TAM Asset Management Ltd

Pillar 3 Disclosures

May 2021

TAM Asset Management Limited

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Authorised and regulated by the Financial Conduct Authority (FRN: 208243)

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Overview

A common regulatory framework has been established across Europe governing the amount and nature of capital to be held by investment firms and banks. This is implemented through the Capital Requirements Directive (2013/36/EU) and Regulations ((EU) No 575/2013) together CRD IV.

The main purpose of CRD IV is to build on previous CRD rules and introduce prudential requirements to:

- Increase the quality of capital that firms are required to hold:
- Introduce capital buffers for some firms;
- Introduce an EU wide liquidity regime;
- Establish a leverage back stop;
- Introduce new governance requirements;
- Introduce a remuneration ‘bonus cap’ (subject to proportionality); and
- Harmonise regulatory reporting across Europe through COREP and FINREP reporting.

The Basel framework established a risk sensitive approach to capital management creating a framework comprised of three ‘pillars’.

Pillar 1 sets out the minimum capital requirements that firms are required to maintain to meet credit, market, and operational risk.
Pillar 2 sets out the supervisory process to be used to ensure firms assess firm specific risks not covered by Pillar I and where necessary maintain additional capital. This is called the Internal Capital Adequacy Assessment Process (or “ICAAP”).
Pillar 3 requires the firm to disclose information regarding their risk management policies, controls and procedures and their capital position. Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess key pieces of information on a firm's capital, risk exposures and risk assessment processes.

Scope and application of the CRD IV Disclosure requirements

The purpose of this document is to provide information in accordance with Part VIII of the CRR and the Financial Conduct Authority (“FCA”) Prudential Sourcebook for Banks, Building Societies and Investment Firms (“BIPRU”). The disclosures in this document are made in respect of TAM Asset Management Ltd (TAM) only. TAM is a subsidiary of TAM Financial Limited.

The principal activity of TAM is the provision of discretionary investment management services to primarily retail clients who utilise the services of an independent financial adviser. It is classified as a Flexible Portfolio Firm by the FCA and has permission to hold client money. TAM is authorised and regulated by the FCA and is classified as an IFPRU Limited Licence €125K firm and operates under a Model B clearing arrangement with Pershing Securities Limited.

The rules include provisions whereby TAM may omit information in this disclosure if it believes that information is immaterial. For the purposes of this disclosure information should be considered as material if its omission or misstatement could change or influence the assessment or decision of a user relying on it to make economic decisions.

TAM may also omit information where it believes it to be proprietary or confidential. For the purposes of this disclosure proprietary information is information which, if it were shared would undermine TAM’s competitive position. Information is considered to be confidential where there are obligations binding TAM to confidentiality with counterparties and other organisations or individuals. Where information has been omitted for these reasons an explanation will be provided.

Publication, Disclosure Frequency and Verification

This report is published on TAM's website (www.tamassetmanagement.com) and going forward disclosures will be made on an annual basis after the finalisation of TAM's audited accounts.

The Pillar 3 disclosures have been reviewed and approved by senior management. However, disclosures are not subject to audit except where they are equivalent to those prepared under accounting requirements for inclusion in the financial statements.

Risk Management and Governance

TAM's board of directors (the Board) is the firm's governing body and is ultimately responsible for determining the firm's business strategy and its risk appetite. It ensures that the governance and culture of the firm is owned and led from the top down. The Board is supported by the Executive Management Committee (EMC) which reports to it and this combined with the regular quarterly and monthly management information ("MI") it receives helps it to identify business trends and any issues that may need addressing.

The Board members are the firm's two executive directors, Lester Petch and Clare Wickert, and two non-executive directors – Leonard Oram and Roderick Sutherland. They discuss matters relating to the business frequently on an ad hoc basis but formal minuted meetings are held at least quarterly. The Board takes formal responsibility for the design and implementation of TAM's risk management framework and discusses all matters relating to TAM's business, including business development and strategy, TAM's financial performance against budgets/KPIs as well as compliance and operational matters. In particular an extraordinary meeting is held annually as part of the firm's ICAAP and to consider the firm's attitude to risk and how this is appropriately reflected in the way the firm conducts its business.

All the members of the Board are experienced financial market professionals. Mr Petch has spent his whole career in investment management while Mrs Wickert has also many years' experience in the operational and client money aspects of the investment management business. All the non-executives are seasoned investment market professionals.

The Board relies on the Executive Management Committee (EMC) which consists of the executive directors and representatives of the investment management and finance/risk departments to implement the firm's strategy and operate within the guidelines provided by the Board. The EMC meets whenever required and is responsible for managing the firm's business and ensuring action is taken where needed to operate within the given guidelines and to ensure that the risks TAM faces are properly managed. The EMC seeks further guidance from the Board whenever this is considered necessary.

