

# Charles Taylor Investment Management Company Limited

## Pillar 3 Disclosure and Policy

31<sup>st</sup> December 2017

### Introduction

#### Regulatory Context

The Pillar 3 disclosure of Charles Taylor Investment Management Company Limited (“CTIM” or “the Firm”) is set out below as required by the FCA’s Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), specifically BIPRU 11.3.3 R. This is a requirement that stemmed from the Capital Requirements Directive (CRD) which represented the European Union’s application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

#### Frequency

The Firm will be making Pillar 3 disclosures annually. The disclosures will be as at the Accounting Reference Date (ARD), which will normally be as at 31 December of the relevant year.

#### Media and Location

The Disclosure will be published on our website.

#### Verification

The information contained in this Disclosure has not been audited by the Firm’s external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgment on the Firm or the Firm’s holding company and that holding company’s subsidiaries.

#### Materiality

The Firm regards information as material in disclosures if its 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. If the Firm deems a certain disclosure to be immaterial it may be omitted from this Disclosure.

#### Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has been omitted.

### Summary

The CRD requirements under UK implementing regulations have three pillars.

- Pillar 1 deals with minimum capital requirements;
- Pillar 2 deals with Internal Capital Adequacy Assessment Process (ICAAP) undertaken by a firm and the Supervisory Review and Evaluation Process through which the Firm and Regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces; and
- Pillar 3 deals with public disclosure of risk management policies, capital resources and capital requirements.

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a MiFID Investment Management firm. The Firm's activities give it the BIPRU categorisation of a Limited Licence BIPRU €50K firm, is not authorised to hold client money and does not have an Investment Firm Consolidation Waiver under BIPRU 8.4. The Firm has permission to advise on investments, arrange deals, deal as agent, do transaction activities and manage investments.

The Firm acts solely as agent, so the main protection to our customers is provided through client money and asset arrangements. Its greatest risks have been identified as business (including legal and regulatory, and liquidity) and operational (lack of business continuity and loss of key staff) risk. The Firm does not consider its interest rate, credit and market risks to be material. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's main exposure to credit risk is the risk that management and performance fees cannot be collected and the Firm considers the credit risk is low. The Firm holds all cash and performance fee balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to foreign currency exchange risk and to any cash amounts or assets held by the Firm in a foreign currency. All foreign currency is converted into GBP, where possible, on a regular basis. Currency risk is not considered material for the purposes of this disclosure.

## **BIPRU 11.5.1**

**Disclosure:** Risk Management Objectives and Policies

### **Risk Management Objective**

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

### **Governance Framework**

The Board is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets quarterly and is composed of:

- Douglas Jones
- Nick Jelley
- Richard Yerbury

The Board is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, it decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure their potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Board for designing, implementing and monitoring the process of risk management, which is appropriate for the Firm's nature, scale and complexity of business operations, and implementing it into the day-to-day business activities of the Firm.

## Risk Framework

Risk within the Firm is managed by use of the following:

- The Board regularly reviews and assesses risks that are applicable to the Firm;
- The Firm has a conservative approach to risk;
- The Firm has identified its risks and recorded them in a Risk Register;
- The Risk Register is reviewed at regular meetings of the Board;
- The Firm has undertaken scenario analysis and stress tests on the most significant risks identified. This informs the Firm how risks are likely to materialise and what, if any, impact there is likely to be to the Firm's financial position;
- The Firm has in place an internal control framework to govern its processes and procedures and to mitigate any risks;
- The Firm's frameworks are similar to the ICAAP approach.

## BIPRU 11.5.4

**Disclosure:** Compliance with BIPRU 3, BIPRU 4, BIPRU 6, BIPRU 7, BIPRU 10 and the Overall Pillar 2 Rule

### BIPRU 3

For its Pillar 1 regulatory capital calculation of credit risk, under the credit risk capital component the Firm has adopted the standardised approach (BIPRU 3.4) and the simplified method of calculating risk weights (BIPRU 3.5). The Firm's financial year ends on 31 December and the figures below were as at 31 December 2016:

### Credit Risk Calculation

Credit Risk Capital Requirement	Rule	Capital Component		
Credit Risk Capital Component	BIPRU 3.2	£34,594		
<b>Total</b>		<b>£34,594</b>		
		Exposure	Risk Weight	Risk Weighted Exposure Amount
Banks short term	BIPRU 3.4.39	£687,498	20%	£137,500
Exposure to Corporates/Debtors	BIPRU 3.4.52	£72,813	100%	£ 72,813
Prepayments and Accrued Income	BIPRU 3.4.128	<u>£20,909</u>	100%	<u>£ 20,909</u>
<b>Total</b>		<b>£781,220</b>		<b>£231,222</b>
<b>Credit Risk Capital Component 8% of Risk Weighted Exposure Amounts</b>		<b>£18,497.76</b>		

### BIPRU 4

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

### BIPRU 6

The Firm, being a Limited Licence Firm is not subject to the Pillar 1 Operational Risk Requirement and, therefore, this is not applicable.

