SUCCESSION
ADVISORY SERVICES

# PILLAR 3 DISCLOSURES 2019

## 1. Introduction

The Capital Requirements Directive ("CRD") created regulatory capital standards and the associated supervisory framework across Europe governing the amount and nature of capital credit institutions and investment firms must maintain. In the UK, the CRD has been implemented by the Financial Conduct Authority. The framework consists of three Pillars:

- **Pillar 1** – under this Pillar, firms are required to calculate their minimum capital requirement based on credit, market and operational risk

- **Pillar 2** – firms are required to assess the additional capital required for risks not covered in Pillar 1. The objective of Pillar 2 is to enhance the link between a firm's risk profile, its risk management and risk mitigation systems, and its capital. Firms should develop sound, robust risk management processes that accurately monitor, measure and aggregate their risks.

- **Pillar 3** – requires firms to publicly disclose certain details of their risks, capital and risk management arrangements.

This document has been prepared by SAS in accordance with the requirements of Pillar 3 and as set out in Chapter 11 of the BIPRU Sourcebook in the FCA Handbook. It is designed to meet the Pillar 3 obligations for Succession Advisory Services Limited ("SAS").

## 2. Business Structure

SAS is authorised and regulated by the FCA and is categorised as a "BIPRU 50k" firm.

SAS is a platform service provider providing online Platform services. The Succession Investment Platform ("SIP") provides access to a range of product wrappers including Onshore Bonds, Offshore Bonds, Pensions and ISAs. SAS is focused on building a profitable and sustainable business by deriving a recurring income stream for Assets under Administration ("AUA")

SAS has engaged Investment Funds Direct Ltd ("IFDL," a subsidiary of the Royal London Group) as the platform operator responsible for delivering the underlying investment administration platform technology. SAS has entered into a Model B arrangement with IFDL whereby IFDL has regulatory responsibility for client money and client assets (safeguarding and administering).

SAS is also a Discretionary Fund Manager operating model portfolio structures ("MPS") with external support from 3 outsourced investment managers. The SAS MPS solutions are designed to ensure consistency of outcome for the end client, with a focus on performance, volatility and maximum loss. SAS controls the framework for managing and governing the assets, and ensuring the chosen outsourced investment managers perform in line with SAS internal investment matrix parameters over the long term to help achieve client objectives.

## 3. Risk Management

It is the responsibility of the SAS Board to ensure that SAS has arrangements in place to identify, manage, mitigate and control its key risks. The Board meets on a quarterly basis to review business performance and strategic direction as well as to provide an appropriate level of challenge to Management. The Board is responsible for establishing the risk appetite for the business and ensuring that risk exposures remain within appetite.

### *3.1 Risk Appetite*

SAS's risk appetite is determined by the Board and sets out the amount of risk that Succession is willing to take on in order to maintain and add value. SAS considers itself to be risk averse with a low risk appetite. This applies to all SAS's activities and is evidenced by its strategy and business mode and is embedded in the culture of the Company through its management structure and governance arrangements, including those specifically relating to the management of risk.
In particular: SAS has no appetite for:

- Undertaking any activities other than retail financial services with an emphasis on platform operations, asset/fund consolidation, and the facilitation of intermediary consolidation across a diverse retail customer base with low concentration risk.
- Allowing citizens of the United States of America or Canada to use its services.
- Providing financial advice to clients and will act only as agent when dealing. Succession will only allow trading on cleared and available funds or where the settlement of purchases is to be met from the settlement of sales on the SIP
- Dealing on its own account or underwrite issues of financial instruments on a firm commitment basis.
- permitting the offerings of complex financial products such as Margin Trading, Short Selling, Option Writing, or Spread Betting
- Allowing anyone but its Member Firms access to the SIP and will only accept UK-based advisors who are appropriately authorised and certified under the FCA's Senior Manager and Certification Regime.

SAS will outsource its material regulated activities but has a low tolerance for the delivery of outsourced activities by third parties outside contractual Service Level Agreements ("SLAs").

