Pillar 3 Disclosure Statement 2020

Overview

The European Union's Capital Requirements Directive ("the Directive") introduced capital adequacy standards and an associated supervisory framework in the EU. In the United Kingdom this is implemented and enforced by the Financial Conduct Authority (FCA) with rules and guidance within the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). The framework is structured around three 'pillars'.

- **Pillar 1** sets out the minimum regulatory capital requirements a firm must adhere to. A BIPRU firm must maintain capital resources which are at least equal to the base capital resources requirement. A firm must also meet the variable capital requirement which is the higher of a) the capital required to cover a firm's credit, market and operational risk or b) the firm's fixed overhead requirements. The base capital can be used to meet the variable capital requirement.
- **Pillar 2** requires a firm to regularly assess the amount of internal capital it considers adequate to cover all of the risks to which it is exposed, within the context of its overall risk management framework. The process, known as the Internal Capital Adequacy Assessment Process (ICAAP) is the firm's responsibility and is specific to each firm.
- **Pillar 3** requires firms to make disclosures to the market for the benefit of the market. The aim is to encourage market discipline by developing a set of disclosure requirements, both generic and accounting specific, which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes.

Collectively Pillars I, II & III form the overall framework for prudential supervision of banks, credit institutions and investment firms.

Scope and Application of the Directive

Gibbs Denley Investment Management Ltd ("GDIM") is an investment management firm providing discretionary investment management services via Investment Model Portfolios (IMPs). GDIM is authorised and regulated by the FCA. GDIM is also authorised to carry out some MiFID activities and in this regard is considered a BIPRU firm subject to CRD III requirements. GDIM is not subject to consolidated reporting.

GDIM's Directors determine the business strategy and risk appetite. Together with the firm's senior management they are responsible for the design and implementation of a risk management framework.

Risk Management Policies and Objectives

Sources of Risk

GDIM endeavours to manage all the risks that arise from its operations. The main areas of risk that have been identified are as follows:

- *Business Risk*
  Business risk is the risk that GDIM may not be able to carry out its business plan or its desired strategy and could therefore suffer losses if its income falls. These risks can be classified as strategic, financial or legal / regulatory.

- *Operational Risk*
  Operational risk is the risk of a loss arising from failed or inadequate internal processes or systems, human error or other external factors. The ways in which GDIM manages these risks include identifying and regularly testing key control procedures, obtaining and reviewing key management information, and trend analyses on operational issues. Detailed descriptions of core processes and control procedures are contained within GDIM's operating procedures.
  In order to ensure it has sufficient capital to cover these operational risks GDIM also enters into comprehensive insurance policies to cover eventualities such as errors and omissions, business interruption, crime etc. Material operational issues and failures are brought to the attention of GDIM's senior management as appropriate.

- *Credit Risk*
  For GDIM, Credit Risk refers to the potential risk that arises from customers failing to meet their obligations as they fall due. GDIM's fees are paid by platform providers who have deducted fees from clients' accounts. We therefore feel there is little risk of unpaid fees. In relation to its cash deposits, GDIM also faces the potential risk of the failure of a banking institution. GDIM regularly reviews the financial strength and credit ratings of bankers.

- *Market Risk*
  Market risk is the risk that the value of, or income arising from, GDIM's business activities varies as a result of changes in stock markets, interest rates or exchange rates. Changes in interest rates and exchange rates have little direct impact on GDIM's business. Stock market levels directly impact on the level of GDIM's assets under management (and hence profitability) but are beyond its control. It is GDIM's policy to understand and accept that this is an inherent risk within the business.

- *Liquidity Risk*
  Liquidity risk is the risk that in the short term, GDIM has insufficient liquid assets to meet its payment obligations. GDIM's liquidity policy is to maintain assets in such proportion and type as will at all times enable it to meet its liabilities as they arise. GDIM is a cash generative business and will usually be able to meet all payment obligations out of operating income. However, detailed management accounts and cash flow budgets are produced and reviewed by the Directors on a regular basis to demonstrate this.

Management Group Review and Approval

GDIM has established a Management Group made up with senior staff from operations and compliance. The function of the Group is to understand all the risks that GDIM is subject to, to formulate the high level policies and objectives in relation to those risks (as set out in this document), and where necessary to put in place detailed processes and controls or other mitigating action to ensure risks are adequately managed. Policies and procedures are kept up to date at all times and are thoroughly reviewed on at least annually.

Capital Requirement

Pillar 1

GDIM is a limited license firm and is therefore exempt from the operational risk requirement of Pillar 1 and is not required to calculate an operational risk capital charge. As such, its minimum capital requirement is the greater of:

- A base capital requirement of £42,524 as at 31st December 2019.
- The sum of its market and credit risk requirements; and
- The fixed overhead requirement.

At this point in time, GDIM's fixed overhead requirement exceeds the sum of market and credit risks and therefore establishes the minimum capital requirement of £15,927. As this is less than the base capital requirement of £42,524, it is this higher figure we are required to hold.

Pillar 2

GDIM's approach to assessing the adequacy of its internal capital to support current and future activities is contained in the Internal Capital Adequacy Assessment Process document. All known risks, including operational risks, have been assessed and appropriate stress tests and scenario analyses have been undertaken to help determine any additional capital required under Pillar 2.

GDIM has calculated its Pillar 2 requirement to be £49,167.

Capital employed to meet the capital requirement.

The main features of GDIM's capital resources for regulatory purposes are as follows::

Capital item £	£
Tier 1 capital	42,524
Total of tier 2, innovative tier 1 and tier 3 capital	49,167
Deductions from tier 1 and tier 2 capital	0
Total capital resources, net of deductions	143,192
Surplus over Pillar 1 + Pillar 2	94,025