

SYNERGY FINANCIAL PRODUCTS LIMITED (SFPL)

PILLAR 3 POLICY AND DISCLOSURES

REGULATORY BACKGROUND

SFPL is incorporated in the UK and is authorised and regulated by the Financial Conduct Authority (FCA) as a MiFID (Markets in Financial Instruments Directive) investment management firm. The firm is classified as an IFPRU (FCA's Investment Firm Prudential Sourcebook) limited licence €125K base capital firm as:

- it does not deal on its own account and
- it holds client money and securities in relation to investment services that it provides.

The Capital Requirements Directive (CRD) represents the European Union's application of the Basel Capital Accord. The CRD requirements have three pillars. Pillar 1 deals with minimum capital requirements; Pillar 2 deals with the Internal Capital Adequacy Assessment Process (ICAAP) undertaken by a firm, and the Supervisory Review and Evaluation Process through which the firm and regulator satisfy themselves as to 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 Pillar 3 disclosure requirements are set out in the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU), *BIPRU 11.3 and 11.5*. Specifically:

- *BIPRU 11.3.1* - a firm must publicly disclose the information laid down in *BIPRU 11.5*
- *BIPRU 11.3.3* - a firm must adopt a formal policy to comply with the disclosure requirements
- *BIPRU 11.3.5* - a firm may omit one or more of the disclosures listed in *BIPRU 11.5* if the information provided by such disclosure is not material
- *BIPRU 11.3.6* – a firm may omit one or more items of information included in the disclosures listed in *BIPRU 11.5* if they include information regarded as proprietary or confidential
- *BIPRU 11.3.8* – a firm must publish the required disclosures at least annually

BIPRU 11.5 requires a firm to disclose its risk management objectives and policies for each separate category of risk as specified in that section subject to materiality or confidentiality as specified in *BIPRU 11.3*. Each risk category is examined later in this document.

SUMMARY

As a MiFID investment management firm, SFPL safeguards and administers client assets and money, but does not deal on its own account. Therefore, the main protection to our customers is provided through segregation of client assets and client money.

SFPL's greatest risks have been identified as key man risk, business risk

(deterioration of income and profits due to the closed book of most of our products) and capital adequacy.

SFPL is required to disclose its risk management objectives and policies for each separate category of risk which include:

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

SFPL has assessed its major risks in its ICAAP and set out appropriate actions to manage them.

SFPL has an operational risk framework in place to mitigate operational risk. SFPL's main exposure to credit risk is the risk that money held in SFPL company accounts is frozen due to failures of the accounts providers. This could result in clients' premiums not being collected, including SFPL's commission. Therefore, credit risk is considered low. The firm holds all cash with banks which have been assigned high credit ratings, and these are regularly reviewed.

Market risk exposure has been assessed by SFPL and is limited to trading errors that could leave SFPL (via its nominee custodians, New Direction Finance Nominees Ltd, Synergy Nominees Ltd and JIM Nominees Ltd) with a principal position in units or shares. Procedures ensuring independent checks of the dealing activity are in place.

APPLICATION BY SFPL

The following points should be noted with regard to SFPL's application of the Pillar 3 disclosures:

- SFPL makes a Pillar 3 disclosure annually as required under BIPRU 11.3 8. The disclosure is as at the accounting reference date, 30 June 2020.
- The disclosure is published on our websites - sfpl.co.uk and yourinvestore.com
- 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 SFPL.
- SFPL 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 in accordance with *BIPRU 11.3.5*.
- SFPL 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 SFPL's investments less valuable. Further, SFPL must regard information as confidential if there are obligations to customers or other counterparty relationships binding SFPL to confidentiality. In the event that any such information is omitted, SFPL shall disclose this fact and explain the grounds why it has not been disclosed in accordance with *BIPRU 11.3.6*

IMPLEMENTATION OF DISCLOSURE REQUIREMENTS IN BIPRU 11.5

BIPRU 11.5.1

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

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

Governance Framework

The Board of Directors is the governing body of the firm and has the overall management and oversight responsibility. It meets regularly (at least every three months).

The Board of Directors 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 governing body decides SFPL's risk appetite or tolerance for risk and ensures that SFPL has implemented an effective, ongoing process to identify risks, to measure their potential impact, and then to ensure that such risks are actively managed. Senior Management is accountable to the Board of Directors for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of SFPL. SFPL has a Risk Committee with documented terms of reference which meets as required. The committee members are SFPL's Board of Directors, CFO, investment manager and compliance officer. Risk issues identified by the Risk Committee are included in the compliance officer's report to the Board.

