

Capital Requirement Regulation (CRR)

James Hay 2021
Pillar 3 disclosure

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1. Overview of James Hay Group

1.1. Background

James Hay Partnership (JH) is the trading name for JH Administration Company, JH Wrap Managers (JHWM), IPS Pensions Ltd and The IPS Partnership plc. The four legal entities are FCA regulated and are wholly owned by Epiris – a private equity firm that took ownership of IFG Group, and its entities, in July 2019.

Epiris is an independent private equity firm (PE), owned by its partners, which invests in transformational opportunities. Epiris aims to transform businesses in partnership with exceptional management teams. Their approach is to focus on strategic clarity, operational excellence, growth acceleration and Merger & Acquisition. This has delivered financial performance alongside good consumer outcomes. Epiris' primary goal is to build great companies and the organisation culture is designed to support this goal.

1.2. Regulatory Consolidation Group

This document sets out the disclosures for James Hay Partnership.

James Hay Partnership (JH) is the trading name for JH Administration Company, JH Wrap Managers (JHWM), IPS Pensions Ltd and The IPS Partnership plc. These four legal entities are FCA regulated and wholly owned subsidiaries of IFG Group Limited.

The following businesses comprise the Regulatory Consolidation Group (RCG):

- **James Hay Wrap Managers Limited** – a provider of Wrap portfolio management services which allows investors and their financial advisers to manage investments held across different tax environments.
- **James Hay Holdings Limited** – an intermediate holding company, and parent of James Hay Wrap Managers Limited, deemed to be a financial institution for regulatory consolidation purposes.
- **Nucleus Financial Platforms Limited** – an intermediate holding company, and parent of James Hay Holdings Limited, deemed to be a financial institution for regulatory consolidation purposes.
- **IFG Group Ltd** – an intermediate holding company, and parent of IFG UK Holdings Limited, deemed to be a financial institution for regulatory consolidation purposes.

The regulated consolidation group is subject to Consolidated Supervision, and the disclosures are therefore made on a consolidated basis and not by the individual firms. The disclosures are made on a going concern basis and incorporate the firms' contingent and prospective liabilities as applicable.

2. Risk management

The Risk Management Framework (“the Framework” or “RMF”) is the overarching framework consisting of the governance arrangements, processes, controls, and reporting that have been put in place to manage risks to James Hay. The Framework governs the firm's approach to the management of risks arising from business activities.

The James Hay Board and management seek to ensure that the business is focused on ensuring risks are managed appropriately and proportionately so that the business continues to meet its customer obligations. To ensure this James Hay:

- sets a board approved risk appetite which is reviewed annually.
- within an agreed risk categorisation model.
- sets up robust management and governance structures to control these risks including committee structures and the three lines of defence model.
- clearly outlines individuals' responsibilities for risk management.
- provides a consistent approach to the identification, assessment, management, monitoring and reporting of risks.
- establishes a positive risk culture and common risk language.

To drive effective risk management capabilities and ensure James Hay meets its responsibilities and the aspirations of the Board, the approach to risk management at James Hay has been built around the following key components which help to ensure a clear, structured, and comprehensive approach:

- **James Hay Strategy** – articulates James Hay’s core purpose and how it aims to achieve this.
- **Risk Appetite** – articulates how much risk the organisation is prepared to take in the pursuit of its strategy and objectives.
- **Control Environment** – the approach to managing the business’s key risks through the effective design and operation of controls driven by:
 1. Policies – which define the requirements and control objectives for managing each of the key risks.
 2. Controls – the identification, design, operation, documentation, assessment and reporting of critical controls.
- **Risk and Control Management** – encompasses the standard processes, tools and systems required for day-to-day management of risks.
- **Risk Governance** – defines the framework, governance structure and responsibilities in operation to effectively manage and escalate risks/events.
- **Risk, Event and Control Reporting** – ensures the appropriate reporting and escalation of relevant risk, operational risk event and control information to Board and risk committees, to enable effective, risk-based decision making and achieve better outcomes.
- **Better Business Decisions** – all of the above activities provide a framework for enabling better decisions to be made for the benefit of James Hay’s customers and the business.

2.1. Review and approval

The Board approved Risk Management Framework has been delivered by the second line of defence Risk function with each component enabling the business to mitigate risks proportionately and provide assurance on material threats to the James Hay strategy.

The James Hay Executive Risk Committee is responsible for overseeing and ensuring the James Hay Risk Management Framework is embedded across the business, a coordinated approach to risk management across all risk categories and provides regular updates and escalation of key issues to the Risk, Audit and Compliance Committee (RACC).