The EMC has appointed a Compliance, Risk & Product Governance Committee (CRGC) consisting of its Managing Director, Compliance Officer, and Finance Officer. The CRGC reports to the EMC and identifies and manages risk and recommends any action which may be required. Its role is to maintain and review the register of risks TAM faces, to add any new risks and to recommend appropriate action to the EMC to monitor and mitigate the risks TAM faces. All the members of the CRGC are involved in operational roles and are therefore independent from TAM's revenue generating activities. The Board believes that the risk management arrangements it has in place are adequate for the size and scope of TAM's business and consistent with its risk profile and strategy.

TAM believes that the main areas of risk to which it is exposed are i) Market Risk, which combines the risk of markets declining significantly and remaining depressed with the risk of a loss investor confidence - perhaps caused by consistently poor investment performance ii) the cost of an orderly wind down (in essence TAM's fixed overhead risk) and iii) Concentration Risk (the loss of a major client/introducer). It also faces in these extraordinary times risks created by the COVID-19 pandemic and Brexit.

The primary objective of TAM's risk management is to plan, organise and perform sufficient actions to provide reasonable assurance that the firm's overall objectives and goals will be met, and to limit the risk of adverse events occurring to a level that is acceptable to the Board as set out in the ICAAP.

Key parts of the policy to manage risk, including operational risk, are:

- regular board and management meetings;
- regular management information including an annual report by the MLRO
- regular internal compliance monitoring;
- staff training; and
- risk assessments as part of the firm's ICAAP process, at least annually

Risk Profile

Market/Business Risk

After a long bull market and in the light of considerable global uncertainty we have to consider the impact of a potentially significant market collapse followed by a lasting loss of investor confidence. TAM considers that it needs to be managed in such a way that it could sustain such an extraordinary set of circumstances and an allocation of Pillar 2 capital has been made accordingly.

	£000s
Market/Business risk	150

Concentration Risk

While TAM has in excess of 2000 clients, none of which are individually significant, the business is concentrated through financial advisers and is therefore exposed to them moving their clients in bulk. TAM makes every effort to maintain strong relationships with these advisers but there remain some key relationships which would take time to replace. The firm has calculated a risk exposure to the unexpected loss of one of its major relationships. Its risk exposure at the balance sheet date was:

	£000s
Concentration Risk	161

Credit & Counterparty Risk

TAM has the following exposures at the balance sheet date:

		ECAI	RWA (£000s)	C&CR (£000s)
Institutions		S&P	179	14
Corporates		unrated	387	31
Other		unrated	463	37
			1029	82

TAM does not trade for its own account and exposures under this heading (calculated on the standard method) largely represent exposure to the firm's bank (including client money bank accounts) and to TAM's custodian. These exposures are regularly monitored and TAM's management are prepared to take steps to mitigate any perceived risk arising at short notice should this be necessary.

Operational Risk

This covers the potential losses resulting from inadequate or failed internal processes, people and systems or from external events and can represent failures in internal systems and controls. TAM includes Compliance Risk under this heading. It has identified the following as the key operational risks: cyber risks to firm systems and client data; in the circumstances of the pandemic, business continuity risk; fraud and criminal activity; managing client money and assets; the risk arising from dealing errors occurring in the execution of client orders; potential client dissatisfaction with the service provided leading to complaints. TAM undertakes a robust risk identification and scoring exercise across the firm and encourages high standards of training and competence amongst its staff but accepts that it operates in a heavily regulated environment and breaches can lead to fines or disciplinary action. TAM believes that its systems and controls are satisfactory and are subject to effective monitoring by its compliance function which also considers the regulatory environment within which it operates, including planned changes in the pipeline. The compliance function has a reporting line through the Compliance Officer directly to the Board as well as to the Executive Management Committee.

Business Risk

This is the risk to TAM's current and future earnings due to changes in the business environment and includes poor decision making and the failure to be able to implement strategic plans. TAM has plans to expand which have been carefully assessed and which are being implemented with the close oversight of the senior management team. Progress is monitored against key performance indicators.

Reputational Risk

Maintenance of its good reputation is vital for a business such as TAM. The assessment and mitigation of Reputational Risk is largely a function of TAM's overall operational risk and how effectively the firm is managed and led. The Board believes that the avoidance of Reputational Risk is embedded into TAM's culture and its approach to conducting business, what business it will conduct and who it is prepared to conduct business with.

Brexit Risk

A material proportion of TAM's clients are based in the EU. There was a risk that TAM would not be able to service them in the event of a 'hard' Brexit. The Board has been closely involved with the plans, now realised, to set up a new operation based in Spain. TAM Europe Asset Management AV, SA is now fully operational and ensures that the EU will be an area in which TAM can operate and grow.

