Investment and Tax Advisory Services Limited

Individual Capital Adequacy Assessment Process (ICAAP)

30th May 2017

Introduction

The Individual Capital Adequacy Assessment Process (ICAAP) is intended to prompt the directors of an authorised business to routinely review their capital to ensure it is sufficient to:

1. Enable the company to operate;
2. Satisfy its FCA capital adequacy requirements;
3. Meet creditor's liabilities as they fall due;
4. Provide contingency cover for reasonable risks the business may face given its market and risk profile;
5. In the worst case scenario, provide sufficient funds to enable the orderly wind-down or transfer of the business.
This document is the output from the ICAAP process carried out by the management and the Board.

Report design

This report has been written in accordance with FCA guidance and reflects:

- The nature of Investment and Tax Advisory Services Limited activities
- The background to the ICAAP process.
- The business and operational risks faced by Investment and Tax Advisory Services Limited.

Business Overview

Investment and Tax Advisory Services Limited, trading under the style *The Wilcox Young Partnership,* provides an independent financial advice service to clients, arranges purchases and the sale of investments, brokers individual protection insurance and pension contracts.

The company also operates as a discretionary fund manager under the trading style of *Verbatim Discretionary Managers* and the associated risks have been considered in this ICAAP.

Investment and Tax Advisory Services Limited does not hold any client monies, nor does it act as principal in any investment contracts.

Main Business Risks

The key business risks and contingency requirements identified are as follows:

1. **Reputational Risk** – this is a major issue for a company whose business offering is mainly to small retail customers.

   The main reputational risks identified are:

   - Service Failure (Staffing) – a failure to deliver the expected services levels, as proclaimed by the company as part of its core proposition, will create an instant negative market reaction. The essential means to mitigate this risk is to ensure the company has sufficient staff with the knowledge, training and the right attitude and personality to provide the expected service. In addition comprehensive administration procedures exist for the normal operations of the business and the core management team have previous experience in running or working for IFA or Investment Management businesses.
   - Service Failure (Technical) – a basic, non-human, risk in this area is the failure of technology to deliver the necessary support. This includes telephone systems, the website and e-mail. To mitigate potential technical risks to the service proposition, the company has access to an experienced IT and technical consultancy company.
   - Regulatory or AML Failure – if the company should incur serious regulatory or anti-money laundering (AML) problems and these should enter the public domain, it would result in significant reputational risk to the business. The company currently outsources it's compliance to an external third party who undertakes periodic reviews. To further strengthen the compliance and AML all staff are trained in AML procedures.

2. **Investment Advice** – The two main areas of risk identified are:

   - Suitability of Advice to clients- Advice given by an individual employee or authorised by the company is deemed unsuitable leading to redress, costs and potential reputational damage. To mitigate this risk, advice is only given by suitably qualified and FCA authorised advisors using advice guidelines, client fact-find and investment risk appetite questionnaires and suitability reports with close compliance monitoring to ensure guidelines are followed. The company also has adequate professional indemnity cover in place.
   - Errors in discretionary investment portfolios – model portfolios by failing to adhere to the prescribed investment mandate. To mitigate this risk, all investment allocation decisions are ratified by the Verbatim Discretionary Investment Committee before implementation.

3. **Financial Crime** –
   - the company has implemented a "four eyes" policy for all financial transactions and cash or asset transfers. In addition there is a Board defined signoff policy requiring two appropriate senior staff for all management and client payments dependent on value. The company also has PI insurance up to £1.75M which includes financial fraud.

4. **Errors & Omissions (E&O)** –
   - as with any investment advice business it is recognised that, whilst controls and procedures are in place, errors, both human and technical, will inevitably still occur. Therefore the cost of corrections and, where required, compensation for such operating errors has been provisioned in the business plan at 1.5% of net revenue. A good business should have an E&O rate of around 1% of revenue, however, a prudent approach has been taken and therefore a rate of 1.5% has been used.

ICAAP Summary

Under the terms on GENPRU 1.2 and BIPRU 2.2, which seeks to establish the adequacy of financial resources and to quantify internal capital adequacy standards for a BIPRU €50k firm, the directors of Investment and Tax Advisory Services Limited have assessed the level of capital required to cover the risk profile of the company as at May 2017 and the capital required to cover potential risks that might arise over the current financial year.

The directors consider that the current issued share capital and retained profits held by the company is sufficient to satisfy the capital resource requirements (CRR) of a BIPRU €50k firm in light of the activities of the firm and the risks to which the company is likely to face.

The directors of Investment and Tax Advisory Services Limited will monitor and review the capital adequacy requirement in line with regulations on an annual basis.

Section 1- Capital Requirements

(Figures in £000's)

	Pillar 1	Pillar 2	Total
Credit Risk (CR)	13		
Market Risk (MR)	0		
Fixed Overhead Requirement (FOR)	61*		
Pillar 1 Total (Higher of CR, MR and FOR)			**61**
Operational Risk		0	
Business Risk		51*	
Credit Risk		13	
Pillar 2 Total		**64**	**64**
Minimum Capital Adequacy Requirement (€50k at an exchange rate of £0.85)			**43**
Total ICAAP Capital required (Higher of Pillar1, Pillar2 and Minimum Capital)			**64**
Tier 1 Capital as at 31st March 2017			
Share Capital		50	
Retained Profits		61	
		111	
Less illiquid assets		6	**105**
Surplus of Tier 1 Capital			**41**

*Notes

1. The Business Risk provision includes an E&O provision at 1.5% of 2017 net revenues and a reduction in net profits resulting from a 40% fall in market values for a period of 6 months. See Appendix A for calculations.