The Framework is formally reviewed at least annually and more frequently if there are any significant changes to the firm’s business model, the regulatory environment or other factors that may materially affect the firm’s risk profile.

2.2. Three lines of defence

James Hay has structured risk management activities in alignment with the ‘three lines of defence’ model, which separates risk management, risk oversight and assurance into distinct business functions.

Three Lines of Defence		
FIRST LINE OF DEFENCE	SECOND LINE OF DEFENCE	THIRD LINE OF DEFENCE
Business and Support Functions	Risk & Compliance Function	Internal Audit Function (BDO)
Responsible for identifying, owning and managing risks, and follows the policies, procedures and the controls implemented to deal with the day-to-day running of business operations. Key controls are embedded throughout the operation within systems and processes in order to mitigate risk. The first line also undertakes the RCSA process to review and assess the effectiveness of controls on an ongoing basis.	Provides oversight of the first line and advises on all areas of regulatory principles, rules and guidance, undertaking monitoring activity on an ongoing basis. The second line of defence is responsible for ongoing oversight and monitoring of the effectiveness of the internal controls, including review and challenge of risks, action plans, controls, RCSA and quality assurance reviews.	Responsible for providing independent assurance that the risk framework is effective and robust; and on the entirety of the internal control environment and assessments thereon. This function has been outsourced to BDO and in addition, other independent assurance is sought (e.g. PwC and Deloitte).

2.3. Risk appetite

The Risk Management Framework is underpinned by a series of Risk Appetite Statements aligned to our risk categories.

In these statements the Board and management have set out the level of risk they are willing to tolerate in pursuit of our strategic objectives and importantly, the risks which we are willing to assume. To support these statements specific metrics for monitoring, reporting, managing, and controlling these risks have been identified.

The Risk Appetite Statements are reviewed annually by the Risk, Audit and Compliance Committee (RACC) and approved by the James Hay Board. Changes to these statements and supporting metrics will be considered if Operational Risk Events occur and/or if there are material changes to the organisation, industry, and market conditions.

2.4. Risk identification, assessment, and reporting

Adequacy of risk management systems and controls – the Board has delegated the responsibility for the review of the risk management framework and internal control systems to the Risk, Audit and Compliance Committee (RACC). In satisfying the requirements to ensure that James Hay operates adequate risk management and internal control systems, the RACC monitors key risks on an ongoing basis and reviews risks at an enterprise level.

2.5. Approach to risk management

James Hay operates a top-down and bottom-up approach to risk identification and assessment against our risk appetite.

Top-down approach

Our approach assesses the level of exposure for each risk category from an enterprise level; ensuring the risk assessment considers all areas that the risk could manifest and aggregating the assessment of exposure and control effectiveness. These risks are owned by the Executive Committee members (Executive Risk Owner) and together with the Business Risk Owner, provide oversight and direction to the business on the application of appropriate and proportionate controls, in line with risk appetite. These enterprise level risks are reviewed on an ongoing basis and reported monthly to the James Hay Executive Risk Committee.

Bottom-up approach

Using the risk categorisation model, the first and second-line risk functions work with Risk Owners and business areas for the following:

- To identify the inherent risk environment for each Enterprise Risk.
- To identify the business areas where the risk can manifest.
- Review the control environment in order to assess the business areas risk position.

The Business Risk Owner is accountable to the Executive Risk Owner and responsible for the day-to-day management of the local risk and associated controls, ensuring effective control performance, including those operated by third parties.

2.6. Policy framework

The James Hay Policy Framework defines the principles, scope, roles and responsibilities and lifecycle for all James Hay policies, standards, and procedures.

All policies support the Risk Management Framework by means of:

- Setting the Minimum Standards expect for the business in managing the risk, legislation, statutory requirement, and business activities.
- Identifying the key individuals involved in the management of risk.
- Identifying the standards and processes used to support the policy in the management of the risk.

The Policy Framework is administered by the second line risk team, with the policies owned by the individual Senior Management Functions (SMFs) throughout the business.

3. Governance

The below summarises the principal activities within the main Boards and Committees that govern the Regulatory Consolidation Group (RCG):

3.1. Board of Directors

The IFG Group Board has delegated responsibility for the day-to-day management of James Hay to the James Hay Board.

James Hay Board (“The Board”) provides leadership and maintains effective control over the activities of the RCG. The Board meets at least ten times per year and has a formal schedule of matters reserved to it. The Board sets the Group’s strategic aims, risk appetite and specifies key management objectives that are to be achieved within an agreed budget.

