TILNEY SMITH & WILLIAMSON

Pillar 3 Disclosures

31 December 2020

Contents

Executive summary

This document presents the Pillar 3 disclosure of Tilney Smith & Williamson Prudential Consolidated Group ('TSW', 'PCG' or 'Group'). The Pillar 3 disclosure is designed to promote market discipline through the disclosure of key information around capital, risk exposures and risk management of TSW.

Figure 1: Key information relating to the Group as at 31 December 2020

	2020 £000
Total capital resources	208,313
Pillar 1 capital requirement	73,191
Total capital ratio	22.8%

The ratios in Figure 1 are in line with the risk management framework and risk appetite framework outlined in Section 4, this is continuously monitored by the Board. Section 5 – 8 outlines the composition of capital resources, the minimum capital requirements and the material risks to the PCG. Section 9 outlines the Group's remuneration policies.

1. Introduction

1.1 About Tilney Smith & Williamson

Tilney Smith & Williamson (TSW) is a leading financial services and professional services group, focused on helping clients achieve their long-term goals. With a depth of expertise in financial planning, investment management and professional services, TSW offer an unrivalled range of services to support our clients with the management of both their personal wealth and their business interests.

TSW has two core businesses: Financial Services (FS) and Professional Services (PS). The TSW services for individuals include financial planning, investment management and private client tax advice, as well as an online business to support self-directed investors. Our business services include accounting and assurance, business tax advices, pensions and employee benefits, corporate finance, recovery and restructuring and forensic services. TSW also provide a full-service fund administration and custody solution for UK collective investment schemes.

TSW had £51.2bn assets under management at 31 December 2020 and a team of over 3,000 people operating from 24 locations across the UK, Ireland and Channel Islands, including 289 Investment Managers, 255 Financial Planners and, within PS, we have over 370 qualified accountants and Certified Tax Advisors Professional Services Partners and Directors.

TSW was formed by the completed merger of Tilney and Smith & Williamson on 1 September 2020; more detail can be found in the 'Strategic Report' section of the 2020 Annual Report and Financial Statements.

1.2 Pillar 3 overview

This document presents the consolidated Pillar 3 disclosures of the TSW Prudential Consolidated Group as at 31 December 2020. It has been prepared in accordance with the Capital Requirements Directive (CRD) and the Capital Requirements regulations (CRR), jointly referred to as CRD IV.

CRD IV is supplemented by regulatory technical standards and the UK Financial Conduct Authority (FCA) Prudential Sourcebook for Banks, Building Societies and Investment Firms (IFPRU) rulebook which are subject to change as certain aspects of CRD IV are dependent on clarifications to be issued by the EBA and adopted by the European Commission and the FCA.

The CRD IV framework consists of three pillars:

- Pillar 1: outlines the minimum capital requirements for a firm
- Pillar 2: requires firms and their regulatory supervisor to assess the amount of internal capital required to cover all the risks that are not adequately covered under the Pillar 1 requirements. This is implemented through the Internal Capital Adequacy Assessment Process (ICAAP) and through the subsequent Supervisory Review and Evaluation Process (SREP) undertaken by the FCA.
- Pillar 3: requires firms to publicly disclose key information of their risks, capital and risk management arrangements.

2. Disclosure policy

2.1 Basis of preparation

These disclosures have been prepared in accordance with CRD IV and the requirements laid out in Part Eight of the CRR. The disclosures in this document differ from similar information presented in the 2020 Annual Report and Financial Statements. The regulatory consolidation differs from the statutory consolidation as some Group entities are engaged in the business activities which are not required to be consolidated under CRD IV. This related mainly to the offerings in the PS division of the Group. The reconciliation between figures reported in the Pillar 3 disclosure and the 2020 Annual Report and Financial Statements is shown in Figure 3 of this document.

Article 432 of the CRR, permits institutions to omit one or more disclosures if the information provided by such disclosure is not regarded as material.

2.2 Frequency, media and location

The Group publishes its Pillar 3 disclosures annually, following the publication of the Annual Report and Financial Statements. The Group will reassess the need to publish some or all of the disclosures more frequently than annually if there are significant changes in relevant characteristics of the Group's business such as scale of operations, range of activities, presence in different countries and other characteristics mentioned in Article 433 of the CRR.

The Pillar 3 disclosure is published and located on the TSW website https://www.tsandw.com/

2.3 Verification and risk profile

This Pillar 3 disclosure document has been reviewed by the Group Risk & Compliance Committee (GRCC), Risk and Audit Committee (RAC) and the Board to ensure that it is consistent with formal policies adopted regarding its production and validation.

Information in this report has been prepared solely to:

- meet the disclosure requirements under CRD IV for the entities forming the Prudential Consolidated Group see Figure 2
- disclose specified information about capital and other risks
- provide details about the management of those risks

The Pillar 3 disclosures are not subject to audit except where they are equivalent to those prepared under financial reporting requirements and disclosed in the 2020 Annual Report and Financial Statements. Wherever possible and relevant, the Board will ensure consistency between Pillar 3 disclosures, Pillar 1 reporting and Pillar 2 ICAAP content e.g. disclosure about risk management practices and own funds at the year end. Where appropriate, cross references have been made to supporting disclosures that are included within the 2020 Annual Report and Financial Statements. As such, these disclosures should be read in conjunction with that document.

