JM FINN

Pillar 3 disclosures for J.M. Finn & Co. Ltd
December 2019

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CAPITAL REQUIREMENTS

1. INTRODUCTION

The disclosures in this document complement the ongoing work undertaken by J.M. Finn & Co. Ltd (the “Firm”) in the assessment of its capital requirements under the Financial Conduct Authority’s (“FCA”) Internal Capital Adequacy Assessment Process (“ICAAP”).

These Pillar 3 disclosures are made on an annual basis and the report is published on the Firm’s website (www.jmfinn.com). Copies of the report will also be available on request by writing to the Company Secretary of the Firm at 4 Coleman Street, London EC2R 5TA.

As at 31 December 2019, the Firm’s total capital resources (£37.2m) exceeded Pillar 1 capital requirements (£13.3m).

As at 31 December 2019, total funds amounted to £9.75 billion, of which £8.6 billion was managed on a discretionary basis.

2. CORPORATE BACKGROUND

J.M. Finn & Co. Ltd is one of the UK’s leading firms of investment managers and advisers. Founded as a partnership in 1945 and incorporated as a private limited company in 2006, we further accelerated our growth in 2011 with Belgian investment group Ackermans & van Haaren (AvH) through its wealth management affiliate Delen Private Bank. AvH is listed in Belgium and is a constituent of the BEL20 index and the European DJ Stoxx600.

The Firm has offices in London, Bristol, Leeds, Bury St Edmunds, Winchester and Cardiff. Its largest office is in London where the majority of the Firm’s investment managers and advisers, as well as its middle office and investment administration departments, are located.

The Firm provides discretionary, advisory, and execution only services for private clients and professional advisers as well as trusts, charities and pension funds. It also manages the Coleman Street Investments Funds. The Firm has approximately 17,500 client accounts and over £9.75bn funds under management and administration (as at December 2019). The Firm expects to continue to grow its funds under management through attracting new clients as well as new investment managers and advisers.

In 2017, the Firm launched a wealth planning service to complement our investment management services.

The Firm offers a high quality, personalised investment management service that aims to meet the individual demands of today’s investors. The Firm adapts its services to suit its clients and aims to hold fast to the traditional values on which the Firm was built. Further details about the Firm can be found at www.jmfinn.com.

3. RISK MANAGEMENT

The Firm's Board of Directors is responsible for setting the risk appetite of the Firm. The Risk Committee provides oversight. The Firm has risk appetite statements for each key risk and key risk indicators in place to monitor exposure against appetite. The Firm's management take a conservative approach to risk and has consistently maintained high capital cover and strong cash balances. The Board & Risk Committee meets at least four times a year.

The Firm's risk management incorporates a 'three lines of defence' model through the activities of its business functions (first line), Risk and Compliance (second line) and Internal Audit (third line). The second and third lines of defence have monitoring programmes to provide assurance across the firm.

Risk management is also achieved by embedding the process within the Firm's committees. The committees are generally made up of heads of department and report to the Board or Management Committee.

The following are the main committees of the Firm that meet regularly to deal with key risk related issues:

- Audit Committee, whose remit includes the review of internal audit reports, and the review of the internal control framework; as well as reviewing the financial accounts and policies;
- Risk Committee, whose remit includes oversight of the ICAAP, review of Operational Risk Committee minutes, and receiving reports from Risk and Compliance departments;
- Management Committee, which oversees the implementation of strategic initiatives and oversees financial, regulatory and reputational risk-related issues; and
- Conduct Risk Committee, whose remit includes to identify, assess, review and monitor conduct risk throughout the Firm.

These principal Committees are supported by the following sub-Committees:

- Operational Risk Committee, whose remit includes the identification and management of risks throughout the business, and bringing specific risks to the attention of the Operations, Management and Risk Committees as necessary;
- Operations Committee, which is the decision making forum for operational matters across all aspects of the firm; and
- Client Money & Assets Monitoring Committee, whose remit includes overseeing the Firm's internal controls and financial risks relating to client money and assets.

