

Pillar 3 Disclosures



Background

The Capital Requirements Directive was implemented within the UK by the Financial Services Authority ("FSA"), which created new rules and guidance for investment firms. The Capital Requirements Directive consists of three "Pillars":

- Pillar 1 sets out the minimum capital amount that meets the investment firm's credit, market and operational risk;
- Pillar 2 requires the investment firm to assess whether its Pillar 1 capital is adequate to meet its risks and is subject to annual review by the FSA; and
- Pillar 3 requires disclosure of specified information about the underlying risk management controls and capital position.

This document is designed to meet IM Asset Management Limited's Pillar 3 disclosure obligations.

IM Asset Management Limited (company number 05016348; FSA firm reference number 402770) ("IM Asset Management" or "the Company") is a subsidiary of Irwin Mitchell LLP, and under the FSA rules is categorised as a BIPRU €125K Limited Licence Firm. Irwin Mitchell LLP owns 92.5% of the ordinary shares of IM Asset Management by both voting rights and rights to dividend distributions (the remaining 7.5% being owned by IM Asset Management's Chief Executive, Richard Potts). Irwin Mitchell LLP also owns 100% of the preference shares of the Company. These carry no voting rights but do carry a right to a cumulative annual 5% dividend distribution.

IM Asset Management Nominees Limited (company number 03876644) and IM Asset Management Nominees Number Two Limited (company number 03876642) are non-trading subsidiary companies wholly owned by IM Asset Management.

Investment firms are permitted to omit required disclosures if they believe that the information is immaterial such that omission would be unlikely to change or influence the decision of a reader relying on that information. In addition, investment firms may omit required disclosures where they believe that the information is regarded as proprietary or confidential. In the Company's view, proprietary information is that which, if it were shared, would undermine IM Asset Management's competitive position. Information is considered to be confidential where there are obligations binding the Company to confidentiality with its customers, suppliers and counterparties. IM Asset Management has made no omissions on the grounds that it is immaterial, proprietary or confidential.

Scope and application of the requirements

IM Asset Management provides financial planning and portfolio investment management to a range of retail and professional clients. IM Asset Management also provides institutional investment management services. IM Asset Management does not make investments on its own behalf and does not operate its own trading book.

Risk management objectives and policies

IM Asset Management is committed to good risk management.

The board of IM Asset Management meets on a monthly basis to assess the performance of the business and to set objectives. The board pack contains extensive management information to enable the board to understand the dynamics of the business and to manage risks appropriately. The board receives a monthly compliance and risk report in the board pack and holds a specific risk management session on a quarterly basis.

Compliance monitoring is an important part of risk management and the company is developing further management information to draw out key measurables and variances from acceptable norms. IM Asset Management undertakes an annual risk assessment and has a risk-based monitoring plan. The board formally reviews risks and controls regularly and this includes the annual assessment of the level of capital deemed adequate to cover the risks identified. Risks are managed through policies and procedures, principles and rules (including FSA principles and rules), which are updated as required.

At the centre of the board's decision-making process on any project or market issue is to ensure that IM Asset Management can maintain its capital headroom at acceptable levels and protect its reputation and its clients' wellbeing. The board will not permit or approve any action which it perceives to pose a risk to the company's reputation and as a result cause any significant loss of revenue or cause any significant unplanned expenditure. The board requires the company to operate within strict process controls, designed to facilitate ethical behaviour and deliver service levels that do not give rise to client dissatisfaction.

The board has no appetite to accept operating losses, unless such losses were short-term in nature, were planned for as part of a significant investment programme within the company and were supported by sufficient capital to see the company through to future profitability. The board considers its actions to be prudent and generally risk-averse, with the prime focus to ensure the best outcome is achieved for the company's clients and shareholders.

IM Asset Management has a documented compliance manual and an annual appraisal process to ensure ongoing capabilities of all staff. Key staff are experienced in their field and implement processes and controls to identify risks and ensure that they are mitigated so that errors are prevented, and are able to call on the services of experienced consultants, with the full support of the board.

The board has identified that reputational, operational, credit and counterparty and market risks are the main areas of risk to which IM Asset Management is exposed. These are covered in more detail below.

Reputational risk

IM Asset Management's reputation is essential to its success and the board recognises that any threat to the Company's reputation is to be taken seriously. Any action that leads to negative publicity or litigation could impact on revenues through loss of clients or key employees. The board considers that reputational risk is an overarching consideration as reputational damage generally occurs due to the crystallisation of other types of risks. Consequently, all of IM Asset Management's risk mitigation measures take this into account.

Operational risk

IM Asset Management does not run a trading book or take proprietary positions so it is not required to calculate operational risk under the FSA's rules. Notwithstanding this, the Company has implemented a number of process and control measures to guard against the risks associated with operational errors, including administrative errors, failure of procedures, loss of functionality of the premises, reliance on third party providers for processes and IT systems and competency of employees. The board of IM Asset Management sees this as a significant risk area within the business if not carefully managed.