The Group is required to assess whether its external disclosures portray its risk profile comprehensively in order to comply with Part Eight of the CRR. Section 4 of this Pillar 3 document outlines the Group's approach to risk management. A full analysis can be found in the 2020 Annual Report and Financial Statements.

3. Scope of consolidation

3.1 Regulatory consolidation

TSW is the parent undertaking for all authorised financial services firms within the Group. These solo regulated financial services entities (listed in Figure 2) are collectively referred to as the Prudential Consolidated Group (PCG) throughout this document. There are additional entities included within the PCG which are not regulated on a solo basis but are providing an ancillary service or are a holding company to a regulated entity. As outlined in Section 2.1 the regulatory consolidation differs from the statutory consolidation as some Group entities are not engaged in the provision of regulated financial services.

All companies included in the PCG, other than Smith & Williamson Investment Management LLP (SWIM LLP) and Tilney Financial Planning (TFP), are limited by ordinary shares. Other than the requirement to hold regulatory capital within some of the PCG entities, there are no practical or legal impediments to the prompt transfer of capital between TSW and its principal subsidiaries. All subsidiaries are 100% owned by TSW or the immediate parent. The regulated entities which constitute the PCG at 31 December 2020 are shown in Figure 2.

The Group's lead regulator is the FCA and the PCG includes entities subject to regulations by other governing bodies including the Central Bank of Ireland (CBI), the Jersey Financial Services Commission (JFSC) and the Guernsey Financial Services Commission (GFSC).

All Group entities subject to prudential capital requirements exceed minimum requirements on a standalone basis.

Figure 2: PCG regulated entities covered by the Pillar 3 disclosures as at 31 December 2020

Company	Prudential classification	Activities
Bestinvest (Consultants) Ltd	IPRU (INV)	Advisory services
HW Financial Services Ltd	IPRU (INV)	Advisory services
Index Fund Advisors	IPRU (INV)	Advisory services
NCL Investments Ltd	IFPRU – €125k limited licence (subject to CRD IV)	The provision of agency stockbroking services, in the UK and foreign equity markets. Entity in wind down and permissions in the process of being removed.
Smith & Williamson (S&W) Corporate Finance Ltd	IFPRU – €50k limited licence (subject to CRD IV)	Corporate finance services
S&W Financial Services Ltd	IFPRU – €50k limited licence (subject to CRD IV)	Financial services
S&W Fund Administration Ltd	Collective Portfolio Management – €125k UCITS and AIFM firm	Fund administration services including acting as Authorised Corporate Director for Open Ended Investment Companies (OEICs) and as the authorised fund manager for unit trusts. The company is responsible for the setup and ongoing administration of the funds
S&W International Ltd	Regulated by the JFSC and the Financial Services (Jersey) Law 1998	Investment management services in Jersey
S&W Investment Management (Europe) Ltd	Regulated by the CBI and authorised MiFID investment firm	Investment management services in Dublin
S&W Investment Management (Ireland) Ltd	Regulated by the CBI and authorised UCITS firm	The company is engaged in the management of Smith & Williamson Investment Funds plc, an open-ended investment company
S&W Investment Management LLP	BIPRU – €50k limited licence	Investment management services including a private client Discretionary Fund Management. A Managed Portfolio Service is also offered for advisers
S&W Investment Services Ltd	IFPRU – €125k limited licence (subject to CRD IV)	Provision of dealing and custody services. Derivatives activity on behalf of clients
Tilney Asset Management Ltd	BIPRU – €50k limited licence	Investment management services
Tilney Asset Management (Guernsey) Ltd	Regulated by GFSC under The Protection of Investors (Bailiwick of Guernsey) Law, 1987	Asset manager in Guernsey
Tilney Asset Management Services Ltd	BIPRU – €125k limited licence	Investment management services including bespoke discretionary portfolios, model portfolios and non-discretionary managed services
Tilney Discretionary Investment Management Ltd	BIPRU – €125k limited licence	Investment management services including bespoke discretionary portfolios and model portfolios
Tilney Discretionary Portfolio Management Ltd	IFPRU – €125k limited licence (subject to CRD IV)	Discretionary investment management services including model portfolios
Tilney Financial Planning	IPRU - INV	Financial advice
Tilney Investment Management	IFPRU – €125k limited licence (subject to CRD IV)	Investment management services including bespoke discretionary portfolios, model portfolios and non-discretionary managed services.
Tilney Investment Management Services	IFPRU – €125k limited licence (Subject to CRD IV)	Discretionary, advisory and self-directed investment services

3.2 Prudential consolidation

Figure 3 below provides a reconciliation of the Group's balance sheet on an IFRS10 accounting basis (which includes all Group subsidiaries) to the PCG balance sheet prepared in accordance with CRD IV.