The Compliance Director and Head of Risk regularly attend the Management Committee. Risk and Compliance report to the Risk Committee, Management Committee and Board at least every six months.

The Internal Audit plan is derived from a risk based approach. The annual plan is created from a risk based assessment of the Audit Universe which covers all of the Firm's activities and is approved by the Audit Committee.

The Head of Internal Audit is accountable to the Chair of the Audit Committee and reports to the Chief Executive Officer. Their reports are submitted to the Audit Committee for review and escalated as appropriate to the Board and Management Committee.

The Finance Department produces extensive management information including profit and loss accounts for branch offices and departments, balance sheets, cash flow, and budget variance reports. The Firm produces detailed expense and revenue budgets for the next financial year and 3 year forecasts. This information assists the Firm in capital management (including regulatory capital) and cash flow planning. The Finance Department is responsible for the financial regulatory returns of the Firm and reports on a monthly basis to the Chief Executive Officer and Chief Financial Officer.

4. APPROACH TO ASSESSING CAPITAL ADEQUACY

The ICAAP is a process that brings together the risk management framework that the Firm has implemented to identify, manage and mitigate its risks within the financial discipline of budgeting and business planning.

The ICAAP is reviewed and updated at least annually, unless there are any changes in the control environment or other events that warrant a more immediate update. When reviewing and challenging each update the Board will review the Firm's stated risk appetite and compare it against actual performance. It will also consider the appropriateness of the stress tests performed as part of the ICAAP and if they are not considered appropriate will devise alternative stress tests.

The Risk Committee oversees the ICAAP and monitors capital adequacy on behalf of the Board.

Not all material risks can be mitigated by capital but where capital is appropriate the Firm has adopted a "Pillar 1 plus" approach to determine the level of capital that needs to be held. This method takes the FCA's Pillar 1 capital resource requirement calculations as a starting point and then considers whether this delivers an adequate capital sum to cover the Firm's actual risks. Where the Firm considers that the Pillar 1 calculation does not adequately reflect the risk, additional capital has been allocated as part of the ICAAP.

5. REVIEW OF MATERIAL RISKS

The Firm has assessed its risks under the following headings (as set out in chapter 1 of the FCA's General Prudential sourcebook):

a) Credit risk

The Firm deals predominantly with the following counterparties:

Clients – The Firm has historically had very few bad debts. This is particularly the case because the vast majority of our clients hold cash with the Firm and/or hold investments in the Firm's nominee account.

Market counterparties – The Firm has controls in place to ensure that all new counterparties are approved based on regulatory and financial suitability. Head of Dealing, Director of Dealing and Chief Financial Officer, with input from Head of Risk, agree limits for market counterparties these are based on a number of factors including financial soundness and market reputation. This group also reviews the ongoing suitability of counterparties and adherence to the firm's limits.

Banks/custodians – When investing its own cash funds, and when placing the cash part of its clients' investment portfolios, the Firm deals with banks based on a number of factors, including their ratings and security as perceived in the market. The investment of these monies reflects the Firm's low risk appetite. The Firm uses the following established market custodians: HSBC plc, Euroclear. Cofunds and Clearstream.

The Chief Finance Officer completes a Bank/Custodian review at least annually using a range of inputs. This is presented to the Risk Committee to review.

