PFM Associates Limited

Pillar 3

&

BIPRU Remuneration Code Disclosures

(31 May 2019)

PFM Associates Limited

Pillar 3 and BIPRU Remuneration Code Disclosures

Pillar 3 Disclosure

Background

This is the Pillar 3 disclosure made in accordance with the UK Financial Conduct Authority (FCA) Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The European Capital Requirements Directive (CRD) created a regulatory capital framework consisting of three 'pillars' namely;

- Pillar 1 – which sets out the minimum capital requirements that firms are required to meet for;
- Pillar 2 – which requires firms to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- Pillar 3 - which requires firms to publish certain details of its risks, capital and risk management process.

Disclosure Policy

The rules in BIPRU 11 provide that the firm may omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where the firm considers a disclosure to be immaterial, this will be stated in the relevant section.

The firm is also permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the firm's competitive position. Information is considered to be confidential where there are obligations binding the firm to confidentiality with its clients and counterparties.

Where the firm has omitted information for any of the above reasons, a statement explaining this will be provided in the relevant section.

Unless stated as otherwise, all figures contained in this disclosure are for the year ending 31 March 2019.

Frequency

These Pillar 3 Disclosures will be reviewed on an annual basis as a minimum. The disclosures will be published as soon as is practical following the finalisation of the firm's Internal Capital Adequacy Assessment Process (ICAAP) and the publication of its annual reports.

Verification

The information contained in this disclosure has not been audited by our firm's external auditors and does not constitute any form of financial statement.

Publication

Our firm's Pillar 3 Disclosure reports are published on our website.

Scope and application of Directive requirements

The disclosures in this document are made in respect of PFM Associates Limited which provides financial advice and discretionary investment management services.

The firm is a BIPRU firm.

Risk management objectives and policies

Our risk management policy reflects the FCA requirement that we must manage a number of different categories of risk. These include: liquidity, market, insurance, business and operational risks.

1. Liquidity risk

   The firm manages all cash and borrowing requirements to maximise potential interest income whilst ensuring the firm has sufficient liquid resources to meet the continued operating needs of the business. This is supported by a robust budgeting and forecasting process which has the full involvement of the senior management team.

2. Market Risk

   Market risk is the risk that the value of client investments will decrease due to changes in market factors. This will in turn have an effect on the ongoing service fees and remuneration received by the firm as a result of the fixed percentage being applied to reduced portfolio values. Market downturn would need to be very substantial and sustained to have a significant effect on the firm, and the risk is alleviated by a robust investment process which is designed to protect clients' investments from losses on the downside.

3. Insurance risk

   The insurance risk for the firm relates to the excess payment amounts that must be paid by the firm in the case of compensation due to clients in respect of upheld complaints and paid under the firm's professional indemnity insurance cover. These excess amounts vary according to the type of business that is the subject of the individual complaint. Complaint numbers have historically been very light and the results overwhelmingly in favour of the firm, only a very small percentage having resulted in any sort of compensation having to be paid and most well within the excess amount pertaining at the time.

4. Business risk

   The firm's Pillar 2 business risk assessment principally takes the form of a fall in assets under management following a market downturn that leads to lower management fees, although other risks such as loss of advisers and systems failures are also considered. To mitigate our business risk, we regularly analyse various different economic scenarios to model the impact of economic downturns on our financial position.

5. Operational risk

   Operational risk is defined as the potential risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems, from the actions of people or from external events.

   Major sources of operation risk include: outsourcing of operations, IT security, internal and external fraud, implementation of strategic change and regulatory non-compliance.

   The firm operates a robust risk management process which is regularly reviewed and updated with details being provided to all staff. The firm's Compliance Oversight is responsible for the periodic reviews and recommending any changes to the Board.

All senior management will bear responsibility for internal controls and the management of business risk as part of their accountability to the Board.

Individuals are responsible for identifying the risks surrounding their work, implementing controls over those risks and reporting areas of concern to their line manager.

6. Other risks

   The firm operates a simple business model. Accordingly, many of the specific risks identified by the FCA do not apply.

Capital resources

Pillar 1 requirement

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), our capital requirement has been determined as being our fixed overhead requirement and not the sum of our credit risk capital requirement and our market risk capital requirement.

Pillar 2

Our overall approach to assessing the adequacy of our internal capital is set out in our ICAAP. The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. We assess impact by modelling the changes in our income and expenses caused by various potential risks over a 1-year time horizon. Probability is assessed subjectively.

In addition, we have reviewed the outputs of our risk reviews to quantify any risks identified. This has identified a number of key business risks which we have classified against the risk categories contained in GENPRU 1.2.30R and reviewed the guidance in BIPRU 2.2.61-65.

Our Pillar 2 capital requirement, which is our own assessment of the minimum amount of capital that we believe is adequate against the risks identified, has been assessed as greater than our Pillar 1 requirement. There is a considerable surplus of reserves above the capital resource requirement deemed necessary to cover the risks identified.

Regulatory capital

The main features of our capital resources for regulatory purposes, as at 31 March 2019 are as follows:

Capital item:	£000s
Tier 1 capital (called up share capital, share premium account, profit and loss account, externally verified interim net profits)	1,192
Total of tier 2 and tier 3 capital (broadly long and short term subordinated loans)	0
Deductions from tier 1 and tier 2 capital	0
Total capital resources, net of deductions	1,192

The firm holds regulatory capital in accordance with the Capital Requirements Directive. All such capital is classified as Tier 1 capital and is therefore of the highest quality.

Remuneration Code Disclosure

The firm is subject to the BIPRU Remuneration Code. This section provides further information on our remuneration policy.

BIPRU Remuneration Code Staff

We have identified, and maintain a record of, 'BIPRU Remuneration Code Staff' – i.e. staff to whom the BIPRU Remuneration Code applies. This includes senior management and members of staff whose actions may have a material impact on a firm's risk profile. All of our Code Staff fall into the "senior management" category of Code Staff (rather than the "risk taker" category) for the purposes of the BIPRU Remuneration Code.

Decision Making / Remuneration Committee

PFM Associates Limited does not have a Remuneration Committee. The Directors are responsible for our remuneration policy including:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk taking.
- Agreeing any major changes in remuneration structures.
- Reviewing the terms and conditions of any new incentive schemes and in particular, considering the appropriate targets for any performance related remuneration schemes.
- Considering and recommending the remuneration policy for the senior employees taking into account the appropriate mix of salary, discretionary bonus and share based remuneration.
- In determining remuneration arrangements, the Directors will give due regard to best practice and any relevant legal or regulatory requirements including the BIPRU Remuneration Code.

Link Between Pay & Performance

Competitive salaries form the basis of our firm's remuneration package. In addition there is an element of variable pay for advisers which is based on firm-wide and individual performance. Whilst most of the variable reward components are awarded to employees across the firm, the structure, balance and amounts may differ. Variable remuneration is considerably reduced where subdued or negative financial performance of the firm occurs.

When assessing individual performance we use a robust performance review process, with reviews including qualitative criteria and, in the case of investment managers, long-term investment results are a factor in the assessment process.

Quantitative Information on Remuneration

The FCA rules require certain firms to disclose aggregate information on remuneration in respect of its BIPRU Remuneration Code Staff broken down by business area, senior management and other Code Staff, including "risk takers".

The firm has one main business area - investment management.

The firm has 4 Directors/Partners but no "risk takers".

Director remuneration is agreed formally at board meetings. The link between performance and pay is inevitable in a small firm, but the firm's risk adverse strategy and robust risk management systems mitigate any risks.