The Board as a group, consists of a balanced set of skills, experience, and independent knowledge to enable the Board as a whole to discharge its duties and responsibilities. The Board comprises of an independent Chairman, executive directors and two Epiris Non-Executive Directors.

The Board has also delegated some additional responsibilities to committees established by it, whose powers, obligations, and responsibilities are set out in written Terms of Reference.

The James Hay CEO and senior management have experience of the financial services sector and are responsible for the operational management of the organisation. This specialist knowledge is backed up by the general business skills of each of these, and by the broad-based skills and knowledge of each of the Non-Executive Directors.

The Board of Directors is made up of the following individuals:

Role	Board member	Directorships*	External Directorships**
Chief Executive Officer (CEO)	Richard Rowney	15	2
Chief Financial Officer (CFO)	Gavin Howard	22	-
Chairman and Non-Executive Director	Mark Dearsley	6	-
Non-Executive Director	Kathryn Purves	6	4
Non-Executive Director	David Paige	6	1
Non-Executive Director	Bill Priestley	8	9
Non-Executive Director	Owen Wilson	8	9

* Individual directorship of IFG and James Hay Group companies

** Directorship of companies external to IFG and the James Hay Group

The day-to-day management of James Hay is delegated by the Board to the CEO, who is supported by the Executive Committee, which he chairs.

3.2. The committee’s responsibilities are listed below:

- Executive Committee** – is responsible for managing the James Hay businesses in line with the business’s strategic aims and objectives and ensuring alignment with corporate policies and practices. It also aims to ensure that regulatory requirements are met, and that time is focused on business performance and improvement initiatives against conduct framework and investor outcomes. The Committee is also responsible for managing financial performance and budgets, the risk framework and the adequacy of systems and controls, provides oversight of regulatory related matters and provides oversight to all sub-committees to ensure there is appropriate escalation of issues in place.
- Remuneration and Nominations Committee (RemCo)** – oversees the arrangements of James Hay to ensure that the firm’s performance management and reward system supports and encourages responsible business conduct, fair treatment of customers as well as avoiding conflicts of interest in the relationships with customers. It also helps ensure that the firm’s behaviours are consistent with the values, culture, strategy, and business model, as well as the FCA’s Conduct agenda and focus on customer outcomes. Members of the Committee are appointed by the Board, who is responsible for ensuring an appropriate tenure of members’ appointments and for the revocation of any such appointments. Appointment shall automatically terminate upon the member ceasing to be a director of the Board. The quorum is made up of at least two members: A Non-Executive Director and at least one Epiris Non-Executive Director and the Committee meets formally at least four times a year.

- **Risk, Audit & Compliance Committee (RACC)** – is a forward-looking committee of the Board seeking to anticipate potential issues by assessing known and foreseeable risks, advising the Board on the company’s risk appetite, current risk exposures and future risk strategy. The Committee also assists with overseeing the framework of systems and controls in place, the reliability and appropriateness of James Hay financial reporting, as well as reviewing compliance with its Whistleblowing Policy. The Committee is composed of three members, the Chairman and two Non-Executive Directors. The Committee meets at least four times a year and is scheduled so as to ensure timely reporting of information to the Board.

4. Capital requirements

- 4.1. The Group has complied with the capital requirements set out by the FCA. The table below shows the breakdown of the total available capital for the regulatory consolidation group and total organisation.

REGULATORY CONSOLIDATION GROUP – OWN FUNDS	
	2020 £'000
TOTAL EQUITY	174,687
Intangibles	-10,302
Current year RE	-96,468
Article 89/90 Deductions	-32,297
CAPITAL RESOURCES	35,621

4.2. Capital requirement

Under CRR James Hay is required to perform a continual assessment of its risks in order to ensure that the higher of Pillar 1 and Pillar 2 requirements are met. This requirement is designed to ensure that all regulated entities have adequate capital to manage their risks.

To satisfy this requirement, James Hay performs the Internal Capital Adequacy Assessment Process (ICAAP), which is subject to formal review once a year, or when material organisational changes take place.

4.3. Total Pillar 1 minimum capital requirement

All companies within the Regulatory Consolidation Group (RCG) are required to meet the general ‘own funds’ requirements in accordance with Article 92 of the CRR, including the maintenance of a minimum total capital ratio of 8%.

James Hay is classified as a limited license IFPRU £125K firm. Its Pillar 1 capital requirement is the higher of the base capital requirement, sum of the credit and market risk calculations or the Fixed Overhead Requirement (“FOR”). Credit risk has been calculated using the standardised approach.

