Pillar 3 Disclosure

Independent Financial Advisers
•
Discretionary Wealth Managers
•
Chartered Financial Planners

This is the Pillar 3 disclosure made in accordance with the UK Financial Conduct Authority (FCA) Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

Background

The European Capital Requirements Directive (CRD) created a regulatory capital framework consisting of three 'pillars' namely;

- Pillar 1 – which sets out the minimum capital requirements that firms are required to meet for;
- Pillar 2 – which requires firms to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and
- Pillar 3 - which requires firms to publish certain details of its risks, capital and risk management process.

Disclosure Policy

The rules in BIPRU 11 provide that the firm may omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where the firm considers a disclosure to be immaterial, this will be stated in the relevant section.

The firm is also permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine the firm's competitive position. Information is considered to be confidential where there are obligations binding the firm to confidentiality with its clients and counterparties.

Where the firm has omitted information for any of the above reasons, a statement explaining this will be provided in the relevant section.

Unless stated as otherwise, all figures contained in this disclosure are based on the firm's audited annual reports for the year ending 31st October 2017.

Frequency

These Pillar 3 Disclosures will be reviewed on an annual basis as a minimum. The disclosures will be published as soon as is practical following the finalisation of the firm's Internal Capital Adequacy Assessment Process (ICAAP) and the publication of its annual reports.

Verification

The information contained in this disclosure has not been audited by our firm's external auditors and does not constitute any form of financial statement.

Publication

Our firm's Pillar 3 Disclosure reports are published on our website.

Scope and application of Directive requirements

The disclosures in this document are made in respect of McCarthy Taylor Limited which provides financial advice and discretionary investment management services.

The firm is a BIPRU firm.

Risk management objectives and policies

Our risk management policy reflects the FCA requirement that we must manage a number of different categories of risk. These include: liquidity, credit, market, interest rate, business and operational risks.

1. Liquidity risk

Robust budgeting and forecasting process ensure that the firm has sufficient liquid resources to meet the continued operating needs of the business. This has the full involvement of the senior management team.

The firm receives monthly value based fees for providing ongoing management to client portfolios. Throughout the year the firm also receives ad hoc fees for undertaking holistic financial planning reviews.

The firm has arranged for the availability of an overdraft facility, which it believes would comfortably cover any potential shortfall in the Fixed Overhead Requirement, should there be a minor delay in converting sufficient Work in Progress to cash.

2. Credit risk

The main credit risk for the firm relates to advice fees, being the risk that a client does not pay amounts due for services provided. This risk is mitigated by the low number of clients in respect of which amounts are due at any one time. In addition, the firm believes that the likelihood of this occurring in sufficient enough numbers to cause a material impact on the firm's financial resources, to be minimal.

The firm's revenues include annual management charges received from clients based on a percentage of client assets under management. These charges are made directly to the clients' portfolios, and therefore the risk relating to this income is minimal.

The firm has no exposure to assets or non-balance sheet items not already reflected in our financial statements. We do not make proprietary transactional trades on our own account neither do we currently hold significant cash deposits with any banking institutions.

3. Interest rate risk

The firm has no borrowings and therefore no exposure to interest rate risk.

4. Business risk

The firm's business risk assessment principally takes the form of a fall in assets under management following a market downturn that leads to lower management fees, although other risks such as loss of advisers or key clients and systems failures are also considered.

To mitigate our business risk, we regularly analyse the impact of economic downturns on our financial position. In addition, we conduct an annual assessment of the value of assets held by any major clients, in order to ascertain the impact of losing these.

5. Operational risk

Operational risk is defined as the potential risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems, from the actions of people or from external events.

Major sources of operational risk include: IT security, failure of outsourcing partners, internal and external fraud, loss of clients, implementation of strategic change and regulatory non-compliance.

The firm operates a robust risk management process which is regularly reviewed and updated. The firm's Compliance Oversight, Abigail Clinton, has overall responsibility for the periodic reviews and recommending any changes to the Board. Such issues are discussed at the regular Board meetings and any required actions are communicated to the relevant staff members.

Senior management (the Board) will bear collective responsibility for internal controls and the management of business risk as part of their accountability.

Individuals are responsible for identifying the risks surrounding their work, implementing controls over those risks and reporting areas of concern to their line manager and / or the Compliance Department as appropriate.

6. Personnel risks

The loss or absence of a key person may have an impact on the firm's ability to operate in the usual manner.

We incorporate specific terms into employment contracts to prevent/reduce the loss of clients as a consequence of a key member of staff leaving. Additionally we have encouraged a team culture, whereby the intellectual and practical input of each individual member is shared and absorbed within the team, therefore lessening the effect of a key member of staff leaving or being absent long-term.