The Firm uses the FCA's "CCR mark to market method" when calculating its counterparty credit risk.

b) Market risk

The Firm is not exposed directly to market risk as it does not hold principal positions except in very limited circumstances due to errors or missed corporate actions on client holdings. These positions are monitored by the Client Money & Assets Monitoring Committee. The Firm has very limited exposure to currency risk. The impact of market cycles on the capital position of the Firm is considered under Business Risk.

c) Liquidity risk

The Firm currently has no material liquidity risk as it has a relatively high level of cash by comparison with its capital resources and no bank borrowings (as at Dec 2019). The Finance department prepares a Liquidity Risk Assessment Report an annual basis.

d) Operational risk

The Firm maintains a Risk Register in which the operational risks faced by the firm are considered in detail. The Risk Register is reviewed and updated annually by the heads of department in conjunction with Head of Risk. All risks are categorised as red, amber or green based on scores for likelihood and impact, and are also rated both pre controls and post controls. The Risk Register is used to prioritise the risks that the Firm's management focus on. Amber risks (post control) are shared with the Operational Risk Committee each month.

The Firm considers that it has sufficient controls in place, particularly in the segregation of duties in relation to cash and stock transfers, to protect it from the operational risks identified in its risk assessment. During 2019 the Firm's controls, in relation to its custodial activities, were reviewed by its auditors in accordance with Technical Release 01/06 of the Audit and Assurance Faculty of the Institute of Chartered Accountants.

The business operations of the Firm, particularly at its London office where the majority of our Investment Manager and operations staff are based, are at risk of disruption from one off events, such as terrorism, flooding or fire. To counter this risk, the Firm has a Business Recovery Plan.

The firm also maintains a business recovery facility with back-up computer systems at its Bury St Edmunds office, and it tests its business recovery plan and back up facility.

The Firm is an IFPRU limited license Firm and consequently the FCA's rules on operational risk capital requirement do not apply. Our pillar 2 assessment is based on developing a range of scenarios that capture the most material operational risk exposures of the firm, additional capital has been allocated as part of this assessment.

e) Insurance risk

The Firm maintains Professional Indemnity ("PI"), Directors & Officers Liability ("D&O"), and Commercial/ Office Insurance for the benefit of the Firm. The policies, which are market standard terms, cover the most likely sources of loss to the Firm to a level that is proportionate to the scale of the Firm's business. The policies are underwritten by insurers with consistently high credit ratings.

In the event that any of these policies do not pay out as soon as anticipated, the Firm's existing regulatory capital resource requirement (which is based on its fixed overhead costs) and strong cash balance mean that the Firm is in a position to continue to operate.

In the event that a particular loss falls outside the terms of its insurance, the Firm's management will, where appropriate, make provision in the ordinary course of business for such potential losses as soon as is prudent.

Based on the policy excesses, additional capital has been allocated under the ICAAP to cover an exposure the Firm may face outside the fixed overhead costs.

f) Concentration risk

The Firm has no material concentration of credit risk. The Firm has approximately 17,500 client accounts drawn predominantly from the UK private client sector. This is a large sector worth over £300billion of which the Firm has over £9.75bn funds under management (as at Dec 2019).

g) Residual risk

The Firm does not lend money; the vast majority of its debtors are trade debtors and it has very limited exposure to credit risk.

h) Securitisation risk

This risk is not relevant to the Firm. As we do not participate in this activity.

i) Business risk and stress testing

The Firm considers that the risk that it may not be able to carry out its current business plan and desired strategy derives principally from a drop in revenue due to:-

- a fall in the equity markets;
- commercial pressure from competitors;
- damage to the Firm's reputation, either through damage to the investment management market or to the Firm individually; or
- system and controls failure.

The Firm seeks to minimise business risk by producing annual budgets and 3 year forecast and conducting stress tests.

As required as part of the Firm's ICAAP, the Firm has conducted stress testing on its financial forecasts for both income and capital. The stress tests are based on a combination of adverse events including significant falls in the equity markets.

The testing shows that the Firm has the financial resources to continue to trade during such scenarios with capital resources in excess of its regulatory capital resource requirement. The Firm's management, who retain significant shareholdings, are well placed to take the necessary management action to protect the Firm's trading position.

