

# Lightman Investment Management Limited's Pillar 3 Disclosure for 01<sup>st</sup> January 2020 - 31<sup>st</sup> December 2020

## Introduction

### Regulatory Context

The Pillar 3 disclosure of Lightman Investment Management Limited ("the Firm") is set out below as required by the FCA's "Prudential Sourcebook for Banks, Building Societies and Investment Firms" (BIPRU) specifically [BIPRU 11.3.3 R](#). This is a requirement which stems from the UK's CRDIII implementing Regulations which represented the European Union's application of the Basel Capital Accord. The Firm is no longer formally subject to CRD but remain subject to the UK's implementation Regulations of CRD prior to CRDIV. The regulatory aim of the disclosures is to improve market discipline.

### Frequency

The Firm will be making Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date ("ARD"), which is 31<sup>st</sup> December of every year.

### Media and Location

The disclosure will be published as an appendix to our Statutory Audited Annual Accounts and/or our website :[www.lightmanfunds.com](http://www.lightmanfunds.com).

### Verification

The information contained in this document has not been audited by the Firm's external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

### Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

### Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm's investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any

such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

## Summary

The CRD, to which the Firm remains subject as a consequence of the UK CRDIII&IV implementing Regulations, have three pillars; Pillar 1 deals with minimum capital requirements; Pillar 2 deals with Internal Capital Adequacy Assessment Process ("ICAAP") undertaken by a firm and the Supervisory Review and Evaluation Process ("SREP") through which the Firm and Regulator satisfy themselves on the adequacy of capital held by the Firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements.

The regulatory aim of the disclosure is to improve market discipline.

The Firm is a MiFID Investment Management Firm. It acts solely as agent, so the main protection to our customers is provided through client money and asset arrangements. The Firm's greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risks that include:

- the strategies and processes to manage those risks;
- the structure and organisation of the relevant risk management function or other appropriate arrangement;
- the scope and nature of risk reporting and measurement systems; and
- the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

The Firm has an operational risk framework (described below) in place to mitigate operational risk. The Firm's operational arrangements are simple because it only focusses on the core functions of portfolio management. Several key operations are outsourced by our clients to third party providers such as administrators, accountants, transfer agencies etc. reducing our exposure to operational risk.

The Firm's main exposure to credit risk is the risk that management and performance fees cannot be collected. The Firm has a policy of collecting its management fees monthly and currently, the Firm does not charge any performance fees to any of its clients. Therefore, the credit risk is considered low. Wherever expenses are paid in advance, those are also paid to reputed organisations. Regarding cash balances, the Firm holds all cash balances with credit institutions assigned high credit ratings. So, the probability and the quantum of loss are low.

Market Risk exposure has been assessed by the Firm and is limited to the Firm's exposure to foreign currency exchange rate risk and hence to any assets/liabilities held on the Firm's Balance Sheet denominated in a foreign currency. The Firm's Reporting Currency is GBP and all foreign currency assets are converted into GBP where possible on a regular basis. Exposure to foreign currencies is only to major currencies such as EUR or USD and the net exposure is generally a small proportion of the balance sheet size.

## Background to the Firm

### Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a UK MiFID Investment Management Firm. The Firm's activities give it the prudential categorisation of a 'BIPRU Firm'.

The Firm is a Solo regulated entity.

The Firm is a BIPRU Firm without an Investment Firm Consolidation Waiver and has elected to deduct Illiquid Assets and calculates Capital Resources under (GENPRU 2 Annex 5)

## BIPRU 11.5.1

### Disclosure: Risk Management Objectives and Policies

#### Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

#### Governance Framework

The Management Committee is the Governing Body of the Firm and has the daily management and oversight responsibility. It meets quarterly and is composed of:

- Rob Burnett
- Luis Barreiro
- Phil Horton
- Sumit Mittal

The Management Committee is responsible for the entire process of risk management, as well as forming its own opinion on the effectiveness of the process. In addition, the Management Committee decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Senior Management is accountable to the Management Committee for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm. Currently, the Firm is small and both designing and implementation is completed by members of the Management Committee.

#### Risk Framework

Risk within the Firm is managed by use of the following:

- Risk management policy
- Risk register
- Risk quantification and resources' adequacy monitoring using regular ICAAP procedure and scenario analysis.
- Risk as a standing agenda item in Management Committee meetings

## BIPRU 11.5.4

**Disclosure:** Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the Overall Pillar 2 Rule

### BIPRU 3 (Credit Risk)

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the Standardised approach ([BIPRU 3.4](#)) and the Simplified method of calculating risk weights ([BIPRU 3.5](#)).

