



## **PB Financial Planning Limited Pillar 3 Disclosure and Policy December 2015**

The following information is provided pursuant to the Pillar 3 disclosure rules as laid out by the Financial Conduct Authority (“FCA”) in section 11 of its Prudential sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”).

PB Financial Planning Limited (“the Company”) conducts most of its business through its Appointed Representative, Price Bailey Private Client LLP (“the AR”) which accepts the authority of the Company as regards the matters set out in this public disclosure.

In this disclosure the expression “the Firm” refers to PB Financial Planning Limited and Price Bailey Private Client LLP

### **Background**

The FCA has implemented a prudential framework for investment firms through changes to the FCA Handbook of Rules and Guidance (specifically in BIPRU). The framework consists of three “pillars”:

- Pillar 1 sets out the minimum capital requirements;
- Pillar 2 is an assessment of whether additional capital is needed over and above that determined under Pillar 1; and
- Pillar 3 requires the firm to publish its objectives and policies in relation to risk management, and information on its risk exposures and capital resources.

The rules provide that disclosures are only required where the information would be considered material to a user relying on that information to make economic decisions. The Firm is a “BIPRU €50,000 limited license firm” not authorised to handle client money or take proprietary trading positions. As a consequence the main risks facing the Firm relate to its operations and its business environment. Whilst the Firm does have some exposure to credit and market risk, this is not considered to be material.

Although the Firm believes the risk management framework outlined herein is appropriate for the size and complexity of the Firm and that the Firm’s capital is adequate to meet the risks assessed, it cannot guarantee that this will actually be the case in the event any particular risk arises. There will always be some unlikely risks with unusually high impact which may require additional capital should they arise.

We may omit one or more of the disclosures listed in BIPRU 11.5 if the information provided by such disclosures is not, in light of the criteria specified in BIPRU 11.4 IR, regarded as material.

### **Risk management framework**

The Firm operates a risk management framework that sets out the responsibilities and escalation procedures for the identification, monitoring, and management of operational and business risks.

The Board of Directors takes overall responsibility for identifying material risks to the Firm and putting appropriate mitigating controls in place, usually by assigning responsibility for specific areas to senior individuals of the Firm.

Risks and mitigating controls are periodically reassessed, taking into account the Firm's risk appetite. Where risks are identified which fall outside of the Firm's risk tolerance levels, or where the need for remedial action is identified, then actions are taken to improve the control framework.

The Board meets periodically to review the quality of the control framework and to satisfy itself that appropriate controls are in place and that mitigating actions are moving forward.

The Firm contributes to, and receives guidance from, the Price Bailey Risk Management Committee which coordinates risk management across the whole of Price Bailey in accordance with the Price Bailey values, those of best practice, consistency and continuous improvement having particular relevance to the risk management framework. The Price Bailey Risk Management Committee is independent of both the Firm's Board and that of Price Bailey and it reports no less frequently than annually to members.

### **Categorised risks**

The Firm rates operational and business risks as "medium" and therefore the Board focuses its attention on risks within these areas.

All of the other categorised risks set out in the FCA's guidance are rated no more than "low" and accordingly are only referred to the Board as part of routine review processes and when exceptional circumstances arise.

### **Operational risk**

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal and regulatory risks. The Firm seeks to minimise operational risk through a controls framework, particularly when taking instructions from new clients, when assessing new investment opportunities and when engaging in new business activity. The Firm considers risks which may impact the Firm directly or indirectly. The most significant operational risks facing the Firm would most likely be a failure in senior management performance.

## **Business risk**

Business risk arises from external sources such as changes to the economic environment or one-off economic shocks, and also from internal sources such as poor decisions resulting in poor performance and damage to the Firm's reputation.

Various different scenarios are modelled in order to assess the impact of adverse economic conditions on the Firm's financial position. This enables the Firm to monitor its business risk and to assist in its financial planning.

## **Credit risk**

The Firm is exposed to credit risk in respect of income receivable and cash held on deposit at large international credit and regulated institutions. Fees due from institutions are generally calculated monthly by an external administrator based on month end funds under management and are received monthly (occasionally quarterly) in arrears. Consequently the Firm has a limited number of credit exposures in respect of which it uses the simplified standardised approach when calculating risk weighted exposures, in accordance with the provisions of BIPRU 3.5.

Our AR is exposed to credit risk in respect of fees payable by private and commercial clients and is licensed for consumer credit purposes under a license issued to the Company by the FCA. The Firm uses normal commercial credit control procedures to manage exposures.