Operational Risk Framework

Risk within SFPL is managed as follows:

- SFPL has a conservative approach to risk;
- SFPL has identified its risks and recorded them in a risk matrix;
- The risk matrix is reviewed by the firm's compliance officer regularly and reported quarterly to the Board of Directors
- SFPL has in place an internal control framework to govern its processes and procedures and to mitigate any risks;
- SFPL has in place professional indemnity insurance.

BIPRU 11.5.2

Disclosure: Scope of application of directive requirements

SFPL is subject to the disclosures under the Banking Consolidation Directive.

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

SFPL is an IFPRU investment firm without an investment firm consolidation waiver deducting material holdings under (*GENPRU 2 Annex 4*). Tier 1 capital comprises permanent share capital, capital contribution, share premium account and profit & loss account. The Tier 1 Capital at 30 June 2021 was £1,115k. Deductions from Tier 1 Capital for Intangible Assets of £130k. Total Capital Resources was £985k.

BIPRU 11.5.4**Disclosure:** Compliance with *BIPRU 3*, *BIPRU 4*, *BIPRU 7*, and the Overall Pillar 2 Rule**BIPRU 3**

For its Pillar 1 regulatory capital calculation of credit risk under the credit risk capital component, SFPL has adopted the standardised approach (*BIPRU 3.4*) and the simplified method of calculating risk weights (*BIPRU 3.5*).

BIPRU 4

SFPL does not adopt the internal ratings based approach and hence this is not applicable.

BIPRU 7

SFPL has non-trading book potential exposure only (*BIPRU 7.4 and 7.5*).

Overall Pillar 2 Rule

SFPL has adopted the “Pillar 1 plus” 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 annually, or more frequently if there is a material change to the business, and is signed off by the Board of Directors.

BIPRU 11.5.5**Disclosure:** Retail exposures

This disclosure is not required as SFPL has not adopted the internal ratings based approach to credit risk and is, therefore, not affected by *BIPRU 11.5.4R (3)*.

BIPRU 11.5.6**Disclosure:** Equity exposures

This disclosure is not required as SFPL has not adopted the internal ratings based approach to credit risk and therefore is not affected by *BIPRU 11.5.4R (3)*.

BIPRU 11.5.7**Disclosure:** Exposure to counterparty credit risk

This disclosure is not required as SFPL does not have a trading book

BIPRU 11.5.8**Disclosure:** Credit risk (1)

SFPL is primarily exposed to credit risk where money held in SFPL bank accounts is frozen due to failure of the account providers (i.e. the banks). This could result in client's premiums not being collected (including SFPL's commission). Therefore, credit risk is considered low. SFPL holds all monies with Banks assigned high credit ratings, and these banks are subject to an annual due diligence review which is submitted to the Board.

BIPRU 11.5.9**Disclosure:** Credit risk (2)

This disclosure is not required as SFPL does not make value adjustments and provisions for impaired exposures that need to be disclosed under BIPRU 11.5.8R (9).

BIPRU 11.5.10

Disclosure: Firms calculating risk weighted exposure amounts in accordance with the standardised approach

This disclosure is not required as SFPL uses the simplified method of calculating risk weights (BIPRU 3.5).

BIPRU 11.5.11

Disclosure: Firms calculating risk weighted exposure amounts using the IRB Approach

This disclosure is not required as SFPL has not adopted the internal ratings based approach to credit and therefore is not affected by BIPRU 11.5.4R (3).

BIPRU 11.5.12**Disclosure:** Market risk

SFPL has trading potential exposure only (BIPRU 7.4 & 7.5). Market risk exposure has been assessed by SFPL and is limited to SFPL trading errors that leave SFPL (via its nominee custodians, New Direction Finance Nominees Ltd, Synergy Nominees Ltd and JIM Nominees Ltd) with a principal position in units or shares. Procedures are in place for independent checks of the dealing activity.

BIPRU 11.5.13

Disclosure: Use of VaR model for calculation of market risk capital requirement

This disclosure is not required as SFPL does not use a VaR model for calculation of market risk capital requirement.

BIPRU 11.5.15**Disclosure:** Non-trading book exposures in equities

This disclosure is not required as SFPL 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 SFPL 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 SFPL does not securitise its assets.

BIPRU 11.5.18**Disclosure:** Remuneration

The firm is a Remuneration Code Proportionality Level 3 Firm and has applied the rules appropriate to its Proportionality Level. The Board of Directors is responsible for SFPL'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))

Business area	Total remuneration
All businesses	£220k
Totals	£220k

Aggregate quantitative remuneration by senior management and other remuneration code staff (BIPRU 11.5.18(7))

Type of Remuneration Code Staff	Total remuneration
Senior Management (SIF)	£116k
Other remuneration code staff	£104k
Totals	£220k