The Firm has allocated additional capital as part of our pillar 2 assessment to reflect that any corrective measures taken by management may take longer than expected.

j) Interest rate risk

This risk is not relevant to the Firm. At present the Firm has no external bank borrowings and is not projected to have any such borrowing in the future.

k) Pension obligation risk

This risk is not relevant to the Firm. The Firm wound-up its Defined Benefit Scheme in 2001 and has no residual liabilities to this scheme. The Firm operates a Defined Contribution Pension Scheme using a third party provider.

l) Group Risk

The Firm is part of a group which includes Ackermans & van Haaren and Delen Private Bank. The Firm is a relatively small part of this group. The other group members are non-UK companies with different business models which would limit contagion within the group. The Firm also retains its brand identity which reduces the risk of reputation contagion within the group.

6. OTHER DISCLOSURES

The Firm does not use the VaR model for calculating its market risk capital requirement.

REGULATORY CAPITAL RESOURCES

Pillar 1 Capital Requirement

The Pillar 1 requirement is calculated by taking the higher of i) the sum of credit, counterparty and market risk and ii) the Fixed Overhead Requirement.

	As at 31 Dec 2019 £'000	As at 31 Dec 2018 £'000
Credit Risk	2,632	1,998
Market Risk	2	10
(A) Total Credit and Market Risk	2,634	2,008
(B) Fixed Overhead Requirement	13,330	12,540
Higher of (A) and (B) – Pillar 1 Requirement	13,330	12,540

Pillar 2 Capital Requirement

Pillar 2 requires Firms to assess the amount of internal capital necessary to cover all risks which they are exposed to. The Pillar 2 capital requirements are outside the scope of this disclosure document.

Own Funds – Capital Resource calculation

The Firm's Tier 1 capital is set out below, as per audited financial statements as 31 Dec 2019. The Firm has no tier 2 or tier 3 capital.

	As at 31 Dec 2019 £'000	As at 31 Dec 2018 £'000
Permanent Share Capital	5,936	5,936
Share Premium	1,291	1,291
Staff Option Reserve	206	206
Deferred Share Reserve	830	615
Employee Benefit Trust Shares	(1,677)	(1,466)
Own Shares	(4,601)	(4,601)
Dilapidation Reserve	(568)	-
Profit and Loss Account	40,183	35,835
Current Tax Equity Reserve	0	7
Deferred Tax Equity Reserve	0	7
Total Tier 1 capital before deductions	*41,600*	*37,830*
Deductions from Tier 1 Capital	(4,352)	*(5,854)*
Regulatory Own Funds	37,248	31,976

Capital Ratio

	As at 31 Dec 2019 £'000	As at 31 Dec 2018 £'000
Pillar 1	13,330	12,540
Regulatory Own Funds	37,248	31,976
Solvency Ratio	279%	255%

REMUNERATION DISCLOSURE

1. INTRODUCTION

This remuneration policy disclosure is provided in accordance with Article 450 of CRR, Regulation (EU) 575/2013 and by reference to the EBA's Guidelines on Sound Remuneration Policies.

Remuneration policy in relation to identified staff.

2. DECISION MAKING PROCESS

The Board governs the identification of Material Risk Takers and the Remuneration Committee has delegated advisory capacity to make decisions on the remuneration of identified staff.

On an annual basis, the Firm undertakes a self-assessment in order to identify staff whose professional activities have a material impact on its risk profile. This self-assessment is based on the qualitative and quantitative criteria in Article 3 and Article 4 of Commission Delegated Regulation (EU) No 604/2014 as well as other firm-specific criteria to reflect the levels of risk of different activities and the impact of particular staff on the risk profile. Prudential, operational, market, credit, conduct and reputational risk are considered in this analysis.

As a final step in this assessment, the Firm considers other criteria deemed relevant by the FCA, i.e. whether the employee:

- has significant seniority, oversight or decision-making ability.
- has oversight of or responsibility for significant firm revenue.

The Board and Remuneration Committee have regard to relevant guidance provided by the FCA and the European Banking Authority. The Remuneration Committee members are Non-Executive Directors appointed by the Board and the Remuneration Committee meets up to four times a year.