## **Market risk**

The Firm does not invest or transact on its own account and therefore direct market risk is not material for the purpose of this disclosure. However the Firm's clients are directly affected by market movements and therefore the Firm has indirect exposure to the market. The firm's general policy is to avoid high risk "stockpicking" and focus its advice to clients on portfolio theory and investment strategy.

## **Liquidity**

Liquidity risk would only arise in the Firm should a credit, market or other risk arise which results in financial loss.

The Firm has robust liquidity management and corporate governance procedures for continuous monitoring to enable remedial action if and when required.

## **Insurance**

The Firm has full cover in place to cover all risks pertaining to its operations. The level of cover is reviewed at least annually and as and when there are changes in risk levels. Cover is included in a group policy obtained by Price Bailey LLP, whose directors monitor the appropriateness of the cover and financial stability of the Insurer.

## **Residual, Concentration and Securitisation risks**

Residual, Concentration and Securitisation risks as defined by the FCA are not considered material for the purposes of this disclosure.

## **Reputational**

The Company and Price Bailey Private Client LLP are wholly owned subsidiaries of a long established firm of Chartered Accountants and whilst separately managed and controlled by the Firm's Board of directors, the Firm's future is inherently linked to the future of Price Bailey generally. The Firm believes that the association with the Price Bailey and Chartered Accountants brands is of significant reputational advantage, and any loss thereof would significantly increase business and operational risks. Accordingly in planning operations and finances, the Board includes high risk, low probability stress testing at a level commensurate with a significant loss of business.

## **Regulatory and other Legal risks**

The Firm has a structured complaints handling policy which includes monthly reports to the Board, which considers whether individual complaints could have implications for the Firm as a whole, and when necessary takes exceptional action.

The Firm operates in a highly regulated environment in a relatively young industry, where traditional standards of professional business behaviours are repeatedly challenged and extended, and where consumer protection standards are set at levels far higher than for most business sectors. As a willing participant in the Independent Financial Advisor market the Firm accepts the regulatory environment but observes that this itself increases operational and business risks. The Firm manages this risk by employing a compliance manager to oversee all elements of business operations and report monthly to the Board.

## **Capital adequacy**

As at 31 March 2015, the Company's regulatory capital resources of £452,000 are made up as follows:

<b>Tier 1</b>	<b>£000</b>
Share capital	221
Audited reserves	505
Less: material interest in other group entities	(274)
Total regulatory capital	452

The Company's Pillar 1 capital requirement is calculated in accordance with the General Prudential Sourcebook ("GENPRU") as the higher of the Fixed Overhead Requirement ("FOR"), the sum of market and credit risk requirements, and the base capital requirement of €50,000. The FOR is calculated in accordance with GENPRU and equates to one quarter of the Company's annual expenses excluding discretionary costs but including the total of unavoidable costs actually shared with others, and it is this number which determines the Company's base capital requirement. As at 31 March 2015 the Firm's Pillar 1 requirement was £102,000 which having regard to likely increases in costs is rounded up for these purposes to £120,000.

The Company takes a prudent approach to the management of its capital base and monitors its expenditure on a monthly basis in order to take account of any material fluctuations which may cause its Fixed Overheads Requirement to be reassessed. The Company ensures that at all times it has sufficient capital to meet its Fixed Overheads Requirement and formally verifies this on a monthly basis.

Under Pillar 2 of the FSA's capital requirements, the Firm has undertaken an assessment of the adequacy of capital based upon all the risks to which the business is exposed ("ICAAP"). As at 31 March 2015, this analysis concluded that with one exception additional allocation of capital is not required against the identified key risks.

The exception is that the Company has allocated a further £30,000 to supplement the insurance protection provided by the group professional liability insurance policy. This allocation has been made by reference to the level of excess carried and guidance given by the FCA in its Interim Prudential Sourcebook for Investment Businesses.

Accordingly the Company believes that Tier 1 capital of £150,000 will provide sufficient capital resources to support its operations over the next year and that no additional capital injections are necessary.

## **Remuneration**

Given the relatively small size of the firm, remuneration policy for all staff is set by the Directors, having regard to Price Bailey LLP group policies. The directors review remuneration for staff based upon appraisal of individual skills and experience, assessing both financial and non-financial criteria and the resultant grading. Individual performance is also reviewed over an extended period to ensure the long term objectives of the staff and the firm are not in conflict.

Some bonus opportunities are available. Financial advisers are eligible for quarterly and annual bonus should personalised financial targets be exceeded, subject to full compliance with the Firm's procedures. If any substantial bonus payments are due these are partly deferred. Discretionary bonuses may also be awarded.

All staff are eligible to participate in the Price Bailey All Employee Share Ownership Plan. Partner remuneration is wholly dependent on the financial performance of the Price Bailey Group as a

whole.