



Wise Investment

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# Capital Adequacy Pillar 3 Disclosures

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*Amanda Sullivan, May 2016*

## **Introduction**

Wise Investment is required to make a Pillar 3 disclosure by rules set out in the FCA's BIPRU sourcebook. It is intended to encourage good risk management practice within financial services firms and to promote market discipline by making information about companies publically available.

Wise Investment is an asset management and financial planning firm. It does not deal on its own account, rather it acts as an agent in the management of assets to predetermined mandates. This includes managing the investment portfolios of private individuals and a range of managed funds (which are operated by a third party). Wise Investment is subject to operational and reputational risks.

## **Risk management objectives and policies**

Risk management is focused on reducing operational risk and maintaining sufficient capital within the firm to allow an adequate buffer against those risks as identified in 'Pillar 2' of the company's Internal Capital Adequacy Assessment Procedure (ICAAP).

Risk management is the responsibility of the board of directors, and is led by the firm's compliance officer. Wise Investment has a separate risk committee that reports to the board of directors.

Operational risks include the detrimental effects of:

- Trade reporting, theft, fraud and litigation;
- Fire, adverse weather and acts of God;
- IT systems failure;
- Departure of key staff
- Third party administration risk
- Reputational damage from mis-advising clients or mis-managing investment mandates;
- Market risk associated with managed investment portfolios (as the firm is remunerated on a percentage-of-assets basis);
- Large client risk
- regulatory/compliance failings.



These risks are reduced by operating relevant policies and procedures. These are designed to be both preventative and to provide oversight information to the board/managers to act on accordingly.

Wise employs independent compliance consultants who regularly review the firm's activities. It also actively engages with the compliance departments of third party partners in order to maintain best practice.

**BIPRU 3** – For the Pillar 1 Regulatory Capital Calculation of Credit Risk, under the risk capital component the firm has adopted the Standardised approach (BIPRU 3.4) and the Simplified method of calculating risk weights (BIPRU 3.5)

### Credit Risk Calculation

<b>Credit Risk Capital Requirement</b>	<b>Rule</b>	<b>Capital Component</b>		
Credit risk capital component	BIPRU 3.2	£53,704		
Counterparty risk component	BIPRU 13 & 14	£0		
		<b>£53,704</b>		
	<b>Rule</b>	<b>Exposure</b>	<b>Risk Weight</b>	<b>Risk weighted exposure amount</b>
National Government Bodies	BIPRU 3.4.2	£0	0%	£0
Banks etc. long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc. short-term	BIPRU 3.4.39	£1,174,039	20%	£234,808
Exposure to Corporates/Debtors	BIPRU 3.4.52	£374,224	100%	£374,224
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£62,270	100%	£62,270
Accrued Investment management fees	BIPRU 3.4.128	£0	100%	£0
		<b>£1,610,533</b>		<b>£671,302</b>
<b>Credit Risk Capital Component</b>	8% of risk weighted exposure			<b>£53,704</b>



## **Approach to assessing the adequacy of capital resources**

The firm's 'Pillar 2' assessment of required capital is set out in its ICAAP. An estimate is made of the amount of capital that should be held against each of the operational risks (including market risk via managed portfolios). As Wise Investment does not engage in dealing or lending from its own book there is no need to assess market or counterparty/credit risk.

The process involves a degree of judgment. The total capital assessed as being required is compared to the 'Pillar 1' approach to calculating minimum capital requirements (see below), with the larger of the two figures being used as to determine whether current capital resources are adequate.

## **Approach used for assessment of the operational risk capital requirement**

As a BIPRU firm, the basic indicator approach is used, with the Fixed Overhead Requirement determining the level of capital required.

## **Current capital resources**

At 31<sup>st</sup> December 2015 Wise Investment had Tier 1 capital resources of £1,045,800. It had no Tier 2 or Tier 3 capital.

The minimum capital required was assessed as being £926,012. The firm therefore has capital of £119,788 in excess of the minimum, or a ratio of 113%. This is deemed sufficient to support current and future activities.

## **Remuneration policy**

Wise Investment is also required to disclose the key policies used in determining remuneration for staff whose professional activities have a material impact on the firm's risk profile, along with key quantitative information. These staff members are defined by the firm as authorised individuals who are in significant management, control or risk functions. Remuneration policy is the responsibility of the board of directors. Wise Investment also has a separate remuneration committee. Base pay is set by reference to level of seniority and/or revenues earned by the individual, with additional remuneration should the individual's pre-defined targets be exceeded. All eligible staff are also entitled to distribution of company-wide profits under the firm's employee ownership scheme. In 2015 total remuneration for the 'significant influence function' staff members was £1,137,944.