SAS has a low tolerance for financial crime and therefore all clients must be properly identified and verified prior to transacting on the SIP.

### *3.2 Review of Key Risks*

SAS faces a number of material risks which risks are assessed as part of the ICAAP. The key risks are as follows:

| Key Risk | Risk Description | Risk Mitigation |
|---|---|---|
| Strategic Risk | This is the risk of the current and prospective impact on earnings or capital resulting from an inappropriate or defective strategy. | A five year business plan is in place and performance against plans is monitored by the Board on a quarterly basis. |
| Market Risk | This is the risk arising from fluctuations in asset values, income generated from assets, interest rates or exchange rates. | SAS has concluded that the risk to capital is low, as the current growth of the company would outpace the decline in markets, and should the company be |

| | | |
|---|---|---|
| | SAS's exposure to market risk is derived from the relationship between market values and the income structure of the business. Income generated from assets on the platform will decline if the market falls. | required to do so, costs could be reduced significantly without harming the business.<br><br>SAS does not take principal positions. |
| Credit Risk | This is the risk that a borrower or counterparty will fail to meet their obligations. SAS's exposure to credit risk is derived from intercompany debtor and the risk of IFDL becoming insolvent. | Given the support IFDL has from their parent company, Royal London Group, which has an AKG rating of B+ with a Very Strong Outlook (October 2019), this is regarded as a low risk. |
| Liquidity Risk | The risk that the firm, though solvent and profitable on a balance sheet basis, either does not have the cash (or near cash) resources on the ability to liquidate its assets to meet its obligations to creditors and/or capital providers as they fall due. | Liquidity risk is deemed to be low because SAS has revenue streams which are predictable, recurring and derived from multiple sources including platform fees which are automatically deducted from the client accounts and reconciled daily by the third-party administrator (IFDL).<br><br>SAS also receives revenue from discretionary management services which is automatically deducted from the client wrappers linked to the model portfolios. The charge is based on the value of the assets and cash held in the deposit account at the end of each calendar month and is remitted to SAS by IFDL.<br><br>In addition, SAS holds large intercompany balances with its sister company, Succession Group Ltd, and ultimate parent company, Succession Holdings Jersey Ltd. The balances themselves are recoverable on demand. |
| Operational Risk | This is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.<br><br>A particular operational risk for SAS is its reliance on a material third party, IFDL for platform technology and services. | The Succession Platform is provided by IFDL which has over 10 years' experience in the field and has established processes and procedures that have been subject to considerable internal and external scrutiny. During 2019 there has been material investment and system upgrades made to the platform.<br><br>SAS has governance arrangements in place to provide oversight over the activities undertaken by IFDL. |

## 4. Capital Resources Requirements

SAS is required to calculate Pillar 1 capital requirements as the higher of a) the sum of credit risk and the market risk capital requirements, and b) the fixed overheads requirement. The firm is not required to consider or include an operational risk requirement under Pillar 1.

In the case of SAS the fixed overheads requirement is significantly higher than the sum of the credit risk and market risk capital requirements and, hence, is the basis of the Pillar 1 requirement. Given this, and having regard to materiality, further disclosures in relation to the credit and market risk requirements have not been made.

The assessment and quantification of all the risks identified in section 3 above, gives rise to an assessment within the ICAAP process of the level of capital required to be held to cover those risks. This is the Company's Pillar 2 capital requirement.

The Pillar 1 calculation gives a capital requirement which is above the level calculated under Pillar 2, therefore the Pillar 1 requirement takes precedence. However, the minimum capital requirement for a BIPRU 50k firm is greater and is therefore the capital requirement for the Company.