Figure 3: Reconciliation of audited financial statements to regulatory balance sheet

	As at 31 December 2020		
	Group statutory balance sheet	Elimination of non-PCG entities under CRD IV	PCG balance sheet
	£'000	£'000	£'000
Assets			
Intangible assets	1,291,746	(86,710)	1,205,036
Other non-current assets	44,317	118,061	162,378
Non-current assets	1,336,063	31,351	1,367,414
Current assets	426,426	(58,019)	368,407
Total assets	1,762,489	(26,668)	1,735,821
Total liabilities	423,195	(82,909)	340,286
Net assets	1,339,294	56,241	1,395,535
Equity			
Share capital	1,041,654	(1,041,468)	186
Share premium	-	1,132,986	1,132,986
Retained earnings and other reserves	297,640	(35,277)	262,363
Total equity	1,339,294	56,241	1,395,535[2]

[2] referenced in Figure 5

4. Risk management

This section details the Group's approach to risk management. A full analysis can be found in 'Strategic Report – Principal Risks and Uncertainties' of the 2020 Annual Report and Financial Statements. The purpose of risk management is to identify, assess, monitor and manage those key risks that are inherent in the Group's business activities, in line with the Board's strategic objectives and risk appetite. At TSW, risk management arrangements form part of a strong governance culture, built upon the three lines of defence governance model under which primary responsibility for identifying and controlling risks rests with the Group's businesses (the first line of defence). Ultimate responsibility for ensuring the adequacy and effectiveness of risk management rests with the Board, with oversight provided by the RAC.

The Group has a Risk and Compliance function which provides the second line of defence. The Risk and Compliance function is led by the Chief Risk Officer who has an independent reporting line to the Chairman of the RAC and a right of access to the Chairman of the Board. The Chief Risk Officer sits on the Executive Committee and attends the RAC meetings.

4.1 Risk management framework

The objectives of the risk management framework are to:

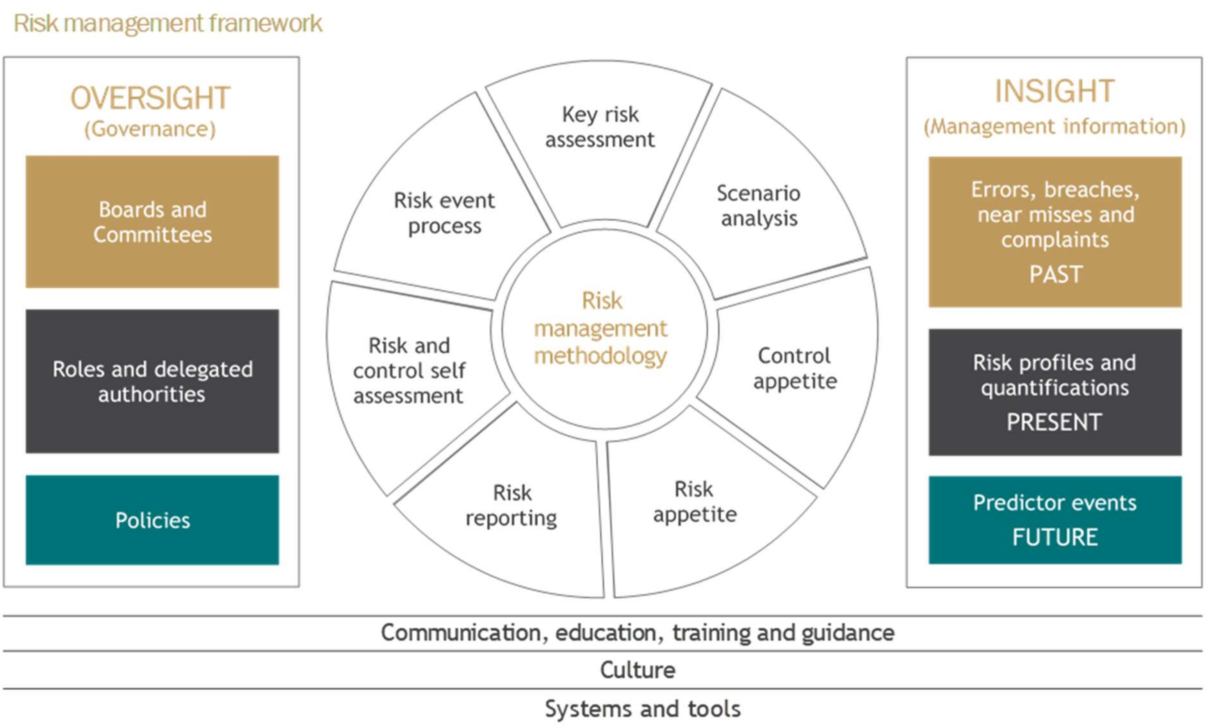
- facilitate risk-awareness across the Group
- facilitate the effective identification, assessment, monitoring and management of risks.

The risk management framework assists the organisation in the resilient provision of high-quality service to our clients and encourages the continuous improvement of the Group's processes and controls.

The risk management framework includes components that:

- establish methods for identifying and assessing risk
- provide an approach to capturing, reporting and monitoring risk
- provide appropriate mechanisms for managing risk.