#### Credit Risk calculation

Credit Risk Capital Requirement	Rule	Capital Component
Credit risk capital component	BIPRU 3.2	£77,244
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
<b>Total</b>		<b>£77,244</b>

	Rule	Exposure	Risk Weight	Risk weighted exposure amount
National Government Bodies	BIPRU 3.4.2	£91,667	0%	£0
Institutions (Banks etc) long-term	BIPRU 3.4.36	£556,675	100%	£556,675
Institutions (Banks etc) short-term	BIPRU 3.4.39	£0	100%	£0
Exposure to Corporates/Debtors	BIPRU 3.4.52	£323,861	100%	£323,861
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£1,256	100%	£1,256
Corporates (customers etc.)	BIPRU 3.4.128	£	100%	£
<b>Total</b>		<b>£973,459</b>		<b>£866,756</b>
<b>Credit Risk Capital Component</b>	8% of risk weighted exposure			<b>£69,340</b>

### BIPRU 4 (Advanced Credit Risk Approach)

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

### BIPRU 7 (Market Risk)

The Firm has Non-Trading Book potential exposure only ([BIPRU 7.4](#), [7.5](#)).

#### Overall Pillar 2 Rule

The Firm has adopted the "Pillar 1 plus" "Structured" approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment is reviewed by the Executive Committee and amended where necessary, on a quarterly basis or when a material change to the business occurs. The Executive Committee presents the ICAAP document to the Governing Body of the Firm which reviews and endorses the risk management objective each quarter or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

#### BIPRU 11.5.8

**Disclosure:** Credit Risk and Dilution Risk

The Firm is primarily exposed to Credit Risk from the risk of non-collection of management fees. It holds all cash and fee balances with Banks assigned high credit ratings. Consequently, risk of past due or impaired exposures is minimal. A financial asset is past due when a counterparty has failed to make a payment when contractually due. Firm has trade debtors for management fees, prepayments to suppliers etc. Firm also has tax credits due to tax loss.

#### BIPRU 11.5.12

**Disclosure:** Market Risk

The Firm has Non Trading Book potential exposure only ([BIPRU 7.4](#) & [7.5](#)).

##### Market Risk calculation

	Rule	Position	Risk Weight	PRR
Interest rate position risk requirement	BIPRU 7.2	£0	8%	£0
Equity position risk requirement	BIPRU 7.3	£0	8%	£0
Commodity position risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency position risk requirement	BIPRU 7.5	£18,032	8%	£1,443
Option position risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking position risk requirement	BIPRU 7.7	£0	32%	£0
<b>Total</b>		<b>£18,032</b>		<b>£1,443</b>

#### BIPRU 11.5.2

**Disclosure:** Scope of application of directive requirements

The Firm is subject to the disclosures under the UK CRDIV Implementing Regulations.

However, it is not a member of a UK Consolidation Group and consequently, does not report on a consolidated basis for accounting and prudential purposes.

#### BIPRU 11.5.3

**Disclosure:** Capital Resources

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under ([GENPRU 2 Annex 4](#)). Tier 1 Capital comprises of Shares, Audited Reserves, Unaudited Losses].

Tier 1 Capital	£1000,000
Deductions	£408.786
Tier 2 Capital	£0

Deductions	£0
Capital Resources	£0
Tier 3 Capital	£0
Deductions	£0
<b>Total Capital</b>	<b><u>£591,214</u></b>
<b>BIPRU 11.5.5</b>	
This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by <a href="#">BIPRU 11.5.4R (3)</a> .	
<b>BIPRU 11.5.6</b>	
This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by <a href="#">BIPRU 11.5.4R (3)</a> .	
<b>BIPRU 11.5.7</b>	
This disclosure is not required as the Firm does not have a Trading Book.	
<b>BIPRU 11.5.9</b>	
This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under <a href="#">BIPRU 11.5.8R (9)</a> .	
<b>BIPRU 11.5.10</b>	
<b>Disclosure:</b> Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach	
This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights ( <a href="#">BIPRU 3.5</a> ).	
<b>BIPRU 11.5.11</b>	
<b>Disclosure:</b> Firms calculating Risk Weighted Exposure amounts using the IRB Approach	
This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by <a href="#">BIPRU 11.5.4R (3)</a> .	

**BIPRU 11.5.15****Disclosure: Non-Trading Book Exposures in Equities**

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

**BIPRU 11.5.16****Disclosures: Exposures to Interest Rate Risk in the Non-Trading Book**

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

**BIPRU 11.5.17 Disclosures: Securitisation**

This disclosure is not required as the Firm does not Securitise its assets.

**BIPRU 11.5.18****Disclosure: Remuneration**

The Management Committee is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

**Remuneration Code Staff Remuneration by Business Area (BIPRU 11.5.18(6))**

<b>Business Area</b>	<b>Total Remuneration</b>
Investment, Research, Risk	£53,765
Sales, Marketing, Investor Relations	£100,840
Operations, Compliance, Finance	£80,647
	<u>£235,252</u>

**Aggregate Quantitative Remuneration by Senior Management and other Remuneration Code Staff (BIPRU 11.5.18(7))**

<b>Type of Remuneration Code Staff</b>	<b>Total Remuneration</b>
Senior Management (SIF)	£235,252
Other Remuneration Code Staff	£0
<b>Totals</b>	<u><b>£235,252</b></u>