PILLAR 3 DISCLOSURE & POLICY

APRIL 2020

SMITH & PINCHING

Financial Planners

Chartered

Contents

1 INTRODUCTION

The Pillar 3 disclosure of Smith & Pinching Financial Services Limited (S&P) ("the Firm") is set out below as required by the Capital Requirement Regulation Art. 431 et seq. This is a requirement which stems from Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on Prudential requirements for Credit Institutions and Investment Firms and amending Regulation (EU) No 648/2012 ("Capital Requirement Regulation", "CRR") which represented the European Union's application of the Basel Capital Accord. The regulatory aim of the disclosures is to improve market discipline.

1.1 Basis and Scope of Disclosure

These disclosures are for S&P Financial Services Limited on a solo basis. S&P Financial Services Limited is a wholly owned direct subsidiary of The Smith & Pinching Group Limited. The CRR to which the Firm is subject has three pillars;

- Pillar 1 - sets out the minimum capital requirements covering prudential capital requirements for credit, market and operational risk
- Pillar 2 - deals with Internal Capital Adequacy 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
- Pillar 3 - deals with public disclosure of risk management policies, capital resources and capital requirements

The regulatory aim of the disclosure is to improve market discipline.

The Firm was reclassified in December 2018 as a BIPRU 50K firm, as a result of ceasing to safeguard and administer client assets. It acts solely as agent. The company neither holds client money nor safeguards or administers client assets. The Firm's greatest risks have been identified as business and operational risk. 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; and 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.

1.2 Frequency

The Firm will review and make Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date ("ARD"). The disclosures will be published as soon as is practical following the finalisation of the firm's Internal Capital Adequacy Assessment Process (ICAAP) and publication of the annual reports.

1.3 Verification

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

1.4 Publication

The disclosure will be published on the Firm’s website at www.smith-pinching.co.uk.

1.5 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 not been disclosed.

1.6 Risk Management Objectives and Policies

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite. S&P recognises that risk taking is an essential part of doing business and therefore cannot be eliminated. Risks must be fully understood and adequately measured to ensure that the business risk exposure is appropriate and is consistent with the strategic objective and consumer outcomes. The Board of directors of S&P are responsible for setting out S&P’s risk appetite and risk management policy. The risk management policy and risk exposure is reviewed at least annually to ensure they remain appropriate.

The Board ensures that at all times enough capital is maintained to exceed the minimum capital adequacy requirements.

2 OVERVIEW OF GOVERNANCE & RISK MANAGEMENT FRAMEWORK

2.1 Governance

S&P operates with a board of directors and a management committee. The board is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets quarterly unless otherwise required and represents the principal forum for conducting the Firm's business and takes day to day responsibility for the efficient running of the business. 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, the board 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 its potential impact and then to ensure that such risks are actively managed. The board is responsible for ensuring appropriate risk mitigation is in place.

The board delegates many of the functions of the day to day operation of the company to the management committee which is a wider group of people from the Investment Oversight, Finance, Marketing, Advisory and Compliance parts of the business. The management committee is fully accountable to the board of directors.

2.2 Risk Management

S&P's priority is to ensure continuation of delivery of service to clients during challenging periods. Business continuity is seen as the activities that maintain and recover business operational effectiveness against any untoward or adverse circumstances. This document is to set out an understanding of those threats and responses to them. The risk themselves are identified in the risk summary section. Each threat is evaluated by means of a risk assessment. The scale of each potential impact on the business is considered and parameters such as likelihood and duration of the disruption are taken into account.

The key business processes and their respective objectives are listed within this document. These procedures are designed to specify what internal actions are needed for the business to be able to provide services in response to any given threat materialising. The relevant Disaster Recover Action Plans and procedures within this document detail how S&P will respond in the event of a so-called disaster, whilst the wider Business Continuity Plan sets out how the business seeks to avoid or mitigate against the impact of such potential events. S&P's aim is to plan to avoid altogether or mitigate potential threats to the extent that is deemed reasonable and practice and commercially viable which is borne out of a duty of care to both consumers and staff alike.

As part of the regular reviews S&P has a number of procedures in place to evaluate and manage potential risks including (but not limited to):

2.2.1 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 advisors 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 to our financial position.

2.2.2 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. S&P holds significant cash balances and therefore has no material liquidity risk.

