MMWealth
Chartered Financial Planners

Pillar III Disclosures

as at 31 May 2021

Background

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

The European Capital Requirements Directive (CRD) created a revised regulatory capital framework based on the provisions of the Basel II Capital Accord.

The Basel II Capital Adequacy framework consists of three 'pillars', namely:

- Pillar I – which sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk;
- Pillar II – which requires firms to take a view on whether additional capital should be held against capital risks not covered by Pillar I; and
- Pillar III - which requires firms to publish certain details of its risks, capital and risk management process. This encourages disclosure so that clients and market participants can assess key pieces of information on capital, risk exposure and the risk assessment process. These disclosures are made public for the benefit of the market.

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 31 January 2021.

Frequency

These Pillar III 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, as this is not a requirement, and does not constitute any form of financial statement. The Pillar III Disclosures were reviewed and approved by the Board of MM Wealth on 19 August 2021.

Publication

Our firm's Pillar III Disclosure reports are published on our website **www.mmwealth.co.uk**

Scope and Application of Directive Requirements

The disclosures in this document are made in respect of MM Wealth Ltd which provides independent financial advice and discretionary portfolio management services.

The firm is a limited licence firm, as defined by the FCA.

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.

- **Liquidity risk**

This is the risk that MM Wealth may face when trying to liquidate assets at fair value should unexpected cash flows result in a liquidity problem. MM Wealth does not currently trade on its own account and therefore there is no exposure to illiquid securities.

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- **Liquidity risk** (continued)

The firm manages all cash and borrowing requirements to maximise potential interest income whilst ensuring the firm has sufficient liquid resources to meet the continued operating needs of the business. This is supported by a robust budgeting and forecasting process which has the full involvement of the Board.

- **Credit risk**

This is divided into counterparty risk and concentration risk but it is essentially the risk that losses will arise from counterparties and clients failing to make good their obligations.

MM Wealth's revenue includes annual management fees (paid quarterly) received from clients based on a percentage of funds under management. These charges are made directly to the clients' portfolios therefore the credit risk relating to this income is negligible.

The counterparty risk emerging from one of our key third party providers' delay or failure to pay across the quarterly management fees would have an impact on the company. Short term, this would be offset with the existing cash reserves.

The risk relating to money due from providers as a result of legacy renewal commission streams is considered to be very low. This is because these amounts are due from institutions that are regulated by the FCA. The amount reduces each year in absolute terms and as a percentage of total income.

- **Market risk**

Market risk is the risk that a firm may incur losses under normal market conditions on a trading book position or portfolio.

The firm is indirectly subject to market risk as a significant element of income is dependent upon the value of client funds under management. This risk is mitigated by the asset allocation strategy adopted, which ensures that clients have highly diversified portfolios with limited exposure to any one asset class. Accordingly, exposure to market risk is considered minimal.

- **Interest rate risk**

This is the risk arising from the effect of interest rate changes.

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

- **Business risk**

The MM Wealth's Pillar II risk assessment, seeks to assess the risk to the business of a fall in assets under management following a market downturn that leads, in turn, to lower management fees. Other risks, such as loss of advisers, loss of key personnel, loss of clients and systems failures, are also considered.

- **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: outsourcing of operations, IT security, internal and external fraud, implementation of strategic change and regulatory non-compliance.

It is not possible to eliminate operational risk, but the aim is to reduce the risk entirely. MM Wealth's approach to monitoring, recording and mitigating operational risk is appropriate to its size and complexity. MM Wealth employs appropriately qualified and experienced staff to manage operational risk and to ensure that any exposure is kept to a minimum. In addition, MM Wealth has professional indemnity insurance in place.

MM Wealth operates a robust risk management process which is regularly reviewed and updated with details being provided to all staff. The firm's Compliance Oversight is responsible for the periodic reviews and recommending any changes to the Board.

All senior management will bear responsibility for internal controls and the management of business risk as part of their accountability to the Board.

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

- **Other risks**

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

Capital Resources

Capital Adequacy and ICAAP

The approach to assessing the adequacy of its internal capital is documented in the Internal Capital Adequacy Assessment Process ('ICAAP'). The ICAAP Process includes an assessment of all of the material risks faced by MM Wealth and the controls in place to identify, manage and mitigate these risks.

The risks identified are stress tested against various scenarios to determine the level of capital that needs to be held. Where risks can be mitigated by capital, MM Wealth has adopted the new CRD IV reporting requirements for Pillar I. Where the Board considers that the Pillar I calculations do not adequately reflect the risk, additional capital is added within Pillar II. The ICAAP is formally reviewed annually by the Board.

Capital Adequacy and ICAAP (continued)

Senior managers review risks and the required capital more frequently including when there is a planned change impacting risks and capital or when changes are expected in the business environment potentially impacting the ability to generate income.

Pillar I requirement

In accordance with GENPRU 2.1.45R, (the 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 I capital requirement for MM Wealth was £560,000 as at 31 January 2021.

Pillar II

Our overall approach to assessing the adequacy of our internal capital is set out in our ICAAP document. 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 over a 1 to 5 year time horizon. 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.

MM Wealth Pillar II 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 greater than our Pillar I requirement. There is a considerable surplus of reserves above the capital resource requirement deemed necessary to cover the risks identified.

Regulatory capital

The regulatory capital resources of MM Wealth, calculated in accordance with FCA regulations, were last reported at the year end as follows:

- Common Equity Tier 1 Capital: £2.57m
- Surplus: £2.01m
- Total Capital Ratio: 21.77%

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 Remuneration Code and is categorised as a Level 3 firm. This section provides further information on our remuneration policy along with relevant quantitative data.

Decision Making/Remuneration Committee

MM Wealth has a Remuneration Committee comprising the Board of Directors.

The principle terms of reference for the Remuneration Committee include:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk taking.
- Considering and advising on 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. In doing so the Remuneration Committee will consider the appropriate mix of salary, discretionary bonus and share based remuneration.
- In determining remuneration arrangements, the Remuneration Committee will give due regard to best practice and any relevant legal or regulatory requirements including the FCA Remuneration Code.

Link Between Pay & Performance

Competitive salaries form the basis of our firm's remuneration package. In addition, there is an element of variable pay for all staff (excluding directors) which is based on firm wide and individual performance. Whilst most of the variable reward components are awarded to employees across the firm, the structure, balance and amounts may differ. Variable remuneration is considerably reduced where subdued or negative financial performance of the firm occurs.

Aggregate Quantitative Information on Remuneration

We are subject to data protection legislation when disclosing remuneration information. The Data Protection Act prohibits disclosing information that will result in individual information being easily identifiable. Remuneration disclosures will therefore be made on a limited basis in terms of any public or companywide circulation. However, all necessary information will be made available to the FCA on request.

MM Wealth is authorised and regulated by the Financial Conduct Authority. Registration Number: 148496
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