2. The Fixed Overhead Requirement consists of the operational costs for one quarter's overheads (13/52nds) in the year ended 31st March 2017 and is the same as the GENPRU requirement. See Appendix A for calculations.

Conclusion:

Current regulatory requirements are met by the Tier 1 Capital, less illiquid assets, of £105k.

ICAAP Reserves Summary

There is no provision necessary within Pillar 1 figures for Market Risk.

The credit risk capital component of a firm is 8% of the total of its risk weighted exposure amounts for exposures falling into BIPRU 3.1.6 R, calculated in accordance with BIPRU 3.Credit Risk amounts to £12,916.

The Fixed Overheads Requirement for Investment and Tax Advisory Services are based on the expenditure for the previous 12 months' trading and the stipulations within GENPRU 2.1 5.4 of 25% of these relevant fixed expenditures. The directors assess this figure at £61,096.The Pillar 1 capital requirement is, therefore, £61,096.

Business risk in Pillar 2 is made up of two factors, Errors & Omissions (E&O) costs and potential loss of revenues if there is a prolonged general decline in market values of investments held by clients and on which the company derives its income.

Fixed Assets, which comprise of office equipment, are considered illiquid assets and have been deducted from Tier 1 capital.

In summary, the company's capital covers the ICAAP assessment of £63,749.

Approval of ICAAP

This ICAAP was reviewed by the directors in May 2017 and approved by the executive board in the same month.

The ICAAP will be reviewed on an annual basis as part of the business planning and risk monitoring role provided by the Board of Investment and Tax Advisory Services limited.

Section 2-Risk Appetite

The risk appetite of the company is very low and as such it operates on the following basis:

- It allows only properly identified and verified clients;
- It does not act as principal in dealing with investment clients;
- It does not hold client money;
- It does not hold client assets.

Business Strategy

The core and traditional business strategy is to provide a quality financial advice service to the local community. The IFA practice has been based in Dorchester town centre for over 30 years and established a business focussing on relationships with residents in the region and with other local professional connections.

The practice specifically provides a fee based independent financial advice service with investment and pension solutions the specialities. The firm continues to seek new business opportunities, including the acquisition of suitable like-minded organisations to grow revenue streams.

Verbatim Discretionary Managers currently offers some diversification to income however it is anticipated that this service will be curtailed during Q3 2017.

Section 3-Firm Classification

As a BIPRU Limited Licence Firm working solely as an agent without permissions to hold client money, Investment and Tax Advisory Services Limited is not required to hold capital to cover the exposure to Operational Risks as defined.
The key material risks are business and credit in nature.

a. Business Risk

The main business risks have been identified as follows:

- Reputational Risk
- Decline in general market values of clients' investments
- Financial Crime
- Errors & Omissions

The provisions made to provide in case of these potential risks within this ICAAP assessment are detailed in Appendix A.

b. Credit Risk

This clause covers:

- Credit risk capital component
- Counterparty Risk
- Concentration Risk

Credit risk is the risk of loss due to a debtor's non-payment of a loan or other line of credit. Credit risk also arises from holdings of cash and cash equivalents, deposits and formal loans with banks and financial institutions.
The capital resource attributable to Credit Risk is 8% of receivables. No provision is made for any risk on bank deposits and balances because the company's bankers, HSBC, have a credit rating of AAA.
It is not considered that the company is exposed to Counterparty or Concentration Risk.

Investment and Tax Advisory Services Limited does not trade in investments on its own account and does not act as principal in the placing of client business. It is therefore considered that it is not exposed to the following risks:

i) Liquidity Risk
ii) Securitisation Risk
iii) Insurance Risk

The company does not have a Pension Obligation Risk and, in view of the fact that it does not hold large deposits nor has any loan obligations, it is not exposed to an Interest Rate Risk.

Section 4- Assessment of Business Wind-down and Capital Requirement.

In assessing the company's capital requirement, consideration has been given to the costs of winding down the business in an orderly fashion. It is considered that a wind down could be completed in 8 months and it is calculated that the net cost to the company would be £21,680, including redundancy costs but ignoring any capital value that could be obtained for the client business transferred.

The directors estimate that the business will have sufficient capital to cover this scenario.

Signed:

Ian Hobday

Position: Director.

Date: 13th July 2017

Section 5- Basis of Calculations

Fixed Overhead Requirement (FOR)

The overheads for the year ended 31st March 2017 were £244,382.
One quarter's overheads (without revenues) = £244,382 x 25% = £61,096. This is equal to the GENPRU 2.1 5.4 requirement of 25% of fixed overheads.

Credit Risk
Amounts due the company at 31st March 2017 amounted to £161,452 and the risk has been assessed at 8% of the total outstanding.

Business Risk

The E&O basis used by the company is 1.5% of revenues. The projected revenues (gross margin) for 2017 are £250k.

E &O provision on £250k at 1.5% = £4K

Assuming a 40% fall in market values of investments held by clients on which the company receives commission/fees for a period of 6 months:

Reduction in projected revenues = £47k
Therefore the combined Business Risk = £4k + £47k = £51k