

# Pillar 3 and BIPRU Remuneration Code Disclosures

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## Background

This is MASECO LLP's (MASECO) 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 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.

## Disclosure Policy

The rules in BIPRU 11 provide that MASECO 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 MASECO considers a disclosure to be immaterial, this will be stated in the relevant section.

MASECO 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 MASECO's competitive position. Information is considered to be confidential where there are obligations binding MASECO to confidentiality with its clients and counterparties.

Where MASECO 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 MASECO LLP's audited annual reports for the year ending 31/03/2017.

## 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 MASECO's Internal Capital Adequacy Assessment Process (ICAAP) and the publication of its annual reports.

## Verification

The information contained in this disclosure has not been audited by MASECO's external auditors and does not constitute any form of financial statement.

## Publication

MASECO LLP's Pillar 3 Disclosure reports are published on our website.

## Scope and application of Directive requirements

The disclosures in this document are made in respect of MASECO LLP which provides wealth planning and intermediation/discretionary investment management services.

MASECO LLP is a Limited Liability Partnership in the UK and is authorised and regulated by the Financial Conduct Authority as an Investment Management Firm. The Firm's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €50K" firm.

The Firm is a solo regulated entity.

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under GENPRU 2 Annex 4.

## 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

MASECO manages all cash requirements whilst ensuring there are sufficient liquid resources to meet the continued operating needs of the business. This is supported by a robust planning process which has the full involvement of the Management Team.

### ii. Credit risk

The main credit risk for MASECO relates to a small portion of management fees which are invoiced, being the risk that a client does not pay amounts due for services provided. MASECO's revenues include annual management charges received from clients based on a percentage of client assets under management. The majority of these charges are made directly to the clients' portfolios, and therefore the credit risk relating to this income is minimal.

Additional credit risk exists where MASECO takes out Forward FX Hedging Transactions with credit institutions or FX brokers. The credit risk is limited to the profit generated on such positions. Counterparty risk exists with credit institutions or FX brokers where funds are deposited.

### iii. **Market risk**

MASECO is indirectly subject to market risk as a significant element of revenue is dependent upon the value of client funds under management. This risk is mitigated by the asset allocation strategy adopted, aimed at providing clients with highly diversified portfolios with limited exposure to any one asset class sector or geographic location. However, a high proportion of assets are managed through US Mutual Funds, therefore our secondary risk is that of market failure within the US Mutual Fund arena.

### iv. **Interest rate risk**

MASECO currently has no borrowings and an increase or decrease in interest rates will not have a material effect.

### v. **Business risk**

MASECO'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 fee revenue, although other risks such as loss of advisers and systems failures are also considered. To mitigate our business risk, we include different economic scenarios in our financial modelling to quantify the impact of economic downturns on our financial position.

### vi. **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 as well as a high level of manual processes. We seek to minimise operational risk through a robust control framework.

MASECO operates a robust risk management process which is regularly reviewed and updated with details being provided to all staff. The Compliance function is responsible for the periodic reviews and

recommending any changes to the Management Team. All senior management will bear responsibility for internal controls and the management of business risk as part of their accountability.

### vii. **Other risks**

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

## **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 MASECO as at year end 31 March 2017 was £598,819.

## **Pillar 2**

Our overall approach to assessing the adequacy of our internal capital is set out in our 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 1 to 3 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 slightly less than our Pillar 1 requirement.

## **Regulatory Capital**

The main features of MASECO's capital resources for regulatory purposes, as at 31/03/2017 are as follows:

Capital item:	£000s
Tier 1 capital (total Tier capital after deductions)	600
Tier 2 capital (totaly Tier 2 capital after deduction)	0
Total Tier 1 capital plus Tier 2 capital after deductions	600
Total Tier 3 capital	0
Total capital resources after deductions	600

### 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. All of our Code Staff fall into the "senior management" category of Code Staff (rather than the "risk taker" category) for the purposes of the BIPRU Remuneration Code. Due to the size and nature of the MASECO business, MASECO (as allowed by the FCA rules) has chosen to disapply certain rules relating to deferral and allocation of shares.

### Decision Making/Remuneration Committee

MASECO LLP is not required to maintain a separate Remuneration Code Committee under CRD III. The Partners in conjunction with the Management Committee 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 and discretionary bonus.

In determining remuneration arrangements, the Partners will give due regard to best practice and any relevant legal or regulatory requirements including the BIPRU Remuneration Code as well as key risks to the MASECO business model.

### Link between Pay & Performance

Competitive salaries form the basis of our firm's remuneration package. In addition there is an element of variable pay for all staff which is based on firm wide and individual performance. Whilst most of the variable reward components are awarded to employees across the firm, the structure, balance and amounts may differ. Variable remuneration is considerably reduced where subdued or negative financial performance of the firm occurs.

When assessing individual performance we use a performance review process, with reviews including qualitative criteria and, in the case of investment managers, long-term investment results are a factor in the assessment process.

The MASECO Partners have reviewed and considered the requirements of the FCA Remuneration Code and have determined that the firm's remuneration policy is compliant with the Remuneration Code. There are various proportionality exemptions within the rules and these have been used where appropriate to do so. MASECO has ten Code Staff, four Partners of the Firm and six others. The remuneration of Code Staff is compliant with the Remuneration Code.

### Disclaimer

MASECO LLP trading as MASECO Private Wealth and MASECO Institutional is authorised and regulated by the Financial Conduct Authority in the UK and the Securities and Exchange Commission in the US. The FCA and the SEC do not regulate tax advice. MASECO Private Wealth is not a tax specialist.