REGULATORY CONSOLIDATION GROUP – TOTAL PILLAR 1		
	2019 £'000	2020 £'000
Credit and market risk requirement	3,000	2,811
Fixed overhead requirement	1,300	1,300
TOTAL PILLAR 1 CAPITAL REQUIREMENT	3,000	2,811

As noted above, the Group has calculated the Fixed Overhead Requirement under Pillar 1 which assesses the risk as being equivalent of one quarter of the firm’s annual fixed expenditure in accordance with the rules set out under Article 97 of the EU CRR and EBA/RTS/2014/01.

4.4. Pillar 2

The Group has assessed its Pillar 2 Capital Resource Requirements and confirms that it has sufficient Capital Resources to meet these requirements for the foreseeable future.

The individual members of the Regulatory Capital Consolidation Group have their own individual capital requirements, which have all been met.

4.5. Approach to ICAAP

James Hay's ICAAP document is updated and reviewed at least annually as part of the business planning cycle, or more frequently should changes in the business, strategy, nature or scale of the company's activities or operational environment suggest that the level of financial resources are inadequate.

The Board retain ultimate responsibility for the ICAAP, and the document is subject to robust challenge and approval with engagement by senior management and the Board through the structured governance process.

5. Material risk exposures

The following outlines the material risks to which James Hay is exposed:

5.1. Operational risk

The principal material risks faced by the Group are operational (including conduct), strategic and business, and reputational. Specifically, these are:

- Increased levels of risk arising from the changing market and regulatory environment.
- Failures in operational processes, such as errors whilst processing client transactions, resulting in increased regulatory oversight and customer detriment.
- Issues damaging the Group brand which result in a failure to attain new clients whilst being unable to retain existing clients.

The Group intends to mitigate these risks through both the holding of sufficient capital and also through stringent controls including, but not limited to:

- Regularly assessed risk appetites and operational controls.
- A well-resourced, knowledgeable, and experienced first line.
- Robust governance under the risk management framework.
- Robust oversight from the second and third lines of defence. The Group performs scenario stress testing to ensure that the capital adequacy calculation is robust.

Given the Group's business model, a high proportion of its material risks are classified as 'operational risk' within the Group's ICAAP.

Within the James Hay Risk Framework, Conduct and Conduct Risk are considered casual events and/or impacts of different operational risk events and as such a separate conduct risk assessment is not completed, and conduct/customer impact is assessed for all operational risk events.

In order to identify and manage the major sources of risk identified across the Group, the following risk categories have been considered (where relevant):

5.2. Credit risk

The Group uses the standardised approach which requires calculation of the minimum credit risk capital requirement of 8% of the total of risk weighted exposures depending on exposure class as determined in the appropriate FCA Handbook.

The credit risk definition and Pillar 1 calculation approach used by James Hay is the standardised approach as set out under IFPRU 4 in the FCA Handbook. The consolidated group balance sheet is taken and has a weighting applied to each item that is subject to a credit risk exposure. Each exposure is assigned to one of the exposure classes set out under IFPRU 4 and the risk weight defined by the FCA for that exposure class is assigned to each of the exposures in that class. The risk weighted exposure is then multiplied by the prescribed credit risk of 8% to give the final credit risk figure.

5.2.1. Counterparty Risk

The Group does not operate a Trading Book and disclosure is not required.

5.2.2. Securitisation and Leverage

The Group has not engaged in any securitisation or leverage related activities and does not intend to do so. As such it is not necessary to hold any additional capital for such risks.

5.3. Market risk

The Group does not operate a Trading Book and therefore does not trade for its own account. In addition, there is no material foreign exchange exposure hence there is no market risk exposure. Therefore, it has not been considered necessary to hold any additional capital for market risk.

5.3.1. Interest rates

Interest rate risk is the exposure to adverse movements in interest rates. Changes in interest rates affect earnings by changing net interest income and the level of other interest sensitive income and operating expenses.

Interest Rate Risk to the Group comes in the form of the Bank of England Base Rate (“BBR”) moving up or down and the impact this would have on Group income from client accounts. Presently the only negative effect to the Group would be if the BBR was to reduce. Were the BBR to move upwards then it would result in an upside benefit for the Group.

The Group and its firms do not have non-trading books and as such there is no associated interest rate risk.

5.3.2. Exchange Rate Risk

James Hay has negligible foreign exchange exposure which is demonstrated by non-sterling net assets (Euro cash). It is not exposed to significant exchange rate risk, currency exposure, or arbitrage and as such exchange risk is not considered significant for the regulated companies and it is not deemed necessary to hold additional Pillar 2 capital for it.