Figure 4: Risk Management Framework



4.2 Risk management methodology

The risk management methodology within the risk management framework consists of the following seven interlinked steps:

Key risk assessment — central to the risk management framework as all components of the risk management framework are linked to the key risks. The key risks are identified using scenario analysis, verified by the bottom-up risk assessment. Assessing each key risk and its potential impact in the business is a fundamental part of the risk management methodology and is continually reviewed and developed. The business help contribute to the assessment through:

- Top-down risk assessments
- Risk and control self-assessments
- Risk events
- Monitoring of the external environment.

Scenario analysis — undertaken at different levels of probability. Generally, multiple scenarios will be assessed for each key risk. The assessment presents an impact analysis on the business, including the financial impact.

Control appetite — the level of control that is in place relevant to the risk. Where the control is not sufficient, the business will put in place a mitigation plan.

Risk appetite — a top-down process that is verified by each division of the business and also by reference to internal and external experience of risk events.

Risk reporting (dashboard) — a mechanism used by the firm to manage risk. The dashboard presents each key risk, its current (Red, Amber or Green) RAG rating, key risk indicator scores, risk events and outstanding remediation actions, where required.

Risk and control self-assessment (RCSA) — undertaken by all business units and then independently reviewed and challenged by the Risk function. The RCSA is a process-focused assessment linked to the key risks.

Risk event process (REV) — designed to capture, report, monitor and remediate process, control and system failures.

4.3 Other risk management disclosures

Other disclosures required under Article 435 regarding directorships held by the Board, recruitment policies for the Board, diversity objectives and policies and information on the separate risk committees are detailed in the 2020 Annual Report and Financial Statements.

5. Own funds

This section provides a reconciliation between the audited financial statements to the regulatory own funds, the capital ratios and descriptions of the main features.

5.1 Regulatory capital – own funds

Figure 5: PCG own funds as at 31 December 2020

	2020 £'000
Share capital	186
Share premium	1,132,986
Retained earnings and other reserves	262,363
Own funds before deductions	**1,395,535[3]**
Deductions	
Goodwill and intangible assets (net of deferred tax liabilities) [4]	(1,104,984)
Defined benefit pension fund assets (net of deferred tax liabilities) [5]	(644)
Qualifying holdings outside the financial sector [6]	(81,594)
	(1,187,222)
Common Equity Tier 1 after deductions	**208,313**
Additional Tier 1 capital	-
Tier 2 capital	-
Own funds	**208,313**

[3] refer to Figure 3

The Group's own funds are classified according to the characteristics of permanency and loss absorbing capacity as explained below:

5.1.1 Common Equity Tier 1 capital

The PCG's regulatory capital consists entirely of CET1 capital. This consists of permanent ordinary share capital, share premium, retained earnings and other reserves. Deductions from CET1 capital for regulatory purposes include goodwill and other intangible assets, defined benefit pension scheme assets and qualifying holdings outside the financial sectors.

[4] Goodwill and other intangible assets in accordance with CRD IV are amounts to be deducted net of the associated deferred tax liabilities.

[5] The defined benefit pension fund assets in accordance with CRD IV are amounts to be deducted net of the associated deferred tax liabilities.

[6] The qualifying holdings deduction relates to the investment in subsidiaries that is not eliminated on prudential consolidation. This relates to the PS division and the deduction is set at a threshold of 15% of eligible capital.

CET1 represents capital with the highest degree of loss absorbency.

5.1.2 Additional Tier 1 and Tier 2 capital

The Group has not issued any Additional Tier 1 or Tier 2 instruments.

6. Capital requirements

The Group's overall regulatory capital requirements are determined after performing Pillar 1 capital calculations, assessing Pillar 2 capital requirements and considering any Individual Capital Guidance (ICG) or fixed add-ons issued by the FCA.

The calculation of Pillar 1 and Pillar 2 capital requirements allows the Group to determine, and subsequently monitor, the appropriate amount of capital to be held based on its risk profile. The Group's capital requirement is determined by taking the sum of:

i. The higher of Pillar 1 and Pillar 2 requirements
ii. Plus, if applicable any additional ICG or fixed-add on proposed by the FCA

6.1 Pillar 1 requirement

Pillar 1 focuses on the capital requirements set out in the CRR. This is determined as the higher of:

i. The sum of credit, counterparty and market risk requirements
ii. The Fixed Overhead Requirement (FOR).

A summary of the calculation is shown in Figure 6.

Figure 6: PCG Pillar 1 capital requirements as at 31 December 2020

	2020 £'000
Credit and counterparty credit risk	25,980
Market risk	-
Total of credit and market risk (i)	25,980
Fixed overhead requirement (FOR) - (ii)	73,191
Higher of (i) or (ii) – Pillar 1 capital requirement (iii)	**73,191**
Total risk weighted exposure (iii * 12.5)	**914,888**

6.2 Capital ratios

As per the CRR, the Group shall at all times satisfy the following own fund requirements:

- A Common Equity Tier 1 capital ratio 4.5 %
- A Tier 1 capital ratio of 6 %
- A total capital ratio of 8 %

These ratios require the own funds to be expressed as a percentage of the total risk exposure. The total risk exposure is the Pillar 1 capital requirement (£73.2) multiplied by 12.5, being £914.9m as shown in Figure 7.