The impact of any such losses is assessed on an annual basis when the ICAAP is prepared.

7. PII risk

McCarthy Taylor Limited has cover in place that is compliant with the minimum requirements, in accordance with the rules of the FCA. The cover held is comprehensive, across all areas of the business.

Prior to contracting PII cover, we will undertake thorough and appropriate due diligence of the provider.

8. Investment management risk

Our aim in constructing the client portfolio strategies is to maximise the diversification of the underlying securities by both provider and asset class. To achieve this we apply percentage based tolerance restrictions. This should ensure less exposure to individual counterparties or asset classes, consequently producing less volatile returns. Client portfolios are managed on a clear and transparent basis.

Any dealing errors which occur could result in the firm compensating clients, causing financial loss and therefore client service levels could suffer as a result. To mitigate this the firm ensures that all trades place by an investment manager are double checked by another member of staff, prior to being submitted.

9. Other risks

The firm operates a simple business model. Accordingly, many of the specific risks identified by the FCA do not apply.

Capital resources

Pillar 1 requirement

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), our capital requirement has been determined as being our fixed overhead requirement and not the sum of our credit risk capital requirement and our market risk capital requirement.

The Pillar 1 capital requirement for McCarthy Taylor Limited was £272,834 as at 31st October 2017.

Pillar 2

Our overall approach to assessing the adequacy of our internal capital is set out in our ICAAP. The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. We assess impact by modelling the changes in our income and expenses caused by various potential risks; probability is assessed subjectively.

In addition, we have reviewed the outputs of our risk reviews to quantify any risks identified. This has identified a number of key business risks which we have classified against the risk categories contained in GENPRU 1.2.30R and reviewed the guidance in BIPRU 2.2.61-65.

Our Pillar 2 capital requirement, which is our own assessment of the minimum amount of capital that we believe is adequate against the risks identified, has been assessed as equal to our Pillar 1 requirement. There is a considerable surplus of reserves above the capital resource requirement deemed necessary to cover the risks identified.

Regulatory capital

The main features of McCarthy Taylor Limited's capital resources for regulatory purposes, as at 31/10/2017 are as follows:

Capital Item	£
Tier 1 capital (called up share capital, share premium account, profit and loss account, externally verified interim net profits)	£358,269
Deductions from tier 1 capital	£0
Total capital resources, net of deductions	£358,269

The firm holds regulatory capital in accordance with the Capital Requirements Directive. All such capital is classified as Tier 1 capital and is therefore of the highest quality.

Remuneration Code Disclosure

The firm is subject to the BIPRU Remuneration Code. This section provides further information on our remuneration policy.

BIPRU Remuneration Code Staff

We have identified, and maintain a record of, 'BIPRU Remuneration Code Staff' – i.e. staff to whom the BIPRU Remuneration Code applies. This includes senior management and members of staff whose actions may have a material impact on a firm's risk profile.

The firm's six Directors fall into the "senior management" category of Code Staff. In addition to the Directors named under the Code, there is one other individual identified as being subject to the BIPRU Remuneration Code.

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Decision Making / Remuneration Committee

McCarthy Taylor Limited does not have a Remuneration Committee. The Directors are responsible for our remuneration policy including:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk taking.
- Agreeing any major changes in remuneration structures.
- Reviewing the terms and conditions of any new incentive schemes and in particular, considering the appropriate targets for any performance related remuneration schemes.
- Considering and recommending the remuneration policy for the senior employees' and risk takers' remuneration, taking into account the appropriate mix of salary, discretionary bonus and share based income.
- In determining remuneration arrangements, the Directors will give due regard to best practice and any relevant legal or regulatory requirements including the BIPRU Remuneration Code.

Link Between Pay & Performance

The firm has six Directors and has two main business areas - discretionary investment management and advisory services.

On the discretionary side, there are four investment managers (two of which are Directors of the firm) and one trainee investment manager.

On the advisory side, there are seven individuals registered as Advisers with the FCA, three of which are also company Directors. One of these is Paul Taylor, CEO, who is also a discretionary investment manager mentioned above.

Competitive salaries form the basis of our firm's remuneration package. The salaries of our advisers are based on qualifications, experience and levels of responsibility; they are not in any way linked to volumes of new business written.

Remuneration of those subject to the code is agreed formally at Board meetings, with significant input from the firm's Compliance Oversight. The firm does not currently pay discretionary bonuses.

Quantitative data is withheld because it would lead to identification of individuals.