



**THORNTONS**  
INVESTMENTS

## **PILLAR 3 AND BIPRU REMUNERATION DISCLOSURES**

## **Pillar 3 and BIPRU Remuneration Disclosures**

### **Background**

This is the Pillar 3 disclosure made in accordance with the UK Financial Conduct Authority (FCA) Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The European Capital Requirements Directive (CRD) created a regulatory capital framework consisting of three 'pillars' namely;

- Pillar 1 – which sets out the minimum capital requirements that firms are required to meet for;
- Pillar 2 – which requires firms to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- Pillar 3 - which requires firms to publish certain details of its risks, capital and risk management process.

### **Company Background**

The disclosures made here are in respect of Thorntons Investment Management Limited a company which is incorporated in Scotland and is authorised and regulated by the FCA to provide financial planning advice and discretionary investment management services. The firm has been allocated a regulation category "BIPRU €50k firm".

The Pillar 3 disclosure of Thorntons Investment Management Ltd ("the firm") is set out below.

### **Disclosure Policy**

The rules in BIPRU 11 provide that the firm may omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions.

If the Company deems a certain disclosure to be immaterial, it may be omitted from this Statement. Some of the disclosures required under the CRD are deemed immaterial or are omitted since they are not relevant to the Company's business.

The firm is also permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information, if it were shared, would undermine the firm's 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 clients 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.

We have made no omissions on the grounds that it is proprietary or confidential.

Unless stated otherwise, all figures contained in this disclosure are based on the firm's audited annual reports for the year ending 31 May 2019.

## **Frequency**

These Pillar 3 Disclosures will be reviewed on an annual basis as a minimum. The disclosures will be published as soon as is practical following the finalisation of the firm's Internal Capital Adequacy Assessment Process (ICAAP) and the publication of its annual reports.

## **Verification**

The information contained in this document has not been audited by the Company's external auditors and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Company.

## **Publication**

The firm's Pillar 3 disclosure is published on our website at [www.thorntons-investments.co.uk](http://www.thorntons-investments.co.uk)

## **Risk management objectives and policies**

The firm's compliance monitoring procedures are designed around risks considered to be relevant to the firm. These will be updated annually through a process taking input from senior management and from the board. The compliance monitoring process also highlights the processes in place which are designed to mitigate any identified risks.

Risk management and mitigation measures are reviewed and where appropriate modified according to need. The firm's risk position is monitored through the Compliance Committee, Investment Committee and Operations Board with each Committee holding monthly meetings. Issues arising are reported at board level which also meets monthly.

The risks facing the firm are identified and considered both from the perspective of the likelihood of their occurring and from the perspective of their potential impact on the firm should they occur.

The firm also considers risks relevant to the ICAAP process as documented in the Risk Register. The implications of the firm's risk management plan and the consequences of any review of the plan are fed into the firm's ICAAP process. Our risk management approach reflects the FCA requirement that we must manage several different categories of risk. **These include: liquidity, credit, market, interest rate, business and operational risks.** These will be revisited during any review of risks but as a minimum during the periodic ICAAP review.

### **1. Liquidity risk**

The firm manages all cash and borrowing requirements to ensure 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.

### **2. Credit risk**

The main credit risk for the firm relates to non-payment of advisory fees, being the risk that a client does not pay amounts due for services provided. This risk is mitigated as payments for our on-going service are paid monthly and facilitated via the WRAP / Platform provider from investments held.

Where the firm's fees are invoiced directly regarding services provided (Financial Planning and / or Safe Custody services) the incidence of these being un-paid historically is very low due to the nature of the client bank.

The firm's revenues also include annual management fees received from clients based on a percentage of client assets under management. These charges are made directly to the clients' portfolios, and therefore the credit risk relating to this income is minimal.

### **3. Market risk**

The firm does not itself take positions in shares or other instruments and is not exposed to foreign-exchange, settlement or commodities risk. The firm is indirectly subject to market risk as income is based on a percentage of the value of client assets under management. This risk is mitigated using asset allocation strategies which result in diversified portfolios with limited exposure to any one asset class. The firm's ICAAP assessment shows that in the event of a significant market fall, we would still meet our capital adequacy requirement. The firm continues to monitor different economic scenarios to model the impact of economic downturns on its financial position.

### **4. Interest rate risk**

The firm is exposed to interest rate risk through funding it has received by way of a subordinated loan and the prescribed rate is 2.5% above the base rate of Bank of Scotland. Interest Rate Risk regarding Company funds on deposit and any impact on the firm is limited and is regarded as negligible.