Figure 7: Total capital ratio as at 31 December 2020

	2020 £000
Owns funds – refer to Figure 5	208,313
Pillar 1 requirement – refer to Figure 6	73,191
Risk weighted exposures – refer to Figure 6	914,888
Total capital ratio	22.8%

The minimum capital requirements have been constantly met and the total capital ratio has remained above the minimum requirements since the completion of the merger.

6.3 Pillar 2 requirement

The Pillar 2 capital requirement serves as a challenge to the capital requirements calculated under Pillar 1. This requires firms to assess the amount of internal capital required to cover all risks that are not adequately covered under Pillar 1 requirements. As such Pillar 2 capital requirements are supplementary to the Pillar 1 requirements.

The assessment as to the adequacy of Pillar 1 capital is continuously reviewed and is updated annually in the ICAAP document. In addition, firms are required to consider the costs associated with winding down the Group in an orderly manner and this is updated annually in the Wind Down Plan document.

The Pillar 2 capital requirements are outside the scope of this disclosure.

7. Credit risk adjustments

7.1 Credit risk

Definition

Credit risk is the loss arising from a client or counterparty failing to meet their financial obligations as and when they fall due.

Exposure

The PCG incurs exposure to credit risk during their commercial activities. The Board has an appetite for credit risk provided that such risk is proportionate, prudent and sustainable. Credit risk principally arises from deposits with a multiple banking counterparties and third-party providers who act as custodian or trustee for some of the Groups investment funds.

Other credit risks include property, plant and equipment, right-of-use assets, trade and other receivables, equity investment, tax assets and settlement balances.

Monitoring

The Group policy requires that firms' cash is placed with counterparties or groups of counterparties approved by the Board, or duly delegated Committee, after reference to each counterparty's Fitch rating. Exposures are monitored on a daily basis and reviewed by the treasury department and, at the instigation of the Credit Review Committee under advice to the Board or duly delegated Committee, a counterparty may be suspended and/or funds withdrawn or a holding liquidated if market conditions dictate.

Third parties are subject to oversight by the GRCC.

- Material outsourcers reported and monitored via the monthly GRCC
- Regular service provision meetings with third parties.
- The performance of material outsource providers is tracked monthly; structured oversight meetings and performance indicators provide engagement and challenge; participation in disaster recovery testing.

Measurement

The PCG calculates credit risk under the standardised approach. Under the standardised approach risk weights are applied to each exposure depending on the counterparty's credit quality, type of exposure and maturity. This provides a risk-weighted exposure (RWE) and 8% is applied to the RWE amount to provide a capital requirement.

The Pillar 1 credit risk capital requirement at 31 December 2020 was £26.0m; Figures 8 of this document provide further analysis of credit risk exposure.

Figure 8: Analysis of the PCG's credit risk capital requirement by exposure class

	As at 31 December 2020 £'000	Risk weighted exposures £'000	8% of risk weighted exposures £'000
Institutions	154,514	30,903	2,472
Equity	55,742	55,742	4,459
Other	238,045	238,109	19,049
Total	**448,301**	**324,754**	**25,980**

'Other' items include settlement balances, trade and other receivables, and fixed assets.

The material exposure classes are in the United Kingdom, to clients and financial institutions, with a residual maturity of less than one year.

7.2 Analysis of past due and impaired exposures

Past due exposures are defined when a counterparty has failed to make a payment when contractually due and impaired exposure are defined when the entity does not expect to collect all the contractual cash flows when they are due. The accounting policy for impairment of financial assets and trade receivables is described in note 3 of the 2020 Annual Report and Financial Statements.

As at 31 December 2020, the PCG had no impaired assets for which a specific or general provision was required. There were no material assets past due greater than 90 days. The PCG did not incur any material write-offs of bad debts or make any recovery of amounts previously written off during the year.

7.3 Use of External Credit Assessment Institutions

The standardised approach to credit risk requires institutions to calculate the risk weights for rated counterparties using the risk assessments prepared by External Credit Assessment Institutions (ECAIs). Fitch Ratings has been nominated for this purpose. These assessments are used within the PCG as part of the calculation of risk weights for institutional exposures.

Exposures are assigned to one of six credit quality steps, where ratings are available. Exposure class and maturity are then used to assign the applicable risk weight.

Figure 9: Mapping of ECAI long term rating to credit quality step as at 31 December 2020

	Credit quality step 1 £'000	Credit quality step 2 £'000	Unrated[1] £'000	Total £'000
Fitch Ratings	AAA to AA-	A+ to A-		
Institutions	45,306	109,058	150	154,514
Equity	8,006	-	47,736	55,742
Other	-	-	238,045	238,045
Total	**53,312**	**109,058**	**285,931**	**448,301**

[1] Unrated exposures include investment in subsidiaries outside the PCG, items in the course of settlement and other less material unrated exposures.

