

PILLAR 3 DISCLOSURES 2020

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 to clients of its sister companies in the Succession Group and also to clients of a number of member firms. Member firms are independent of Succession Group and use the SIP for their own clients; they pay a fee to SAS for the provision of platform services and these fees are remitted to IFDL who distribute to SAS.

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 three 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 monitors and provides oversight over the management of assets by third party investment managers, ensuring that these investment managers operate in line with SAS’s internal investment matrix parameters over the long term to help achieve the objectives set by Succession Wealth in respect of its clients.

3. Risk Management

It is the responsibility of the SAS Board to ensure that SAS has arrangements in place to identify, manage, control and mitigate 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 the SAS Board is prepared to accept in pursuit of SAS's strategic objectives, before action is deemed necessary to reduce the risk. Risk appetite is reflected in SAS's strategy and business model, 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.

SAS operates in accordance with the Succession Group's Risk Management Framework that sets out how it identifies, manages and monitors its risks. The Board receive a quarterly report on SAS's material risks and associated management actions. Risk appetite statements are supported by key risk indicators which are used to measure and report to the Board on performance against each risk appetite statement.

3.2 Review of Key Risks

SAS faces a range of risks which are assessed as part of the ICAAP and on an ongoing basis in accordance with the Risk Management Framework. Material risks are those within each of the key risk categories that are either outside of appetite or requiring particular focus from senior management. They are reviewed at least quarterly and are reported to SAS Board. The key risk categories and key controls in place 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 does not take principal positions so its exposure to market risk is derived from the relationship between market values and the income generated from assets on the platform which will decline if the market falls.
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 debt. This risk is regarded as 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 or 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



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Key Risk	Risk Description	Risk Mitigation
		<p>reconciled daily by the third-party administrator (IFDL).</p> <p>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.</p> <p>In addition, SAS holds large intercompany balances with its sister company, Succession Group Ltd, and ultimate parent company, Succession Holdings Jersey Limited. The balances themselves are recoverable on demand.</p>
Operational Risk	This is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.	<p>Particular operational risks for SAS are key personnel risk (due to the fact that SAS is a small firm and is dependent on a number of key people) and reliance on a material third party platform provider, currently IFDL.</p> <p>Key personnel have an equity stake in the business which assists with retention.</p> <p>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. During 2020 IFDL was acquired by M&G plc.</p> <p>SAS has governance arrangements in place to provide oversight over the activities undertaken by IFDL.</p>
Legal & Regulatory Risk	This is the risk of an adverse financial impact, reputational damage, or regulatory sanctions as a result of non-compliance with emerging and/or existing legal and regulatory requirements.	<p>Compliance arrangements are in place and overseen by the SAS Compliance Director who is a member of Succession Group's Compliance function.</p> <p>Responses are made to requests from regulators, including thematic reviews,</p>



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Key Risk	Risk Description	Risk Mitigation
		and programmes are in place to prepare for regulatory changes.
Conduct Risk	This is the risk that our actions or inactions lead to poor outcomes for our clients or have an adverse impact on market stability or effective competition.	SAS has processes in place to identify situations where client detriment has occurred and to put this right for the client. Conduct risks are subject to regular review and monitoring.

4. Capital

4.1 Capital Resources

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 SAS reported was 30 June 2020 (including audited retained earnings as at 31 December 2018), and the table below shows the position at 30 June 2020, and again at 2 September 2020, once audited retained earnings as at 31 December are included.

Reported Capital Resources Position	As at 2 September 2020*	As at 30 June 2020	As at 31 December 2019
Succession Advisory Services	£000	£000	£000
Tier 1:			
Ordinary share capital	17	17	17
Share premium	8,219	8,219	8,219
Audited retained earnings	10,039	5,871	5,871
Total Tier 1 capital	18,275	14,107	14,107
Deductions from Tier 1:			
Intangible assets	(9)	(9)	(14)
Tier 1 capital after deductions	18,266	14,098	14,093
Tier 2 capital			
Deductions from total capital - illiquid assets	(759)	(759)	(759)
Total regulatory capital resources	17,507	13,339	13,334

***The 2 September 2020 position reflects the position of the company as at 30 June 2020 as reported to the FCA, and also takes account of the December 2019 audited reserves which were approved by the Board and signed off by the Auditors in September 2020.**

4.2 Pillar 1 Capital Resource 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.



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In the case of SAS, the Pillar 1 requirement is determined by the fixed overheads requirement as this is significantly higher than the sum of the credit risk and market risk capital requirements and the base requirement of €50,000 (£43,000 as at 31 December 2019). This is because SAS does not trade on its own account so there is a small exposure to credit and market risk. Given this, and having regard to materiality, further disclosures in relation to the credit and market risk requirements have not been made.

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	As at 2 September 2020 £000	As at 30 June 2020 £000	As at 31 December 2019 £000
Succession Advisory Services			
Total regulatory capital resources	17,507	13,339	13,334
Total Pillar 1 requirement	2,063	2,063	2,102
Surplus of total capital	15,444	11,276	11,232
<i>Capital ratio (capital resources/Pillar 1 requirement)</i>	<i>849%</i>	<i>647%</i>	<i>634%</i>

4.3 Compliance with Pillar 2 Requirements

The adequacy of capital to support current and future activities is kept under regular review by the Board and monitored in the ICAAP. This includes the application of stress and scenario testing. The overall capital requirement is then assessed as the higher of Pillar 1 or Pillar 2. The results are reviewed in the context of the Board’s risk appetite to ensure that capital remains adequate, both now and over the business plan period.

The latest ICAAP has been prepared based on audited 31 December 2019 figures and was approved by the Board in May 2020. The Board was able to conclude that SAS has adequate capital for current business needs and to support current business plans, including on a stressed basis.

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 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.



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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 as 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 2019 was £0.6m, of which 94% was fixed. In total there was £0.03m of bonus payments in 2019.

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