Dewhurst Torevell & Co Limited

Capital Resources Directive
Basel II Pillar 3 Disclosure

October 2017

Capital Resources Directive - Basel II Pillar 3 Disclosure

year ended 30 June 2017

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1 Introduction

Dewhurst Torevell & Co Limited is classified as a Limited Licence €125,000 firm and as such is required to comply with the three Pillars of Basel II (the Capital Requirements Directive). The three Pillars that make up the Capital Requirements Directive are set out below.

Capital Requirements Directive		
Pillar 1	Pillar 2	Pillar 3
Minimum Capital Requirements	Internal Capital Adequacy Assessment Process (ICAAP) and other risk management processes including Supervisory review and Evaluation Process (SREP)	Disclosure

This document is designed to satisfy the requirements of Pillar 3 by setting out the firm's risk management objectives and policies. For the avoidance of doubt, whilst this is a public document, it does not constitute a financial statement, record or opinion of Dewhurst Torevell.

The aim of Pillar 3 is to encourage market discipline by developing a set of disclosure requirements for investment firms and credit institutions that will allow other market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes. The disclosures are to be made public for the benefit of the market.

The firm is not subject to consolidated supervision.

The contents of this disclosure document are based on the financial position of the Company as at 30 June 2017, being its most recent financial year end.

2 Risk Management Policies and Objectives

The firm is a limited company owned by its directors and with a minority of shares still held by two ex-directors. The non-employed shareholders are joint owners of a competitor firm, a fact that has been reported to the Financial Conduct Authority ("FCA").

The company was established in March 1997 and is authorised and regulated by the FCA as Independent Financial Advisers, register number 183210. The company provides independent financial advice to high net worth individuals, trusts and small corporate bodies. It is authorised to handle client money and provides a safe custody service (without administration) for client assets. Dewhurst Torevell does not carry out discretionary management; it operates on an active advisory basis. The company has a strong reputation in the market place for providing quality service and has a longstanding client base. Our permitted business is advising and arranging investment business, life insurance and pensions (including transfers and opt outs).
Where possible, the firm will attempt to manage all the risks that arise from its operations. As the firm is a Limited Licence €125,000 firm it is not usually exposed to Credit Risk, Market Risk (including interest rate risk) or Operational Risk. However, the firm has separately considered the risks associated with its business and these are detailed both in the ICAAP and later in this document.

The ways in which the firm manages the risks faced include producing key risk information and indicators to measure and monitor performance and using the Board of directors to monitor and control specific risks.

2.1 Credit risk

'The risk that a counterparty will fail to meet its obligations.'
This relates to a firm's proprietary holdings. As Dewhurst Torevell does not invest on its own account, credit risk is not deemed to be a consideration. The company has only incidental credit risk exposures and so has chosen to adopt the simplified standard approach when calculating the credit risk requirement. A single weight of 8% has been applied to all exposures in this class. From a practical perspective this is classed as trade debtors.

2.2 Market risk

'The risk arising from fluctuations in asset values, income generated from assets, interest rates or exchange rates.'
The company does not take principal positions. The company's exposure to market risk is derived from the relationship between market values and the income structure of the business. Income generated from assets held on platforms will decline if the market falls. The risk to capital is low as the company continues to grow its assets under influence. Should the company be required to do so, costs could be reduced materially without harming the business.

The company holds fixed asset investments in a range unit trust funds. The value of these investments at 30 June 2017 is £569,952 (excluding dividends received over the period). The funds are used widely and so can be seen within the majority of client portfolios. The performance of the funds has been consistently good and the capital risk is considered to be low. It should be noted that if anything catastrophic were to happen to the funds then the implication on the business as a whole and the wider client base would be significant.

2.3 Operational risk

'The risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.'
Operational risk in the context of capital adequacy calculations is not required for limited licence firms such as ours. This approach is considered to be appropriate.

2.4 Liquidity risk

The key risks relate to an insufficient cashflow for the company, or that the firm's assets could not be liquidated in a timely manner to meet liabilities as they fall due. As the firm has substantial sums deposited with a major bank, and holds unit trust investments that are highly liquid, we are satisfied as to the level of liquid resources. Historically and currently, the company holds reserves well in excess of regulatory Pillar 1 and 2 capital requirements.

2.5 Other risks

Our firm has a simple operational structure with all cash held in sterling. It is subject to the Fixed Overhead Requirement and is not required to calculate an operational risk capital charge. As the firm is not dependent on revenue streams deriving from interest on deposits, nor is it exposed to loan finance, then interest risk is not considered an appropriate risk. The firm does not invest on its own account and so concentration risk is not deemed to be a consideration.

2.6 Reputational risk

The firm's reputation is important in the market place and professional integrity is considered a key attribute. Our reputational success is based on trust, integrity, discretion and performance. Internally annual reviews ensure that our staff maintain appropriate standards of conduct. The firm retains the services of an external compliance consultancy firm to provide a four eyes view of policies and procedures adopted by the firm.