### BIPRU 7

The Firm has Non-Trading Book potential exposure only (BIPRU 7.4, 7.5).

## **BIPRU 10**

The Firm is not subject to the Large Exposure Rules at BIPRU 10 and, therefore, no disclosure on this is required.

## **Overall Pillar 2 Rule**

The Firm has adopted the Structured approach to the calculation of its ICAAP Capital Resources Requirement, as outlined in the Committee of European Banking Supervisors Paper dated 25 January 2006.

The ICAAP assessment is reviewed by the Board and amended, where necessary, on an annual basis or more frequently when a material change to the business occurs. The Board reviews and endorses the risk management objectives at the same time as reviewing and signing off the ICAAP document.

## **BIPRU 11.5.8**

### **Disclosure:** Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of investment management fees. It holds all cash and performance fee balances with Banks assigned high credit ratings. Given the nature the Firm's clients, the risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

## **BIPRU 11.5.12**

### **Disclosure:** Market Risk

The Firm is not exposed to market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP. The Firm calculates its foreign exchange risk by reference to the provisions of BIPRU 7.5. Foreign exchange risk is not considered to be material for the purposes of this disclosure.

## **BIPRU 11.5.2**

### **Disclosure:** Scope of Application of Directive Requirements

While the Firm is a member of a UK Consolidation Group there is no difference in the basis of consolidation for accounting and prudential purposes and the further provisions of this section are satisfied.

## **BIPRU 11.5.3**

### **Disclosure:** Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4). Tier 1 Capital comprises Shareholders' Capital Tier One Capital and Audited Reserves with details below as at 31 December 2016.

Tier 1 Capital	£85,000
Capital Resources	<u>£500,342</u>
<b>Total Capital</b>	<b>£585,342</b>

## **BIPRU 11.5.5**

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3).

#### **BIPRU 11.5.6**

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by BIPRU 11.5.4R (3).

#### **BIPRU 11.5.7**

This disclosure is not required as the Firm does not have a Trading Book.

#### **BIPRU 11.5.9**

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under BIPRU 11.5.8R (9).

#### **BIPRU 11.5.10**

**Disclosure:** Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights (BIPRU 3.5).

#### **BIPRU 11.5.11**

**Disclosure:** Firms calculating Risk Weighted Exposure Amounts using the IRB Approach  
This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by BIPRU 11.5.4R (3).

#### **BIPRU 11.5.13**

**Disclosure:** Use of VaR model for calculation of Market Risk Capital Requirement

This disclosure is not required as the Firm does not use a VaR model for calculation of Market Risk Capital Requirement.

#### **BIPRU 11.5.14**

**Disclosure:** Operational Risk

The Firm's Fixed Overhead Requirement (FOR) is disclosed as a proxy for the Pillar 1 Operational Risk Capital calculation. The Firm's Pillar 1 Capital Resources Requirement is the FOR, which is the higher of the base capital requirement, and the sum of the Market Risk and Credit Risk Requirement.  
As at 31 December 2016:

Fixed Overhead Requirement GENPRU 2.1.53 **£287,700**

#### **BIPRU 11.5.15**

**Disclosure:** Non-Trading Book Exposures in Equities  
This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

#### **BIPRU 11.5.16**

**Disclosure:** Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

### **BIPRU 11.5.17**

**Disclosure:** Securitisation

This disclosure is not required as the Firm does not Securitise its assets.

### **BIPRU 11.5.18**

**Disclosure:** Remuneration

The Firm is a Remuneration Code Proportionality Tier 3 Firm and has applied the rules appropriate to its Proportionality Tier. The Board is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements. The Firm has one business area (investment management) and one of the Code Staff within this area had taken remuneration during the period.

### **Remuneration Code Staff Remuneration by Business Area (BIPRU 11.5.18 (6))**

#### **Business Area Total Remuneration**

Investment Management £259,275

### **Aggregate Quantitative Remuneration by Senior Management and other**

#### **Remuneration Code Staff (BIPRU 11.5.18 (7))**

<b>Type of Remuneration Code Staff</b>	<b>Total Remuneration</b>
Senior Management (SIF)	£259,275
Other Remuneration Code Staff	<u>£0</u>
<b>Total</b>	<b>£259,275</b>