8. Risk exposures

8.1 Counterparty credit risk

Definition

Counterparty credit risk is the risk that a counterparty to a transaction defaults before final settlement of the transaction's cash flow.

Exposure

The PCG is exposed to counterparty credit risk because of clients' activity, in respect of Delivery versus payment (DvP) and arises through the market settlement cycle. The PCG does not have a large exposure to this risk as transactions are executed on a DvP basis wherever possible, across several pre-approved counterparties.

Monitoring

Clients' positions are fully collateralised and pose minimal risk to the PCG. The settlement cycle is monitored daily by the Group's settlement operations function. Procedures and controls are in place to promptly rectify unmatched transactions.

Measurement

Counterparty credit risk is measured on a mark-to-market basis.

8.2 Market risk

Definition

Market risk arises from fluctuations in the value of, or income from, assets (equity, fixed interest, or other traded markets), interest rates or foreign exchange rates that impact the PCG's financial position.

8.2.1 Foreign exchange risk

Exposure

The PCG does not have a trading book or trade on a proprietary basis. The PCG has small foreign exchange positions to support client activity and acts in an agency capacity on behalf of its clients and consequently can be exposed to:

- Temporary positions arising from trading errors
- Immaterial foreign exchange positions to facilitate client activities

To facilitate derivative trading by clients the PCG enters derivative contracts on an agency basis in which the PCG's exposure to the market is offset by an equivalent trade with the client.

Monitoring

Control over the foreign exchange exposure is achieved by limiting the net forward book to £0.5m in any one currency and £1m in aggregate overnight, with an intraday limit of £1m in any one currency and £2m in aggregate.

Clients' positions in derivatives contracts are monitored to ensure margin requirements are covered by adequate levels of collateral.

Measurement

The PCG calculates market risk under the standardised approach. The PCG is primarily exposed to foreign exchange risk which is calculated per Articles 351 and 352 of the CRR. The Pillar 1 capital requirement for market risk at 31 December 2020 was nil.

8.2.2 Equity risk

Exposure

The PCG is exposed to equity market risk through its equity holdings. These comprise:

- Long term equity holdings in listed and unlisted entities that are not part of the long-term strategy of the Group and are classified as non-trading book.
- Seed capital exposures which are necessary for launching new funds/products. The PCG does not place seed capital for trading intent, but for client product facilitation.

Monitoring

The Board has delegated responsibility to Group Executive Committee (GEC) for monitoring the performance and appropriateness of the Group's unlisted equity investments and the role they fulfil in the execution of Group strategy.

Measurement

An overview of the accounting techniques and valuation methodologies used, including key assumptions, is contained in note 22 of the 2020 Annual Report and Financial Statements.

Unrealised gains recognised in other comprehensive income and included within the PCG's CET1 capital was £0.8m as at 31 December 2020. No disposals were made in the period.

8.2.3 Interest rate risk

Definition

Interest rate risk is the risk to earnings or capital due to significant unexpected changes in interest rates.

Exposure

The PCG is exposed to interest rate risk in respective of:

- Firm's cash held with counterparties and on client money balances
- The Revolving Credit Facility of £40m, of which £25m was drawn down at 31 December 2020

Monitoring

The Board regularly considers exposure to interest rate risk with increased monitoring undertaken in periods of increased interest rate volatility. Firm's cash and client money balances are both held on a short-term basis to mitigate interest rate risk and there is a hedge in place to mitigate against interest rate fluctuation for the PCG borrowings.

Measurement

The PCG considers interest rate risk as part of the ICAAP and it is assessed under the Pillar 2 capital requirement.

8.3 Operational risk

Definition

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events.

Exposure

The PCG is exposed to operational risk which may arise from:

- Internal or external fraud
- Business disruption due to system failures, execution, delivery and process management

- Employment practices and workplace safety
- Damage to physical assets
- Clients, products, regulatory and business practices

Monitoring

The Group's objective is to both control and manage operational risk in a cost-effective manner consistent with the Board's appetite. The Board manages this risk through a variety of policies, procedures, controls and mitigation techniques, including the use of insurance. The Board also has a number of sub-committees to provide more granular oversight over key areas of risk.

Measurement

The PCG is not required to hold Pillar 1 capital under the FCA's standardised approach for operational risk. The PCG assesses the Pillar 2 capital requirement through the Operational Risk Assessment Process which is embedded into the Risk Management Framework and ICAAP.

8.4 Capital risk

Definition

Capital risk is the risk that the Group does not have adequate amounts or quality of capital, or that capital is inefficiently deployed across the Group.

Exposure

The PCG is exposed to capital risk when it has insufficient capital:

- To safeguard the Group's ability to continue as a going concern and meet stakeholders' expectations
- To support the future strategy and development of the business
- To comply with the regulatory requirements

Monitoring

The PCG's capital is actively managed and monitoring surplus capital is a key factor of the planning processes and stress testing. Regularly monitoring of the capital position for the PCG and its solo regulated entities are presented to the GRCC, RAC and Board. This includes the surplus capital against the internal capital buffer set as part of the risk appetite by the Board. The Board has set an internal capital buffer more than the minimum capital set by the FCA and is a key risk indicator, to ensure capital levels are maintained.