2.2.3 Market risk

Market risk is the risk that the firm will lose money due to the daily fluctuations of the market. Market risk is taken by our clients who are impacted directly by market movements. The company is indirectly impacted by market movements through variances in fees generated by Assets under Advice. Here we recognize this as Business Risk, as such we do not hold capital for Market Risk in our Pillar 1 calculation.

2.2.4 Operational risk

Operational 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. S&P is a serviced based company that has well defined policies and procedures. 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's risk management process is regularly reviewed and monitored by the Firm's compliance oversight partner responsible for periodic reviews and recommending changes to the Board. The company is protected via £3m of professional indemnity insurance and undertakes external audits on an annual basis. Any material outsourced functions are covered by contractual service level agreements, enhanced due diligence which is reviewed on an annual basis which also covers disaster recovery, data security and operational continuation of that service provider.

2.2.5 Group risk

Whilst S&P does trade independently from any group structure, it does form part of a trading group.

2.2.6 Interest rate risk

Interest rate risk is not applicable to S&P as the Firm has no borrowings and no exposure to interest rate risk.

2.2.7 Insurance risk

S&P maintains Professional Indemnity Insurance. The policies, which are standard in market terms, cover the most likely source of loss to the firm to a level that is appropriate to the scale of the firm's business. The policies are underwritten by insurers with satisfactory credit ratings. In the event that these policies do not pay out as soon as expected, S&P existing regulatory capital resources requirement and its access to additional capital from its Group structure means that the firm is in a position to continue to operate. In the event of a particular loss that falls outside the terms of its insurance, the directors will, where appropriate, make provisions in the ordinary course of business for such potential losses as soon as is prudent. Having considered the policy excess, no additional capital has been allocated under the ICAAP to cover an exposure the firm may face outside the fixed overhead costs taken into account in its regulatory capital resources requirement.

2.2.8 Other risks

The Firm operates a simple business model. Accordingly, many of the specific risks identified by the FCA do not apply. S&P outsources its information technology provision to third party providers.

3 CAPITAL RESOURCES

3.1 Corporate Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as an BIPRU Firm. This is due to the firm having permission to safeguard manage investments and gives the Firm the category of an BIPRU 50K Limited Licence firm.

The following entities are covered by the ICAAP:

- S&P Financial Services Ltd
- The Firm is a Solo regulated entity.

3.2 Capital Requirements and ICAAP

The Firm is an BIPRU Limited Licence Firm. S&P has an Internal Capital Adequacy Assessment Process (ICAAP) which is formally approved by the Board. The ICAAP documents senior management's assessment of the risk profile of the business and the resulting capital requirements. This ensures that the risk profile is assessed, controls are in place and that sufficient capital is maintained to ensure that the residual risk remains within the risk appetite set out by the Board.

3.3 Pillar 1 Requirement

As a limited licence firm, S&P is not required to hold capital at Pillar 1 under the FCA's standardized approach to operational risk and hence a Fixed Overhead Requirement is used as a proxy instead. The Pillar 1 minimum requirement for a limited licence firm is the higher of:

1. The sum of Credit Risk Capital requirement plus Market Risk capital requirement; and
2. The Fixed Overhead Requirement (25% of audited fixed expenditure).

S&P's capital requirement has been determined as being the Firm's Credit Risk Requirement plus their Market Risk Requirement, this being greater than the Firm's fixed overhead requirement.

The Pillar 1 capital requirement for S&P was £2,050,164 at 30th June 2019.

3.4 Pillar 2 Requirement

As BIPRU firm, S&P is required to undertake an ICAAP in order to establish the level of capital it deems sufficient to support its business activities. More specifically, the ICAAP assessment is intended to determine whether the FCA Pillar One requirements of market, credit and operational risk provide an adequate level of capital to support the Firm's business. As the Firm is subject to the FCA's capital adequacy regime at a solo level, the ICAAP is formulated at the S&P entity level and accordingly shares the same scope as the overall Pillar three disclosures.

S&P has an Internal Capital Adequacy Assessment Process ("ICAAP") which is approved by the board. The ICAAP documents the board's assessment of the risk profile of the business and the resulting capital requirements.
The Firm has assessed the amount of capital it feels is necessary to hold to support the risk it faces. This was achieved through the application of Enterprise Risk Methodology (ERM), which defines the level the level of risk appetite, along with capital, is apportioned by business lines and key risk categories.

The ICAAP assessment is reviewed by the Board and amended where necessary on an annual basis or when a material change to the business occurs.