2.7 Financial crime risk

Procedures are in place to ensure verification of clients and employees and to minimise the risk of fraudulent activity. Cyber-crime and social engineering fraud is widespread and rapidly increasing. The firm acknowledges that these types of crime can result in devastating financial consequences for both clients and the company. Staff are briefed regularly to provide guidance on procedures and best practice.

3 Risk management function

3.1 Structure

The directors take risk management seriously and have regular directors meetings when risk may be discussed. As the company is owned and controlled by a small number of directors, there is no need to have a separate risk committee. The risk aspect of any new business propositions will be considered at an appropriate stage. The monthly directors' business meeting includes a regular compliance agenda item and this addresses specific risk if necessary.

3.2 Risk reporting and management systems

There are a number of reports and processes that are employed by the firm to enable key risks to be identified, reported to appropriate personnel for consideration and, where required, action and managed. These include:

Compliance Risk Assessment
This is an assessment of all relevant risks that the firm is likely to face in the next twelve months and is performed on an annual basis to be effective at the start of the financial year. This element of the compliance plan is presented to the board for review and approval and is used as the basis for the firm's compliance monitoring for the following period.

Compliance Resource Assessment
This assessment determines the level of internal compliance resource required by the firm for the period covered by the compliance risk assessment and will identify shortfalls in resourcing that could lead to compliance weaknesses and breaches. This is performed bi-annually and is presented as part of the compliance officer's report to the board.

Money Laundering Risk Assessment
A forward looking assessment of the risks the firm faces from money laundering and wider financial crime takes place as part of the MLRO bi-annual report. The MLRO will use this assessment to drive the necessary anti-financial crime initiatives within the firm.

CASS Board Report
A bi-annual review of all elements of CASS relevant to the firm, including risk assessments of key banking providers and major CASS related policies. The report is presented to the full board for consideration and action as necessary.

Compliance Oversight Officer's Report
A bi-annual consideration of the standard of the firm's compliance over the preceding half year. The report is presented to the board for consideration and action as necessary.

MLRO Report
A bi-annual consideration of the standard of the firm's anti-money laundering and other financial crime practices over the preceding half year. The report is presented to the firm's board for consideration and action as necessary.

4 Remuneration policy and practices

No separate remuneration committee exists; this function is undertaken by the governing body of the firm. The firm is not considered to be large enough to warrant the establishment of such a committee. The firm retains the service of a single non-executive director and apart from the external auditors and compliance consultants, does not engage the services of specialist consultants.

4.1 Remuneration policy

This policy applies to executive directors and other senior managers with a material impact on the firm's risk profile ('Code Staff'):

The overall policy is that the remuneration of executive directors and other Code Staff should comply with the FCA's Remuneration Code as far as practical, with an appropriate balance being struck between financial performance and risk management;

A material part of the remuneration of executive directors and other Code Staff is variable based on the firm's financial performance as a whole. In respect of Code Staff, it is also based on individual performance, using predetermined targets to motivate and reward success. In years where business performance does not merit the award of a bonus, no bonus is paid.

Pay and performance
The executive directors and other Code Staff receive bonuses which reflect the firm's overall net profitability. A similar approach is adopted for all other staff. The approach ensures that threshold conditions regarding sustainable levels of capital and liquidity are maintained.

There is no minimum amount of variable pay, neither are there any contractual bonus payments. The maximum amount in the 2017 year, as a percentage of basic salary for an individual, was 71% for executive directors (there are no other Code Staff).

Aggregate remuneration data:
The total fixed pay to employees in the year ended 30 June 2017 was £1,181k, total undeferred variable pay was £903k.

Details of remuneration paid to Directors/Code Staff are as follows:

	£'000
Fixed pay	428
Variable pay	859
Benefits	16
Pension	21
Total	1,324

5 Capital resources

The firm's capital resources comprise entirely share capital and audited reserves.

	30/06/2017
	£'000
Tier 1	
Share capital	102
Capital redemption reserve	38
Profit & loss account	1,188
Core tier 1 capital	**1,328**
Total capital base	**1,328**
Risk asset ratios	
CET1/TRE (threshold 4.5%)	12.63%
Own funds/TRE (threshold 8%)	12.63%

5.1 Integration into Business Strategy

It is the intention of the firm to maintain sufficient capital resources to allow it to continue to operate profitably in the independent financial advice sector and to provide a reasonable return for the shareholders of the firm.

5.2 Internal Capital Adequacy Assessment Process ("ICAAP")

The ICAAP combines Pillar 1 and Pillar 2 requirements and involves a detailed analysis of the various elements of the business to understand the need for capital in the forthcoming period. Various models are tested in the process to identify areas where additional capital may be required to manage the risks to which the firm is exposed. It has been concluded that regulatory capital is an appropriate measure of the level of capital to be held within the business. The relative simplicity of the business means that the company does not need any additional capital to meet its objectives.