As part of the ICAAP the Group identifies the level of current and future capital necessary for the PCG. This includes a base case and stress scenario projections.

Measurement

The capital requirements were outlined in Section 6 and met with the own funds outlined in Section 5.

8.5 Pension obligation risk

Definition

Pension obligation risk is the risk that the Group has a legal or constructive obligation to a defined benefit scheme which it is unable to meet as the liability becomes due.

Exposure

The PCG operates defined benefit schemes for qualifying employees which are closed to new members. The principal risk relates to poor performance of underlying assets, or adverse changes in underlying actuarial assumptions, that could lead to a scheme falling into a deficit position, requiring contributions to be increased.

Monitoring

The schemes are monitored by a Board of trustees who assess investment performance and the need for further employer contributions.

Measurement

The pension schemes' valuations and further details are disclosed in note 32 of the 2020 Annual Report and Financial Statements.

The PCG considers pension obligation risk as part of the ICAAP and it is assessed under the Pillar 2 capital requirement.

8.6 Liquidity risk

Definition

The risk that the Group does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can only secure such resources at excessive cost.

Exposure

The PCG is exposed to liquidity risk which may arise from:

- Temporary shortfall funding under the FCA's Client Asset Sourcebook rules
- Insufficient liquid funds to manage business operations

Monitoring

The Group has a Liquidity Risk Management Framework which details the governance, identification, management and monitoring of liquidity risk within the liquidity risk appetite. The framework also includes a Contingency Funding Plan.

Measurement

Liquidity stress tests are considered as part of the ICAAP.

9. Remuneration disclosure

9.1 Remuneration policy

The Group 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 encourage inappropriate risk taking by staff or result in an inappropriate quantum of remuneration being distributed relative to capital.

As a result of the merger of Tilney and Smith & Williamson part way through 2020, two remuneration policies were in operation for 2020 - the below incorporates the key points from both policies.

9.2 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. The Group's regulated firms fall 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. The Remuneration Committee has determined that as a level 3 firm, it is appropriate for Tilney Smith & Williamson to dis-apply the structural requirements including the bonus cap requirement, payment in instrument, deferral, limits on the ratio of fixed to variable remuneration and post-award performance adjustment.

9.3 Decision-making process for the Remuneration policy

The Board has appointed a Remuneration Committee that is comprised of seven of its non-executive directors. The Committee reports directly to the Board. All key remuneration decisions are subject to approval by the Remuneration Committee. In discharging its responsibilities under its terms of reference, the Remuneration Committee works with the Chief Risk Officer to ensure that risks are properly considered in setting the overall remuneration for the Group, and in particularly the incentive structures for the Executive Directors, Senior Management and other key professionals, as appropriate.

The Committee has approved a Remuneration Policy which is reviewed annually. In determining the remuneration policy, the Remuneration Committee takes into account all factors it deems necessary, including relevant legal and regulatory requirements and associated guidance, as well as the risk and risk management implications of its decisions. The overall objective is to ensure that colleagues are provided with appropriate remuneration to encourage the delivery of the best client outcomes, enhanced performance and recognising individual contribution to the success of the Group, in a fair, compliant and responsible manner and in line with market practice at the relevant time.

9.4 Remuneration policy principles

The Remuneration Committee considers all reward decisions with the following principles in mind:

- Operate a group-wide bonus scheme which incentivises delivery against the base case financial plan, and rewards the contribution colleagues make at an individual and team level
- Design and implement an incentive plan that rewards long term growth and retention
- Review total compensation against competitor benchmarks
- Ensure that we can recruit and retain key talent; and
- Ensure that our approach is compliant and aligned with sound risk management.

These reward principles support the wider business objectives of the Group.

9.5 Identification of Material Risk Taker roles

Under CRD IV, each EU regulated entity is required to identify its Material Risk Takers ('MRTs'): these colleagues are those considered to have a material impact on the risk profile of the entity. The MRTs are identified and reviewed on an annual basis by the Remuneration Committee (or relevant entity Board) in line with the criteria set out under EU regulations. In 2020, Tilney identified 21 roles as Material Risk Takers and S&W identified an additional 54.

9.6 The link between pay and performance

Fixed remuneration is set at a level that is sufficient to attract and retain high calibre colleagues.

Variable incentives may be awarded to eligible colleagues where the performance of both the Group and the colleague 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. Any bonuses or incentive payments are linked to corporate and individual performance and designed to promote the long-term success of the Group, with individuals' conduct and behaviours assessed as part of the award process.

The Committee keeps the balance between fixed and variable remuneration under review.

The Remuneration Policy only allows for variable remuneration through agreed incentive plans, and the rules of those incentive plans govern the delivery of variable remuneration. Therefore, it is not possible to pay variable remuneration through any vehicles that facilitate the avoidance of the remuneration regulations.

9.7 Controlled functions

The Risk & Compliance function operates independently and the Chief Risk Officer has a direct line of reporting and escalation to the Chief Executive Officer, sits on the Group Executive Committee, and attends the RAC.