SAS has a 31 December year end, and reports on a six monthly basis to the FCA. Therefore the most recent reference date on which Succession Advisory Services reported was 30 June 2019 (including audited retained earnings as at 31 December 2018), and the table below shows the position at 30 June 2019.

| Reported Capital Resources Position | As at 30 June 2019 | As at 31 December 2018 |
|---|---|---|
| Succession Advisory Services | £000 | £000 |
| Tier 1: | | |
| Ordinary share capital | 17 | 17 |
| Share premium | 8,219 | 8,219 |
| Audited retained earnings | 5,871 | 2,971 |
| Total Tier 1 capital | 14,107 | 11,207 |
| Deductions from Tier 1: | | |
| Intangible assets | (18) | (24) |
| Tier 1 capital after deductions | 14,089 | 11,183 |
| Tier 2 capital | - | - |
| Deductions from total capital - illiquid assets | (759) | (621) |
| **Total regulatory capital resources** | **13,330** | **10,562** |

Succession's financial resources comprise the issued share capital of the company and the profit and loss account.

The table below shows the capital resources held by Succession Advisory Services compared to the Pillar 1 requirement along with the capital ratio.

| Capital Adequacy Ratios<br>Succession Advisory Services | As at 30 June 2019<br>£000 | As at 31 December 2018<br>£000 |
|---|---|---|
| Total regulatory capital resources | 13,330 | 10,562 |
| Total Pillar 1 requirement | 2,102 | 2,102 |
| Surplus of total capital | 11,228 | 8,460 |
| *Capital ratio (capital resources/Pillar 1 requirement)* | *634%* | *502%* |

## 5. Remuneration Code Disclosures

SAS is subject to the FCA Remuneration Code (the Code) in respect of remuneration paid to CRD IV categorised code staff (Code Staff). A key objective of the Code is to ensure that remuneration policies promote effective risk management and that pay practices within firms do no do not expose them to excessive risk.

### *5.1 Proportionality*

Enshrined in the European remuneration provisions is the principle of proportionality. The FCA have sought to apply proportionality in the first instance by categorising firms into 3 levels. SAS falls within the FCA's level 3 and, as such, this disclosure is made in line with the requirements for a level 3 firm. In particular, level 3 firms may, where appropriate, dis-apply the provisions imposed under CRD IV in respect of remuneration structures. These are the rules relating to bonus caps, payment of remuneration in retained shares or other instruments, deferral, ratio of variable remuneration to fixed remuneration, and post-award performance adjustment.

As a level 3 firm, it is appropriate for SAS to dis-apply the structural requirements including the bonus cap requirement, limits on the ratio of fixed to variable remuneration, payment in instrument, deferral and post-award performance adjustment.

### *5.2 Governance Over Remuneration*

All key remuneration decisions are subject to approval by the Remuneration Committee. In discharging its responsibilities under its terms of reference, the Remuneration Committee ensures that risks are properly considered in setting the overall remuneration for SAS, and in particularly the incentive structures for staff members who have been identified its Material Risk Takers ('MRTs') in accordance with CRD IV. MRTs are those employees who are considered to have a material impact on the risk profile of the entity. The MRTs are reviewed on an annual basis by the Remuneration Committee.

In determining remuneration, the Remuneration Committee takes into account all factors it deems necessary, including relevant legal and regulatory requirements and associated guidance, as well as the importance of promoting effective risk management and of rewarding individual contributions to the success of SAS, in a fair and responsible manner and in line with market practice at the relevant time.

### *5.3 Fixed vs Variable Remunerations*

Fixed remuneration is set at a level that is sufficient to attract and retain high calibre staff. Variable incentives may be awarded to eligible employees where the performance of both SAS and the employee substantiates the award and in accordance with the over-arching principles and parameters set by the Remuneration Committee. This will include bonuses, incentive payments, and any compensation payments deemed appropriate by the Committee. The Committee keeps the balance between fixed and variable remuneration under review.

Combined profits of SAS and other Succession Group companies contribute to determine the variable pay of all members of senior management, including Code Staff.

### *5.4 Remuneration*

The total remuneration for all staff of SAS in the financial year ending 31 December 2018 was £1.34m, of which £1.2m was fixed and £0.14m, approximately 10%, was variable. There were also redundancy costs totalling £1.82m following a restructure.