There is a requirement for TAM to maintain additional capital to cover any Pillar 2 capital requirements in respect of the risks identified as part of its ICAAP.

Own Funds

Article 92 of the CRR requires all institutions to satisfy at all times the following own funds requirement:

- Common Equity Tier 1 capital to be at least 4.5% of Total Risk Exposure Amount (TREA);
- Tier 1 Capital to be at least 6% of TREA; and
- Total Capital (Own Funds) to be at least 8% of TREA

In accordance with the regulatory requirements TAM must at all times maintain Own Funds equivalent to at least the base capital requirement for an IFPRU 125k firm of €125,000. Its Pillar 1 capital requirement, set out in Article 95(2) of the Capital Requirements Regulation, is the higher of the sum of the credit risk and market risk capital requirements and the Fixed Overhead Requirement ('FOR' which is one quarter of its estimated projected annual fixed overhead expenditure). TAM must maintain Own Funds equal to or in excess of its Pillar 1 requirement at all times.

The firm's Own Funds are comprised only of core tier one capital, specifically paid up share capital and audited retained earnings. The firm's tier one capital and deductions made in accordance with CRR rules at 31 March 2021 are as follows:

Common Tier 1 Capital	£000s
Called up share capital	350
Retained earnings after deductions	735
TIER 1 CAPITAL	1085
TOTAL CAPITAL (OWN FUNDS)	1085
TOTAL RISK EXPOSURE AMOUNT	6875
CET1 Ratio	15.79%
Tier 1 Capital ratio	15.79%
Total Capital (Own Funds) ratio	15.79%

Applying the requirements above, TAM had:

- Common Equity Tier 1 capital of £1.085 million, representing 15.79% of TREA

- Tier 1 capital of £1.085 million, representing 15.79% of TREA

- Total Capital (Own Funds) of £1.085 million, representing 15.79% of TREA

The figures above are comfortably in excess of the minimums set out above. In addition, TAM's Board has stress tested through the ICAAP several scenarios to assess the potential impact of a reduction in business volumes and a long-term decline in TAM's core business. The results of these tests and the surplus identified in the calculations set out above provide the Board with comfort that TAM is in compliance with all applicable capital adequacy requirements and that it is well capitalised in case of any future market downturn or other shocks arising from political or economic uncertainties.

Capital Buffers
The disclosure requirements applicable under CRR Article 440 are not applicable to Limited Licence firms.

Encumbered Assets
In accordance with CRR Article 443 certain disclosures are required in relation to encumbered and unencumbered assets. None of these disclosure requirements are applicable to TAM.

Securitisation Positions
TAM is not exposed to securitisation positions.

Leverage Ratio
Under CRR Article 6(5) as a Limited Licence firm TAM is not required to comply with the requirements laid down in Part 7 – Leverage.

Remuneration Policy

TAM follows FCA guidelines in relation to its Remuneration Policy (as set out in SYSC 19C) and, as an IFPRU Limited Licence firm, applies the principles applicable to a proportionality tier 4 firm. The TAM Remuneration Code is proportionate and is designed not to encourage excessive risk taking while supporting TAM's business strategy and long-term interests and aiming to align the interests of both TAM's staff and its clients.

TAM's executive directors form the Remuneration Committee and, guided by the firm's Board, are responsible for the firm's remuneration policy which is reviewed annually. No external consultants are used by TAM in determining its remuneration policy. Fixed remuneration is reviewed annually and any variable remuneration allocated is decided at the same time. Variable remuneration is allocated and adjusted in line with the requirement to retain experienced and qualified staff, the capital and liquidity available within TAM, and in addition the performance of the firm and the individual. The aim is to ensure that the remuneration structure promotes effective risk management and that the fixed and variable remuneration components for all staff (whether Code of non-Code) are suitably balanced and that remuneration is sufficient to reward and retain qualified and experienced staff. Total remuneration is based on both financial and non-financial indicators as well as TAM's performance. Compliance with SYSC 19C is monitored where applicable.

TAM does not enter into agreements to award guaranteed variable remuneration.

No individual was remunerated at more than €1,000,000.

Remuneration of senior management (all Code Staff) and staff whose activities might have a material impact on TAM's risk profile is set out below. There are no material risk takers outside TAM's senior management. None of the remuneration relates to shares or share-linked remuneration.

Category	Number of staff	Fixed remuneration	Variable Remuneration
Senior Management	2	£259,208	£0
Material risk takers	0	0	0

External directorships:

Director	Number
Lester Petch	0
Clare Wickert	0
Roderick Sutherland	1
Leonard Oram	0