The Chief Risk Officer undertakes a review of proposed bonus payments as part of the January and May Remuneration Committees, in order to determine if any bonus should be deferred or reduced, or if the overall bonus pool should be reduced, due to breaches in risk or compliance.

The Chief Risk Officer has a reporting line into the Chair of the RAC and right of access to the Chairman of the Board.

The method of determining the remuneration for the Chief Risk Officer is based solely on the achievement of role related KPIs. This helps ensure independence and objectivity in this role.

9.8 Quantitative remuneration information

The remuneration paid to Code Staff and MRTs is as follows:

	Fixed £'000	Variable cash £'000	Variable equity £'000	Total £'000
TSW Board member	1,946	1,644	-	3,590
Other MRTs				
- Financial services	6,198	9,236	866	16,300
- Professional services	2,024	1,038	87	3,149
- Fund administration	571	436	35	1,042
- Other	2,773	818	28	3,619
Total	**13,512**	**13,172**	**1,016**	**27,700**

Six individuals received remuneration in excess of €1 million in 2020.

10. Appendices

Appendix I – Own funds disclosure template as at 31 December 2020

	PCG £'000
Common Equity Tier 1 capital: instruments and reserves	
Capital instruments and the related share premium accounts	1,133,172
Retained earnings	251,710
Accumulated other comprehensive income (and other reserves)	10,653
Independently reviewed interim profits net of any foreseeable charge or dividend	-
Common Equity Tier 1 capital before regulatory adjustments	**1,395,535**
Common Equity Tier 1 capital: regulatory adjustments	
Intangible assets (net of related tax liability)	(1,104,984)
Defined-benefit pension fund assets	(644)
Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	(81,594)
of which: qualifying holdings outside the financial sector	*(81,594)*
Total regulatory adjustments to Common Equity Tier 1[1]	**(1,187,222)**
Common Equity Tier 1 capital	**208,313**
Additional Tier 1 capital: instruments	
Additional Tier 1 capital before regulatory adjustments	-
Additional Tier 1 capital: regulatory adjustments	
Total regulatory adjustments to Additional Tier 1 capital	-
Additional Tier 1 capital	**-**
Tier 1 capital (T1 = CET1 + AT1)	**208,313**
Tier 2 capital: instruments and provisions	
Tier 2 capital before regulatory adjustments	-
Tier 2 capital: regulatory adjustments	
Total regulatory adjustments to Tier 2 capital	-
Tier 2 capital	**-**
Total capital (TC = T1 + T2)	**208,313**
Total risk-weighted asset	**914,888**
Capital ratio and buffers	
Common Equity Tier 1 (as a percentage of total risk exposures)	22.3%
Tier 1 (as a percentage of total risk exposures)	22.3%
Total capital (as a percentage of total risk exposures)	22.3%
Common Equity Tier 1 available to meet buffers	17.8%
Amounts below the thresholds for deduction (before risk weighting)	
Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities	11,760

[1] Intangible assets and defined-benefit pension fund assets in accordance with CRD IV are amounts to be deducted net of the associated deferred tax liabilities. The qualifying holdings deduction relates to the investment in subsidiaries that is not eliminated on prudential consolidation. This relates to the PS division and the deduction is set at a threshold of 15% of eligible capital.

Appendix II – Main features of capital instruments as at 31 December 2020

Issuer	Symmetry TopCo Limited
Unique identifier (e.g. CUSIP, ISIN or Bloomberg identifier for private placement)	Private placement
Governing law(s) of the institution	England & Wales
Regulatory treatment	
Transitional CRR rules	Common Equity Tier 1
Post-transitional CRR rules	Common Equity Tier 1
Eligible at solo/(sub-)consolidated/ solo & (sub-)consolidated	Consolidated
Instrument type	Ordinary shares
Amount recognised in regulatory capital	GBP 1.1bn
Nominal amount of instrument	
Issue price	0.001 pence
Redemption price	n/a
Accounting classification	Shareholders' equity
Original date of issuance	Ordinary shares: 04 August 2020
Perpetual or dated	Perpetual
Original maturity date	No maturity
Issuer call subject to prior supervisory approval	No
Optional call date, contingent call dates and redemption amount	n/a
Subsequent call dates, if applicable	n/a
Coupons / dividends	
Fixed or floating dividend/coupon	Floating
Coupon rate and related index	n/a
Existence of a dividend stopper	No
Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
Existence of step up or other incentive to redeem	No
Non-cumulative or cumulative	Non-cumulative
Convertible or non-convertible	Non-convertible
If convertible, conversion trigger(s)	n/a
If convertible, fully or partially	n/a
If convertible, conversion rate	n/a
If convertible, mandatory or optional conversion	n/a
If convertible, specify instrument type convertible into	n/a
If convertible, specify issuer of instrument it converts into	n/a
Write down features	No
If write-down, write down trigger(s)	n/a
If write-down, full or partial	n/a
If write-down, permanent or temporary	n/a
If temporary write-down, description of write up mechanisms	n/a
Position in subordination hierarchy in liquidation	Subordinate to senior creditors
Non-compliant transitioned features	No
If yes, specify non-complaint features	n/a