Risk and Compliance are involved in monitoring remuneration compliance with the Firm's risk management and other regulatory practices. The Remuneration Committee also considers advice from the Firm's Chairman and Chief Executive Officer on aspects of remuneration.

3. THE LINK BETWEEN PAY AND PERFORMANCE

Remuneration of material risk takers is considered by reference to the Firm's financial performance and capital requirements. The bonus pool is determined by reference to the Firm's performance, taking into account affordability, and the Remuneration Committee has the discretion to make adjustments and, in the event that the Firm did need to retain capital to strengthen its capital base, it would reduce the overall remuneration costs of the Firm, including and firstly the variable element

The total remuneration offered to existing and potential new members of the Firm is well established and in line with industry norms. The Firm does not seek to be one of the highest payers; rather it seeks to attract and retain employees who are motivated by the client focused culture, independence, high ethical standards and reputation of the Firm.

Variable remuneration is reviewed annually in response to any changes in the Firm's performance. Identified staff for whom variable remuneration is foreseen in the Remuneration Policy are all identified staff except Non-Executive Directors.

4. DESIGN CHARACTERISTICS OF REMUNERATION SYSTEM

The remuneration structure of the Firm is considered appropriate given the nature and scope of the business which is strategically placed in low risk activities. The Firm's ICAAP assesses and quantifies risk in terms of the potential impact on financial, regulatory and reputational costs.

Bonus awards are designed to reward high performance and incentivise sustained high performance over the longer term. Bonus assessment is based upon the overall profitability of the Firm and this accounts for the operating profits as detailed in the annual budget, monthly management accounts and strategic plan as per the ICAAP report. Consideration is also given to the current and future trading environment and current and future capital requirements.

5. RATIO BETWEEN FIXED AND VARIABLE REMUNERATION

As a level 3 firm, under the FCA's proportionality guidance, the Firm is not obliged to apply a fixed to variable ratio if it considers this appropriate. The Firm considers that it is not required to apply this ratio. However, in any event, it seeks to maintain a 100:100 ratio for material risk takers. A ratio of 100:50 is applied to Management Committee members and the Heads of Risk & Compliance.

6. PERFORMANCE CRITERIA ON WHICH ENTITLEMENT TO SHARES, OPTIONS OR VARIABLE COMPONENTS OF REMUNERATION ARE BASED

Eligibility to participate in incentive plans is based on management seniority and is performance assessed. Discretionary variable components of remuneration are based on performance contribution towards meeting the Firm's strategic and operational objectives.

7. MAIN PARAMETERS AND RATIONALE FOR VARIABLE COMPONENTS AND ANY OTHER NON- CASH BENEFITS

For client-facing material risk takers (investment managers), the key metric in assessing bonus is revenue, with appropriate deduction for errors which have been identified. The Firm then applies quantitative and qualitative criteria contained within a balanced scorecard. A growing number of investment managers are on a profit basis which incorporates an analysis of profit after deduction of allocated costs.

For non-client facing material risk takers (typically heads of control functions) bonuses are awarded on a discretionary basis by reference to the performance of the Firm, the performance of the individual, the performance of the control function they are responsible for and for their contribution to the Firm's control framework. Discretionary awards may be made via control staff balanced scorecard qualitative criteria contained within annual appraisals.

The Firm also pays pension on bonus awards.

8. AGGREGATE QUANTITATIVE INFORMATION ON REMUNERATION

In respect of the 2019 financial year, the following fixed and variable remuneration was paid to material risk takers. Variable remuneration relates to bonus awards March 2020 (final for the year ended 31 December 2019).

	2019 Senior Management – Material Risk Takers	2019 Other Material Risk Takers
Number of identified staff	10	11
Fixed Remuneration (£)	3,312,979	1,827,250
Variable Remuneration (£)	1,491,105	847,049
Total (£)	4,804,084	2,674,299