IM Asset Management regularly evaluates its internal controls to ensure they are operating as designed and are effective in preventing losses or errors. This is done through both internal checking and monitoring and by using third parties to undertake independent reviews. The board is satisfied that all foreseeable operational risks can be mitigated by process controls and, where necessary, can be funded from its capital and liquidity provision.

Credit and counterparty risk

IM Asset Management does not invest on its own account, thus its credit risk exposure is limited to cash held on deposit at major banks and to fees due from clients and product providers.

IM Asset Management holds proprietary credit balances with a number of major UK regulated banks. The Company's balance sheet contains prepayments and accrued income, with amounts being owed by trade suppliers, banks (interest) and clients (management fees) under contractual arrangements. On a monthly basis, the credit risk applying to these balances is calculated using the FSA's suggested methodology.

Cash deposit facilities are held with a number of separately owned UK regulated banks, which are themselves subject to strict capital adequacy requirements. The board is satisfied that all foreseeable credit and counterparty risks can be mitigated by process controls and, where necessary, can be funded from its capital and liquidity provision.

Market risk

IM Asset Management does not invest on its own account, so it is not subject to market risk as defined by the FSA. Risks arising from fluctuations in financial markets do affect the business though because IM Asset Management derives its clients' management fees based on assets under management. The Company mitigates this risk through its investment management processes and techniques designed to limit client losses in times of falling financial markets.

Remuneration

As noted earlier in this document, IM Asset Management is a BIPRU €125k Limited Licence Firm and thus under the provisions of the Capital Requirements Directive is regarded as a "proportionality tier four" firm. IM Asset Management's remuneration disclosure (below) is in accordance with the FSA's guidance for proportionality tier four firms.

IM Asset Management's board has implemented a remuneration policy in line with the FSA's Remuneration Code. As part of this policy the board has in place a remuneration committee, comprising the three non-executive directors. The remuneration committee can meet at any time and the quorum is the chairman plus one of the other two non-executive directors. Specifically, the executive directors are excluded from the committee but can be invited by the committee to attend or provide information. IM Asset Management's compliance manager can also request to attend a committee meeting or provide information if there are items that the compliance manager wishes to bring to the committee's attention.

The committee meets to discuss and conclude on remuneration awards, measurement criteria and the ongoing content of the remuneration policy. The committee's focus is on determining the remuneration of senior management and members of staff whose actions have a material impact on the risk profile of the business, however it also considers the remuneration of other staff upon recommendation from the executive directors. No individual is able to determine their own remuneration.

Remuneration comprises basic salary, a discretionary bonus and various other fixed benefits according to individual role grades. Remuneration is determined annually, or more frequently in certain circumstances (eg role changes). In determining remuneration, the remuneration committee considers individuals' and the company's performance. Individuals' performance is measured using objectives set around a number of cultural drivers in order to provide a multi-dimensional assessment. A number of these drivers focus on good client outcomes and compliance with regulations. For staff in a fee-earning role, the attainment of business targets is only a part of the objective-setting process and the remuneration assessment. There is no minimum (eg inflationary) or standard pay increase and bonuses are not guaranteed. The outcome is to reward staff where there is evidence of not only achieving their objectives but also exceeding them.

IM Asset Management's board considers that there is only one business area, which is investment management and the associated financial advice and administration functions. As at the publication date of this document (August 2011), the remuneration committee concluded in its most recent review of remuneration for this business area that the annualised aggregate total remuneration (excluding fixed benefits according to role grades) for senior management and members of staff whose actions have a material impact on the risk profile of the business was to be £822,100. This figure covers 15 individuals and is split £748,400 for fixed remuneration and £73,700 for variable remuneration.

Capital resources

The Company held audited capital and reserves of £1,652,279 as at 30 April 2011.

The internal capital to be held against the Company's Pillar 1 Capital Resource Requirement is £578,672, which represents the Fixed Overhead Requirement (as defined in the FSA's Rules). This is the figure that the board has decided should be held as a capital resource and is believed to be sufficient to cover all risks identified. A further amount of £63,662 is held against the Company's Pillar 2 Capital Resource Requirement to reflect the impact of IM Asset Management's stress testing, giving an aggregate Pillar 2 figure of £642,334.

With regard to maintaining capital resources in excess of the Capital Resources Requirement, the board deems it desirable to hold 50% headroom and has a target to hold at least 50% headroom. The board considers the aggregate Pillar 2 figure of £642,334 to be an adequate and prudent capital figure to meet the business risks and stresses the Company is likely to face. Based upon this assessment, the Company had surplus capital of £1,009,945 as at 30 April 2011, equating to approximately 157% headroom.

Liquidity

As identified above, there is a considerable surplus of £1,009,945 in liquid reserves over and above the Capital Resource Requirement. The board is satisfied that the size and liquidity of the surplus provides adequate capital to meet all foreseeable risk, stresses and contingent liabilities.

Summary

The Company has adequate financial resources to meet the risks and stresses identified. Its capital resources are as follows:

Audited capital and reserves as at 30 April 2011	£ 1,652,279
Pillar 2 capital requirement	(642,334)
Surplus capital and reserves (all liquid)	1,009,945

This statement was approved by the board of IM Asset Management Limited on 3 August 2011.



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