Pillar 3 disclosure

BLACKADDERS WEALTH MANAGEMENT LLP

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 credit, market and operational risk;
- Pillar 2 – which requires firms to take a view on whether additional capital should be held against any risks not covered by Pillar 1; and
- Pillar 3 – which requires firms to publish certain details of its risks, capital and risk management process.

This document contains the Pillar 3 disclosure for Blackadders Wealth Management LLP.

This Pillar 3 Disclosure has been subject to internal review procedures. The information has not been audited by the firm’s external auditors and does not constitute any form of financial statement.

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. Where the firm considers a disclosure to be immaterial, this will be stated in the relevant section.

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 is that which, if it were shared, would undermine the firm’s competitive position. Information is considered to be confidential where there are obligations binding the firm to confidentiality with its clients and counterparties.

Where the firm has omitted information for any of the above reasons, a statement explaining this will be provided in the relevant section.

Unless stated as otherwise, all figures contained in this disclosure are based on the firm’s audited annual reports for the year ending 31st March 2017.

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 accounts.

Our firm's Pillar 3 Disclosure reports are published on our website- www.blackadderswm.co.uk

Scope and application of Directive requirements

The disclosures in this document are made in respect of Blackadders Wealth Management LLP which provides independent financial advice and discretionary investment management services.

Blackadders Wealth Management LLP is authorised and regulated by the FCA and is classified by the FCA as a BIPRU Firm. Our FCA number is 738512.

Risk management objectives and policies

Our risk management policy reflects the FCA requirement that we must manage a number of different categories of risk. These include: liquidity, credit, market, interest rate, business and operational risks.

i. **Liquidity risk**

The firm has no external borrowings and holds sufficient cash reserves to meet the continued operating needs of the business. The cash reserves consist of initial members capital provided at no interest by the equity partners of Blackadders Wealth Management LLP. There is a robust budgeting and forecasting process, this has the full involvement of senior management and is ratified by the Board.

ii. **Credit risk**

The firm's revenues include annual management charges 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.

The risk relating to amounts due from providers as a result of legacy renewal commission streams is considered to be low. This is because these amounts are due from institutions that are regulated by the FCA. In addition, the amounts due are not significant in relation to our overall financial model.

iii. **Market Risk**

The firm is indirectly subject to market risk as income is dependent upon the value of client funds under management. However this risk is mitigated by the asset allocation and investment strategy adopted. Client portfolios are highly diversified portfolios with limited exposure to any one asset class. In light of this exposure to market risk is considered relatively minimal.

iv. **Interest rate risk**

The firm has no borrowings and no exposure to interest rate risk.

v. **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. Other risks than could arise are loss of advisers and potentially system failures could also occur. We regularly consider these scenarios and the impact they might have on the financial position of our business. Our financial strength and the efficiency of our business model is such that we do not perceive any significant risk here. We do have succession planning in place and carry out regular due diligence on our key systems which are very robust.

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.

Major sources of operational risk include: outsourcing of operations, IT security, internal and external fraud, implementation of strategic change and regulatory non-compliance.

These aspects are regularly considered by the firm's senior management. The firm's Compliance Oversight is responsible for preparing quarterly risk reports and recommending any changes to the Board

The 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 the agreed controls over those risks and reporting areas of concern to the board.

The Compliance Oversight will provide the board with a report on all significant risk issues.

vi. 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

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.

The Pillar 1 capital requirement for Blackadders Wealth Management LLP is £185,000 as at 31st March 2017.

Pillar 2

Our overall approach to assessing the adequacy of our internal capital is set out in our Internal Capital Adequacy Assessment Process (ICAAP). 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 5 year time horizon. Probability is assessed subjectively.

In addition, we have received the outputs of our risk reviews to quantify any risks identified. This has a number of key business risks which we have classified against the risk categories contained in GENPRU1.2.30R 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 no greater than our Pillar 1 requirement. We do in fact have significant accrued income that could eligibly be classed as Pillar 1 capital if we elected to do so, so in effect have this in reserve.

Regulatory capital

The main features of Blackadders Wealth Management's capital resources for regulatory purposes, as at 31st March 2017 are as follows:

Capital item:	£000s
Tier 1 capital – members' capital	£185,000
Total of tier 2 and tier 3 capital (broadly long and short term subordinated loans)	£0
Deductions from tier 1 and tier 2 capital	£0
Total capital resources, net of deductions	£185,000

The firm holds regulatory capital in accordance with the Capital Requirements Directive. All such capital is classified as Tier 1 capital and is therefore of the highest quality and immediately available.

Remuneration Code Disclosure

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

Decision Making

Blackadders Wealth Management does not have a Remuneration Committee but the remuneration policy is reviewed annually at Board meetings to ensure that the overall policy and individual arrangements, particularly in relation to senior management subject to the requirements of the BIPRU remuneration code, consistently fulfills the principles of that code applying to BIPRU firms.

The principal considerations for the Board regarding the BIRPU Remuneration Code include:

- Determining the framework and policy for remuneration and ensuring it does not encourage risk taking.
- Considering and advising on any major changes in remuneration structures.
- Considering the appropriate targets for any performance related remuneration where applicable
- Considering the appropriate mix of salary, discretionary bonus if applicable.
- In determining remuneration arrangements, the Board will give due regard to best practice and any relevant legal or regulatory requirements including in particular the BIPRU Remuneration Code.

Blackadders Wealth Management LLP has three partners and two other senior staff who fall under the remit of the BIPRU remuneration code. Blackadders Wealth Management LLP has no risk takers. The partners receive equal shares of the profits and remuneration for other senior staff is agreed at Board level. While the link between performance and pay is inevitable in a small firm, the firm's risk averse strategy and robust risk management systems mitigate any risks.

Our ethos is to ensure that all employees are treated fairly, recognising their contribution to the overall team effort, and that the advice and services provided by the firm must be for the benefit of our clients and within the firm's compliance risk parameters.