### **5. 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 advisers and systems failures are also considered. To mitigate our business risk, we regularly analyse various economic scenarios to model the impact of economic downturns on our financial position.

### **6. Operational risk**

Operational risk 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. The firm is aware that operational risk can never be eliminated but seeks to minimise the probability and impact of operational events.

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 operates a robust risk management process which is regularly reviewed and updated with details being provided to all staff. The firm's Compliance Oversight is responsible for the periodic reviews and recommending any changes to the Board

All senior management bear responsibility for internal controls and the management of business risk as part of their accountability to the board.

Individuals are responsible for identifying the risks surrounding their work, implementing controls over those risks and reporting areas of concern to their line manager.

The board is regularly provided with a periodic summary report on all significant risk issues.

### **7. Other risks**

The firm operates a simple business model. Accordingly, many of the specific risks identified by the FCA do not apply.

## Capital resources

### Pillar 1 requirement

Thorntons Investment Management Limited is a BIPRU €50k Limited Licence Firm. The Pillar 1 base capital requirement for the firm is to maintain capital resources equal to or in excess of the base requirement of €50,000.

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), our capital requirement has been determined as being our fixed overhead requirement and not the sum of our credit risk capital requirement and our market risk capital requirement.

### Pillar 2

Our overall approach to assessing the adequacy of our internal capital is set out in our ICAAP document. The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. We assess impact by modelling the changes in our income and expenses caused by various potential risks over a 1-year time horizon. Probability is assessed subjectively.

In addition, we have reviewed the outputs of our risk reviews to quantify any risks identified. This has identified a number of key business risks which we have classified against the risk categories contained in GENPRU 1.2.30R and reviewed the guidance in BIPRU 2.2.61-65.

Our Pillar 2 capital requirement, which is our own assessment of the minimum amount of capital that we believe is adequate against the risks identified, has been assessed as greater than our Pillar 1 requirement. There is a considerable surplus of reserves above the capital resource requirement deemed necessary to cover the risks identified.

### Regulatory capital

The main features of Thorntons Investment Management Limited capital resources for regulatory purpose, as at 31/05/19 are as follows:

| Capital item:   | £000s |
|---|-------|
| Tier 1 capital (called up share capital, share premium account, profit and loss account, externally verified interim net profits) | 442   |
| Total of tier 2 and tier 3 capital (broadly long and short term subordinated loans)   | 200   |
| Deductions from tier 1 and tier 2 capital   | 0     |
| Total capital resources, net of deductions  | 642   |

The firm holds regulatory capital in accordance with the Capital Requirements Directive. Capital adequacy is monitored regularly by the firm's Financial Controller with monthly reporting to the Board.

## **Remuneration Code Disclosure**

The firm is subject to the BIPRU Remuneration Code. This section provides further information on our remuneration policy.

### **BIPRU Remuneration Code Staff**

We have identified, and maintain a record of, 'BIPRU Remuneration Code Staff' – i.e. staff to whom the BIPRU Remuneration Code applies. This includes senior management and members of staff whose actions may have a material impact on a firm's risk profile.

Code Staff fall into the "senior management" and "controlled function" categories of Code Staff (rather than the "risk taker" category) for the purposes of the BIPRU Remuneration Code.

### **Decision Making / Remuneration Committee**

The firm's Remuneration Committee and Board are responsible for our remuneration policy including:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk taking.
- Agreeing any major changes in remuneration structures.
- Reviewing the terms and conditions of any new incentive schemes and in particular, considering the appropriate targets for any performance related remuneration schemes.
- Considering and recommending the remuneration policy for the senior employees taking into account the appropriate mix of salary, discretionary bonus and share based remuneration.
- In determining remuneration arrangements, the Directors/Partners will give due regard to best practice and any relevant legal or regulatory requirements including the BIPRU Remuneration Code.
- New recruits - approval for bonus obtained prior to offer.

### **Link between Pay & Performance**

Competitive salaries form the basis of our firm's remuneration package. In addition, the firm operates bonus arrangements which reward certain members of staff (including directors) for meeting and exceeding agreed business targets. Variable remuneration is discretionary and would be reduced or withheld in circumstances where overall financial performance targets have not been met, or where desired client outcomes have not been achieved.

When assessing individual performance, we use a robust performance review process, with reviews including both quantitative and qualitative criteria which are approved by our Remuneration Committee.

### **Senior Management Sign off**

These disclosures were considered and approved by the Board/Compliance Oversight on 27<sup>th</sup> November 19.