5.4. Liquidity Risk

5.4.1. Value Added Adjustments and Provisions

As the Group does not make Value Added Adjustments or Provisions for Impaired Exposures, disclosure is therefore deemed not applicable.

5.4.2. Encumbrance and Collateralisation

The Group does not, and did not hold during the period, any collateralised or encumbered assets.

6. Remuneration

6.1. Remuneration and Nomination Committee

The Remuneration Committee (“the Committee”) is the Committee of the Board responsible for ensuring that the Company’s overall reward philosophy is consistent with achievement of the Company’s strategic objectives and with the Company’s values and risk appetite. The Committee also oversees, challenges, and approves the Group’s overall remuneration approach ensuring it is in the best interests of the Group, its stakeholders, customers, and its shareholders.

The key responsibilities of the committee are:

- To determine and agree with the Board the policy for the remuneration of Directors and certain Group senior executives (as determined by the Committee). No director is involved in setting his or her own remuneration.
- To determine the remuneration packages of the Chairman, Executive Directors, Group senior executives and Code staff (see 6.4. below), including salary, bonuses, pension rights and compensation payments.
- To ensure that remuneration packages do not encourage undue risk taking but reflect the risk appetite of the Group, promote the Group’s values and culture, and demonstrate the right ‘tone from the top’.
- To oversee remuneration structures for Group and subsidiary senior management and ensure that the level and structure of remuneration encourages long term sustainability, value creation and success of the Group.
- To recommend to the Board the establishment of any employee share plans (which require the approval of the Group’s shareholders) and exercise all the powers of the Board in relation to the operation of same – including the granting of awards and options, the setting and testing of performance conditions (where appropriate) the exercise of any discretions on behalf of the board allowed under the rules of the plans, and any material amendments to the rules of the plans not requiring the approval of shareholders.

- To ensure that contractual terms on termination or redundancy, and any payments made, are fair to the individual and the Company.
- To obtain reliable, up to date information about remuneration in other companies of comparable scale and complexity.
- To agree the policy for authorising claims for expenses from the Directors. The FCA term 'Code staff' applies to relevant employees who are connected with JHWM and SHL, and who are included within the firm's interpretation of 'Code Staff' for the Remuneration Policy Statement.

6.2. Discretionary pension benefits

The IFG Group may facilitate discretionary pension benefits, however these are neither contractual nor within a performance related bonus package.

6.3. Ancillary benefits

Where applicable, the member of staff will also receive ancillary benefits including (but not limited to):

- Group Personal Pension
- Permanent Health Insurance
- Permanent Medical Insurance

6.4. Code staff

Employees whose professional activities have a material impact on the firm's risk profile are categorised as remuneration code staff and are made aware of the implications of such status, including the potential for remuneration to be rendered void and recoverable by the firm in certain circumstances. Code staff are incorporated in the Senior Management and Certification Regime (SM&CR); identified as Senior Management Functions (SMF) or Certified Individual.

There are three designated Code staff who form the James Hay Board of Directors. Board members are not remunerated for their role as a Director by the individual company entity, however, during 2020, James Hay Directors received remuneration in recognition of the overall activities undertaken for and on behalf of the regulated entities.

To the year ending 31 December 2020, the remuneration received by the Code Staff, which was reasonably attributable to activities relating to the James Hay Group, was under £250k (representing less than 10% of their total remuneration).

James Hay Partnership is the trading name of James Hay Partnership Management Limited (JHPM) (registered in England number 02538532); James Hay Services Limited (JHS) (registered in Jersey number 77318); IPS Pensions Limited (IPS) (registered in England number 2601833); James Hay Administration Company Limited (JHAC) (registered in England number 4068398); James Hay Pension Trustees Limited (JHPT) (registered in England number 1435887); James Hay Wrap Managers Limited (JHWM) (registered in England number 4773695); James Hay Wrap Nominee Company Limited (JHWNC) (registered in England number 7259308); PAL Trustees Limited (PAL) (registered in England number 1666419); Sarum Trustees Limited (SarumTL) (registered in England number 1003681); The IPS Partnership Plc (IPS Plc) (registered in England number 1458445); Union Pension Trustees Limited (UPT) (registered in England number 2634371). JHS has its registered office at Aztec Group House, 11-15 Seaton Place, St Helier, Jersey, JE4 0QH. JHPM, IPS, JHAC, JHPT, JHWM, JHWNC, PAL, SarumTL, IPS Plc, and UPT have their registered office at Dunn's House, St Paul's Road, Salisbury, SP2 7BF. JHAC, JHWM, IPS and IPS Plc are authorised and regulated by the Financial Conduct Authority. (3/21)