Our Pillar 2 capital requirement, which is our own assessment of the minimum amount of capital that the board committee believes is adequate against the risks identified, has been assessed as greater than our Pillar 1 requirement.

Tier 1 comprises of Share Capital and Retained Earnings.

Tier 1	£
Share Capital	100,000
Retained Earnings	2,990,645
Other Resources	4,041
Tier 1 Capital	3,094,686
Tier 1 Capital	3,094,686
Less higher of:	
Base requirement	44,651
Variable Capital requirement	2,050,164
Pillar 1 Surplus	1,044,522
Pillar 2 requirement	200,000
Surplus Capital	844,522

We have assessed that £200,000 is required over and above the Pillar 1 requirement to provide extra capital to mitigate the market risk, reputational risk and credit risk.

3.5 ICAAP assessment

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

4 CREDIT RISK

4.1 Exposure to Counterparty Credit Risk

This disclosure is not applicable. The Firm's clients are largely entities who are authorised and regulated by the FCA, PRU or equivalent overseas regulator and are therefore subject to a degree of independent oversight.

4.2 Capital Buffers

This disclosure is not applicable.

4.3 Indicators of Global Systemic Importance

This disclosure is not applicable.

4.4 External Credit Assessment Institutions (ECAIs)

The Firm does not use ECAIs, so this disclosure is not applicable.

5 OPERATIONAL RISK

This disclosure is not applicable as the Firm is Limited Licence Firm.

5.1 Exposures to Equities not included in the Trading Book

This disclosure is not required as the Firm does not have a Non-Book Exposure to equities.

5.2 Exposure to Interest Rate Risk on Positions not included in the Trading Book

Although the Firm has substantial cash balances on its balance sheet, there is currently no significant exposure to interest rate fluctuations.

5.3 Exposure to Securitisation Positions

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

6 RECRUITMENT AND DRIVER

The current and future needs of the Firm including equality and diversity are considered as part of the recruitment process. Board committee membership, along with succession planning, draws upon a range of criteria, including relevant skills and expertise, suitability for the role and relevant knowledge in order to achieve a balanced approach to enhance decision making.

7 REMUNERATION POLICY

The FCA's Code on remuneration ("Code") came into effect on 1st January 2011, as set out in the EU's Capital Require ments Directive (CRD3), which was enhanced by the Capital Requirements Directive (CRD4). The intention is to ensure that FTIM establishes, implements and maintains remuneration policies and procedures that are consistent with the promotion of sound and effective risk management. The remuneration rules are covered in the FCA's Handbook at SYSC 19A, the Code that covers IFPRU investment firms, which are FCA sole regulated.

7.1 Remuneration Code Application

The Remuneration Code applies to Remuneration Code Staff, which includes senior management, risk takers and employees who receive a total remuneration package that brings the individual into the same remuneration bracket as senior management and whose professional activities have a material impact on the Firm's risk profile.

7.2 Firm Classification

The Firm is a Remuneration Code Proportionality Level 3 Firm and has applied the rules appropriate to its Proportionality Level and as such the FCA allows FTIM to take a proportionate approach to some aspects of the remuneration disclosure requirements. The Board is responsible for the Firm's remuneration policy. FTIM is required to comply with the FCA's disclosure requirements in a manner which is appropriate to its size and internal organisation, together with the nature and scope of its activities. All variable remuneration is adjusted in line with capital and liquidity requirements.

7.3 Link between pay and performance

The policy of the Board is to reward the directors in line with the current remuneration of directors in comparable businesses in order to recruit, motivate and retain high quality executives within a competitive market place. Remuneration is made up of fixed (“salary”) and variable (“bonus”) elements designed to reward performance, with the overall performance package intended to reflect market practice for any given role. Individual performance is a key component used in the calculation of variable remuneration.

The main elements of the remuneration package for Code Staff are:

- Basic annual salary and benefits
- Company Car
- Pensions
- Benefits include death-in-service and private health insurance.

The Board establishes the objectives that must be met for each financial year for a cash bonus is to be paid. The Board decides the minimum level of operating profit that must be delivered before any cash bonus will be attributable. The purpose of the bonus is to reward executive directors for delivery in excess of the objectives that also benefits shareholders.

8 LEVERAGE

The Firm is not a credit institution and accordingly this disclosure is not applicable.

SMITH & PINCHING

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