneration Governance Committee (ERGC) was set-up as a regional governance committee that reviews and ensures compliance with local regulations affecting BNY Mellon's EMEA businesses, including Pershing Securities International Limited ("PSIL"). Remuneration policy decisions of PSIL rests with the HRCC, which also approves the year-end compensation awards of its regulated staff members.

### 5.2 Aligning pay with performance

BNY Mellon's compensation philosophy is to offer a total compensation opportunity that supports our values: client focus, integrity, teamwork and excellence. We pay for performance, both at the individual and corporate level. We value individual and team contributions and reward based on how both contribute to business results. In support of this philosophy, variable compensation is regularly used as a means of recognising performance.

By implementing our compensation philosophy and principles, we align the interests of our employees and shareholders by encouraging actions that contribute to superior financial performance and long-term shareholder value, by rewarding success and by ensuring that our incentive compensation arrangements do not encourage our employees to take unnecessary and excessive risks that threaten the value of BNY Mellon or benefit individual employees at the expense of shareholders or other stakeholders. Our compensation structure is comprised of an appropriate mix of fixed and variable compensation that is paid over time. We aim to ensure that both fixed and variable compensation are consistent with business and market practice, fixed compensation is sufficient to provide for a fully flexible variable compensation program, and variable compensation is in the form of annual and/or long term incentives, where appropriate.

### **5.3 Remuneration components: Fixed remuneration**

Fixed remuneration is composed of (i) salary, (ii) any additional non-performance related amounts paid as a result of contractual obligations or applicable law, or as a result of market practice and (iii) any benefits in kind which are awarded as a result of the job rather than the performance within the job.

The fixed remuneration of an employee is determined by the job performed, its level of complexity and responsibility, and the remuneration paid in the market for that type of job. It is set, for all staff, at a rate to be at all times sufficient to provide for full flexibility in the variable remuneration, including a zero variable remuneration.

Employees who have accepted to be a director of another of BNY Mellon's legal entities are not remunerated in their capacity as a director. Independent directors of BNY Mellon only receive fixed remuneration, as disclosed in our annual Proxy Statement to shareholders.

### **5.4 Variable compensation funding and risk adjustment**

The staff of PSIL are eligible to be awarded variable compensation. Such variable compensation consists of both cash and deferred components and is determined by the functional hierarchy of the business or business partner service to which the individual staff member belongs, and in accordance with the terms and conditions of the incentive compensation plan that is applicable for the business or business partner service. The incentive pool funding is based upon the risk adjusted performance of the business line, entity or company as appropriate.

The deferred component is intended to align a portion of the variable compensation award with the management of longer term business risk. The deferred compensation component is generally awarded in the form of BNY Mellon restricted stock units.

Furthermore, BNY Mellon requires employees who receive awards to agree to clawback and/or forfeiture provisions on such awards in the event of fraud, misconduct or actions contributing to financial restatement or other irregularities. Where required by regulations, awards to Material Risk Takers are subject to more stringent risk adjustment, potentially including forfeiture and / or clawback in the case of misbehaviour, material error, material downturn in business unit performance or a material failure of risk management.

### **5.5 Ratio between fixed and variable pay**

The HRCC approved an increase in the maximum ratio of Variable to Fixed pay ("Bonus Cap") from 100% to 200% on 27 January 2014 on the basis that the increased cap would not affect the firm's ability to maintain a sound capital base, and allows for the appropriate incentivisation and reward in accordance with our Pay for Performance philosophy. The Board of Directors of Pershing Holdings (UK) Limited, the sole shareholder of Pershing Limited ("PL") and in turn, the sole shareholder of Pershing Securities International Limited ("PSIL"), approved an increase of the bonus cap to 200% on 21 July 2014.

## **5.6 Deferral policy and vesting criteria**

For more senior-level employees, a portion of variable compensation will be deferred, under ordinary circumstances for a period of at least three years (albeit such compensation may be deferred on a pro rata basis for alternative periods), and will be subject to the performance of either (or both) the company or the respective business. The deferred component of the variable compensation award is generally delivered as restricted stock units whose value is tied to BNY Mellon's share price. The percentage of the variable compensation award to be deferred depends on the level of the position, regulatory requirements and the amount of the award. For regulated staff, the variable compensation portion of an award is broken out in four different parts: upfront cash, upfront equity, deferred cash and deferred equity, in order to comply with local regulations. All such deferred awards are subject to terms and conditions that provide for forfeiture or clawback in certain circumstances.

