Lightman

Annex 2: MIFIDPRU Disclosure

Disclosure Period: 01/01/2022 – 31/12/2022

Background

MIFIDPRU investment firms must make certain disclosure about its risk management policies and procedure, regulatory capital requirements and availability, and remuneration policies and procedures. MIFIDPRU 8.1.10R states that the disclosures must be made publicly and annually on the date of publication of annual financial statement or the date of annual solvency statement submission to the FCA. MIFIDPRU 8.1.17G states that the FCA expects that, where possible, firms will use their websites to make this disclosure.

Risk Management objectives and policies

As per MIFIDPRU 8.2.1R, a MIFIDPRU investment firm must disclose its risk management objectives and policies for the categories of risk addressed by own funds requirements, concentration risk, and liquidity risk.

The disclosure must include:

- *a concise statement approved by the governing body describing the potential for harm associated with the business strategy;*
- *a summary of the strategies and processes used to manage the risks and how those helps in reducing potential for harm;*
- *approach to risk appetite and risk management;*
- *structure and operations of risk management, including information on senior manager responsible;*
- *approach to monitoring efficacy of risk management infrastructure.*

The Firm's senior management firmly believes that the business and operating model of the Firm is simple with little potential for harm to markets, customers, or other stakeholders. The Firm is independent, employee owned, and its senior management is made up of highly experienced individuals. The Firm's balance sheet is strong with excess equity, sufficiently liquid capital and a good earnings pipeline. The Firm only provides service of discretionary portfolio management, to large regulated institutional clients, located in UK and EEA. It conducts appropriate due diligence on its customers, particularly their solvency and controls. The Firm has an independent compliance department, and has outsourced non-core activities to established third parties in Europe, after sufficient due diligence and with regular monitoring. The Firm follows a traditional investment strategy with long-term and long-only investment strategy, investing in highly liquid and listed securities in developed market and offer investors a transparent all-inclusive capped OCF charging structure.

The Firm's senior management has a low tolerance for risks. As the business is owned by senior employees, they are keen to ensure a long term sustainable business that can continue to survive and grow. It considers risk management as an important aspect of the overall business strategy and has accordingly developed a robust and proportionate risk management infrastructure. Only those risks that are considered essential for running the business are assumed.

The Firm's approach to risk management is to first reduce risk through avoidance of activities that could cause potential harm. Activities that are critical to Firm's business and operating model and therefore cannot be avoided, are conducted in a manner that results in the lowest possible risk of harm. Such reduction of harm is achieved through implementation of relevant systems and controls to measure and monitor the factors affecting such risks. Finally the Firm also manages risk through insurance covers or additional capital to meet any compensation claims due to an actual harm.

The Firm has implemented a detailed risk management infrastructure to identify, record, manage, and monitor risk.

- Risk forms a standing agenda item on the management committee meetings. Even outside of management committee meetings, risks are discussed quite regularly.
- Risk policies and procedures are maintained and regularly reviewed by the senior management. The risk register is regularly reviewed and updated.
- Risks are scored based on probability and impact, before and after any mitigation. Mitigations include systems and controls, training, insurance, and additional capital.
- Risk infrastructure is generally made of three lines of defences with the business area most relevant being the first line, compliance being the second line, and management committee being the third line. For several risks, there are additional lines of sight and monitoring as well, such as the fund ManCo, fund depositary, or the firm auditor/regulator.
- Risks that have materialised are reviewed and discussed and their associated controls are investigated to verify whether they still remain effective.

Own funds

As per MIFIDPRU 8.4.1R, the Firm must disclose, in FCA determined template, the following information:

a. a reconciliation of common equity tier 1 items, additional tier 1 items, tier 2 items, and the applicable filters and deductions applied in order to calculate the own funds of the firm;
b. a reconciliation of (a) with the capital in the balance sheet in the audited financial statements of the firm; and
c. a description of the main features of the common equity tier 1 instruments, additional tier 1 instruments and tier 2 instruments issued by the firm.

In the below table, the Firm has provided information on its own available capital deductions applied, and quality of capital information, using last audited statements.

Composition of regulatory own funds			
	Item	Amount (GBP thousands)	Source based on reference number/letters of the balance sheet in the audited financial statements
1	**OWN FUNDS**	1,296	

2	**TIER 1 CAPITAL**	1,296	
3	**COMMON EQUITY TIER 1 CAPITAL**	1,296	Statement of changes in equity
4	Fully paid up capital instruments	1,000	Note 17
5	Share premium	0	
6	Retained earnings	296	Statement of financial position
7	Accumulated other comprehensive income	0	
8	Other reserves	0	
9	Adjustment to CET1 due to prudential filters	0	
10	Other funds	0	
11	(-) TOTAL DEDUCTIONS FROM COMMON EQUITY TIER 1	0	
19	CET1: Other capital elements, deductions, and adjustments	0	
20	**ADDITIONAL TIER 1 CAPITAL**	0	
21	Fully paid up, directly issued capital instruments	0	
22	Share premium	0	
23	(-) TOTAL DEDUCTIONS FROM ADDITIONAL TIER 1	0	
24	Additional Tier 1: Other capital elements, deductions, and adjustments	0	
25	**TIER 2 CAPITAL**	0	
26	Fully paid up, directly issued capital instrument	0	
27	Share premium	0	

