

The Small Investment Banking Group
C/O WMA
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04/06/2015

BY EMAIL only

Dear Sir or Madam

Guidelines on "Sound Remuneration Policies" (EBA/CP/2015/03)

The Small Investment Banking Group is an informal grouping of senior managers from about 25 brokers/independent securities companies and/or Nominated Advisers (Nomads) in London that meet periodically at the WMA (Wealth Management Association) offices to discuss industry matters. WMA have kindly agreed to act as our contact address for this communication.

We comprise smaller commercial firms that are not systemically important and as such, no group member has taken government funds or benefited from bailout funds. The members listed below wish to comment strongly on the Consultation on Guidelines on "Sound Remuneration Policies" (European Banking Association/Consultation Paper/2015/03).

Our view is that the EBA proposals do not take significant consideration of the fact the majority of brokers/independent securities companies and Nominated Advisers (Nomads), supporting growth or midcap companies on the Alternative Investment Market and the main market of the London Stock Exchange, are themselves SMEs with a majority, or significant minority, of shares held by the Directors and employees. As stated above, our firms cannot be described as systemically important.

Applying remuneration structures at these firms, in the same manner as for systemically important firms, is contrary to the commission's stated objective of assisting SMEs to access capital effectively. The proposals, if enacted, would have devastating consequences in terms of our competitiveness and viability. Our firms' activities are consistent with the European Commission's stated aim of encouraging the access of SMEs to the capital markets as set out in its green paper "Building a Capital Markets Union" and the various recitals to MIFID II. Our firms are a key part of the UK financial landscape that intermediate between the major savings institutions, enabling capital to be allocated, distributed and invested efficiently and productively to SME companies seeking capital for growth.

We make the following, additional points which support our view that smaller firms should be treated differently:

- The wider CRD IV approach to remuneration is focused upon controlling risk, and aligning incentives, within systemically important firms, who may merit this approach given the risks that they pose to financial stability, and the nature of their business, where a "mark-to-market" approach to assessing the profitability of trading is important. This analysis is obviously not appropriate for smaller, non-systemically important firms. We believe the EBA should *not* treat all firms as if they are large systemically important firms. The EBA's approach fails to take into account more nuanced business models, services, operational risks and pay structures of smaller firms.

- Typically, smaller firms are less exposed to credit risk, market risk and liquidity risk in general. They do not pose a risk to the stability of markets. They tend not to run complex mark-to-market trading books. Therefore, smaller firms will not be exposed to the "tail risk" that may be run by larger, more systemically important firms.
- The profitability of smaller firms may be more volatile than that of large systemically important firms. Therefore with varying ownership models– they need more flexibility in the way that employees are paid. Typically, employees will be paid a relatively low fixed level of remuneration which enables the overall cost base to be kept low. Variable pay is therefore much more important in such a business model, and needs to be more flexibly applied. Smaller firms do not have the ability to make increases to base pay, which we believe will be the result of the EBA's proposals, nor would it be prudent for them to do so in the long term nor consistent with the need to keep adequate capital.
- Smaller firms are often not listed, which makes equity-based remuneration impractical.
- In firms which typically have lower base salaries, a cap on variable pay is a disincentive to undertaking more work when there is no prospect of further pay. This is commercially disadvantageous, with more serious consequences for some for firms, of our size

In summary, we strongly believe that the EBA need to allow national regulators to consider smaller, non-systemically important firms on a case by case basis, dependent on their business/ownership model, and the risk they pose. We would be happy to meet to discuss our views, if appropriate.

Yours faithfully,

Arden Partners plc
Cenkos Securities plc
FinnCap Ltd
Numis Securities Limited
Panmure Gordon & Co
Stifel Nicolaus Europe Limited
WH Ireland Ltd
William Blair & Company