## **5.7 Variable remuneration of control function staff**

The variable compensation awarded to control function staff (e.g. audit, legal and risk) is dependent on performance which is assessed according to the achievement of objectives specific to their functional role which is independent of the activities they oversee. This remuneration is benchmarked against the market level and funded independently of individual business line results and adjusted based on BNY Mellon's overall annual financial performance.

## **5.8 Quantitative Remuneration Disclosure**

Details of the aggregate remuneration of Material Risk Takers for PSIL for the year ending 31 December 2014 cannot be disclosed on the grounds of data confidentiality.



## 6 Glossary of Terms

The following terms are used in this document:

- **ALCO:** Asset and Liability Committee
- **Basel II:** The June 2006 capital adequacy framework issued by the Basel Committee on Banking Supervision in the form of the 'International Convergence of Capital Measurement and Capital Standards'.
- **BNY Mellon:** The Bank of New York Mellon
- **BNYMC:** The Bank of New York Mellon Corporation
- **Compensation Oversight Committee (COC):** COC is responsible for reviewing each incentive compensation plan annually. COC approval is also required in connection with any amendment to or termination of any incentive compensation plan.
- **CRD:** Capital Requirements Directive
- **CRR:** Capital Requirements Regulation
- **Credit risk mitigation (CRM):** A technique to reduce the credit risk associated with an exposure by application of credit risk mitigants such as collateral, guarantees and credit protection.
- **Derivatives:** A derivative is a financial instrument that derives its value from one or more underlying assets, for example bonds or currencies.
- **EMEA Remuneration Governance Committee (ERGC):** ERGC is a regional governance committee that reviews the compensation plans and their implementation in the different businesses and entities of the Company in Europe, the Middle East and Africa (EMEA) (including, but not limited to, the EU Member States), in order to ensure their compliance with the laws and regulations on remuneration issued by the relevant states and regulatory authorities.
- **Exposure:** A claim, contingent claim or position which carries a risk of financial loss.
- **Exposure at default (EAD):** The amount expected to be outstanding, after any credit risk mitigation, if and when a counterparty defaults. EAD reflects drawn balances as well as allowance for undrawn amounts of commitments and contingent exposures.
- **Human Resources and Compensation Committee (HRCC):** HRCC oversees the compensation plans, policies and programs in which the executive officers of the Bank participate and the other incentive, retirement, welfare and equity plans in which all employees of the Bank participate.
- **Institutions:** Under the Standardised approach, Institutions are classified as credit institutions or investment firms.
- **Internal Capital Adequacy Assessment Process (ICAAP):** The group's own assessment of the levels of capital that it needs to hold through an examination of its risk profile from regulatory and economic capital viewpoints.
- **Key Risk Indicator (KRI):** Key Risk Indicators are used by business lines to evaluate control effectiveness and residual risk within a business process.
- **MRT:** Material Risk Taker as defined by the European Banking Authority Final Regulatory Technical Standards on criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile under Article 94(2) of Directive 2013/36/EU ("CRD IV").
- **PRC:** Pershing Risk Committee which meets on a monthly basis to provide governance on risk related items arising from the business of the group
- **Residual maturity:** The period outstanding from the reporting date to the maturity or end date of an exposure.

- **Risk appetite:** A definition of the types and quantum of risks to which the firm wishes to be exposed.
- **Risk and Control Self-Assessment (RCSA):** Risk and Control Self-Assessment is used by business lines to identify risks associated with their key business processes and to complete a detailed assessment of the risk and associated controls.
- **Risk Governance Framework:** The PSIL risk governance framework has been developed in conjunction with BNYMC requirements. Key elements of the framework are:
  - Formal governance committees, with mandates and attendees defined
  - Clearly defined escalation processes, both informally (management lines) and formally (governance committees, board, etc)
  - A clear BAU process for identification, management and control of risks
  - Regular reporting of risk issues
- **Risk Management:** includes line of business Risk Managers, EMEA Risk Architecture and respective business line Embedded Control Managers.
- **Risk Management Committee (RMC):** Risk Management Committee which meets a minimum of ten times per calendar year (according to the Terms of Reference) to provide governance on risk related items arising from the business of the group.
- **Standardised approach:** In relation to credit risk, a method for calculating credit risk capital requirements using external credit assessment institution ratings and supervisory risk weights. In relation to operational risk, a method of calculating the operational capital requirement by the application of a supervisory defined percentage charge to the gross income of eight specified business lines.

## 7 Contacts

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