28	(-) TOTAL DEDUCTIONS FROM TIER 2		0	
29	Other capital elements, deduction and adjustments		0	
Own funds: reconciliation of regulatory own funds to balance sheet in the audited financial statements				
Flexible template - rows to be reported in line with the balance sheet included in the audited financial statements of the investment firm. Columns should be kept fixed, unless the investment firm has the same accounting and regulatory scope of consolidation, in which case the volumes should be entered in column (a) only. Figures should be given in GBP thousands unless noted otherwise.				
		a	b	C
		Balance sheet as in published/audited financial statement	Under regulatory scope of consolidation	Cross-reference to template OF1
		As at period end	As at period end	
Assets - Breakdown by asset classes according to the balance sheet in the audited financial statements				
1	Tangible assets	38		
2	Debtors	467		
3	Cash at bank	1,518		
	Total Assets	2,023		
Liabilities - Breakdown by liability classes according to the balance sheet in the audited financial statements				
4	Creditors	718		
5	Deferred taxes	9		
	Total Liabilities	727		
Shareholder's Equity				
6	Called up share capital	1,000		

7	Profit and loss account	296		
	Total Shareholders' equity	1,296		

Own funds: main features of own instruments issued by the firm
Free text: A non-exhaustive list of example features is included below
Firm's own capital is made up CET1 common equity, as a combination of paid up share capital and audited retained earnings. The shares are privately held by founding employees of the company. The Firm does not have any other source or quality of capital that it is using towards own funds. The capital is all liquid capital made up of primarily cash in bank and high quality receivables (trade receivables, prepayments etc.). Common equity has standard dividend rights that depends on the management committee's discretion.
Examples
Public or private placement
Instrument type
Amount recognised in regulatory capital (GBP thousands, as of most recent reporting date)
Nominal amount of instrument
Issue price
Redemption price
Accounting classification
Original date of issuance
Perpetual or dated
Maturity date
Issuer call subject to prior supervisory approval
Optional call date, contingent call dates and redemption amount
Subsequent call dates, if applicable
Coupons/dividends
Fixed or floating dividend/coupon
Coupon rate and any related index
Existence of a dividend stopper
Convertible or non-convertible

Write-down features
Link to the terms and conditions of the instrument

Own funds requirements

As per MIFIDPRU 8.5.1R, the Firm must disclose information regarding its compliance with the requirements of:

- *the k factor requirements*
- *the fixed overhead requirements*

As per MIFIDPRU 8.5.2R, the Firm must disclose its approach to assessing adequacy of its own funds in accordance with OFAR (MIFIDPRU 7.4.7R).

The Firm determines its regulatory capital using the MIFIDPRU OFAR. The Firm calculates its pillar 1 rules based capital requirement using most recent audited accounts and projected income statement. The Firm calculates its Pillar 2 capital requirements using a risk of harm based calculation. For this calculation, the Firm maintains a detailed risk and harms register with gross and net scores. For some risks, such as operational risk, revenue concentration risk, the Firm has determined required capital required to cover any residual risk.

The Firm is an SNI MIFIDPRU investment firm, and accordingly it is not subject to k factor requirement. The Firm's regulatory capital is guided by its fixed overhead requirement (FOR). The FOR based on FY 2022 audited accounts is: £425k.

Remuneration policy and practices

Qualitative disclosures

MIFIDPRU 8.6 requires the following aspects of qualitative remuneration disclosure:

- *approach to remuneration of staff, in particular:*
    - *the principles or philosophy guiding the Firm's remuneration policies and procedures*
    - *how the Firm links variable remuneration and performance*
    - *the Firm's main performance objectives*
    - *the categories of staff eligible to receive variable remuneration*
- *objectives of its financial incentives*
- *decision making process and governance around MIFIDPRU remuneration code*
- *an understanding of the risk profile of the Firm and/or the assets it manages; and an overview of the incentives created by the remuneration policies and practices. Such information must include:*
    - *different components of the remuneration structure, with identification as fixed or variable*
    - *a summary of the financial and non-financial performance criteria used across the Firm, broken down into the assessment criteria for performance of the Firm, business unit, and the individual.*

The Firm has a simple business model and operating structure. It provides discretionary portfolio management services to regulated clients for regulated portfolios. The Firm's own operations and investment process are accordingly highly regulated, making the Firm and its business a low risk organisation.

The Firm has designed and implemented a standard remuneration structure made up of fixed remuneration, employee benefits, and discretionary performance-linked variable remuneration. The fixed remuneration is decided based on the scope of responsibilities and standard market pay. The employee benefit is fixed and is decided based on standard market practices. The discretionary performance linked bonus depends on a combination of factors including the employee’s performance, the Firm’s performance, capital planning and budgeting, dividend distribution schedule etc.

The key principles underpinning remuneration is to maintain a team of appropriately paid employees who are committed towards Firm’s success, while keeping fixed costs in control. Discretionary bonus creates incentives for achieving and maintaining performance. The Firm’s main performance objective is to generate sustainable investment performance in compliance with applicable rules and while providing good customer service. This performance objective creates natural performance objectives for relevant business unit and individuals within those functions.

Salaries and benefits are reviewed regularly to ensure that they continue to remain competitive and appropriate.

Quantitative disclosures

As per MIFIDPRU 8.6.8R, the Firm must disclose the below quantitative information for the financial year to which the disclosure relates.

As an SNI MIFIDPRU investment firm, the Firm must disclose the total amount of remuneration awarded to all staff, split into fixed and variable remuneration.

Remuneration type	**Amount (in GBP thousands)**
Fixed component	791
Variable component	560

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