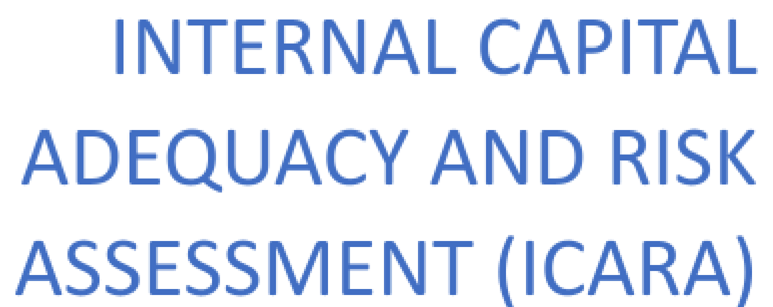

INTERNAL CAPITAL ADEQUACY AND RISK ASSESSMENT (ICARA)

Minerva Money Management

March 2023

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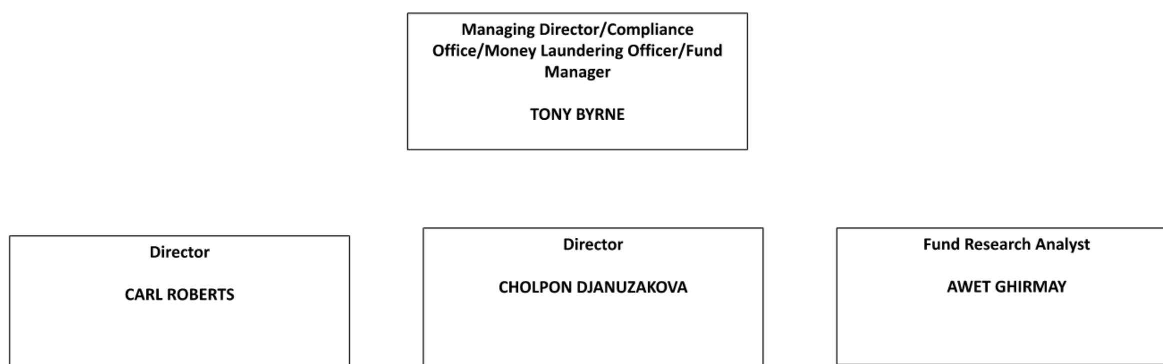
Introduction and Overview of ICARA

From January 2022, under the new Investment Firms Prudential Regime (IFPR) firms' own assessment are carried under ICARA (Internal Capital Adequacy and Risk Assessment).

The new regime is better suited for the investment management industry. It departs from banking-based regulation of CRD/CRR which required ICAAP (Internal Capital Adequacy and Assessment Process). In comparison to ICAAP, the ICARA has different starting- and end-points. Risk analysis, under ICARA starts by analysing the firm's business model and therefore it introduces activity-based capital requirements for firms. The end-points of analysis are also different. It focuses on outcomes rather than classes of risk (e.g., market, credit and operational risks under ICAAP. The ICARA mainly focuses on the outcome for the consumers/clients and markets (and ultimately for the firm). It introduces the concept of risk-to-customers (RtC), risk-to-market (RtM) and risk-to-firm (RtF). The ICARA will be updated annually or upon material change and is therefore an ongoing process that the firm monitors.

This ICARA report has been prepared for Minerva Money Management Ltd. FCA number 754570.

Below is the organisation chart for the Minerva Money Management Ltd.



The firm has concluded that the ICARA process is fit for purpose. The firm's ICARA process covers its risk management, and incorporates the results of business model assessment, forecasting & stress testing, recovery planning, and wind down planning. The firm's ICARA process has shown that the firm meets the overall financial adequacy requirement (OFAR) – it holds sufficient own funds and liquid assets even throughout the economic cycle under stress.

• The ICARA has been subject to senior management review and challenge.

• In the main text, the ICARA document explains that the firm meets the OFAR set by the FCA's Investment Firms Prudential Requirement (IFPR), effective from January 1st 2022.

• The firm holds sufficient capital and liquidity to cover the own funds and liquid assets requirement. - The firm holds funds in excess of the firm's Own Funds Threshold Requirement.

- The firm also has liquid assets in excess of the firm's Own Threshold Liquid Asset Requirement.

• Both assessments have been carried out by taking into account all potential harms from the firm's activities to consumers, markets and to the firm. Also, potential risks from change in the firm's asset values and counterparty failures have been taken into account.

• Furthermore, the firm has established two early warning indicators (EWIs).

• % above the Own Funds Threshold Requirement

• % above the Own Funds Threshold Requirement

• These indicators help firm to manage and plan capital proactively.

Senior Management Responsibilities

The accounting reference date for this ICARA is 31/12/2022. The ICARA document been reviewed and approved by the board on and has been signed off on 20/04/23 by the board. The content of the ICARA document has been reviewed and approved by the Board. As part of its review, the Board has specifically reviewed and approved the key assumptions underlying the ICARA document.

The firm operates three lines of defence (3LOD) model. Individuals in the first line own and manage risk directly. The risk management function in the second line oversees the first line, sets policies, defines risk tolerances, and ensures they are met. The internal audit function provides independent assurance of the first two lines, including an independent verification of data and models.

The ICARA is a key process and an essential part of a firm's internal systems and procedures which ensures that the firm prudently runs its business. As part of its review, the governing has also reviewed and approved the key assumptions (e.g., scenarios and stress tests) underlying the ICARA document. Accordingly, the firm's senior staff members have taken an active role in contributing to the analysis required under the ICARA process in respect of the business areas for which they are responsible. The following is a list of senior managers that were responsible for review and approval of the ICARA.

Anthony Byrne – Managing Director.

Risk of Harm to Clients and Markets

The assessment of harm from the firm's activities has been carried out starting with the firm's business and operating model.

Currently, the firm carries out the following activities for its professional clients.

- Investment portfolio management.

The firm is exposed to existing and emerging risks and vulnerabilities from changes in operational and economic circumstances. Given the nature of their business and operating model, the firm's

subject matter experts and senior personnel have decided that the following risk scenarios have the potential to cause severe but plausible harms to investors and markets.

- Investment Guideline Breach
- Information Security Breach / Cyber
- Designing a Flawed Product
- Material Pricing Error
- Outsourcing Service Disruption
- Trade Error
- Internal Fraud
- NAV Error
- BCP Event (operational resilience)
- Conflict of Interest The following figure summarises the relationship between the firm's activities and the scenarios.

These scenarios are fundamentally important for the firm's risk management. They are not only important from the point of harms caused but also in terms of their impact on the firm's resilience and impact thresholds and tolerances. By 31 March 2022, the firm has to also comply with the FCA's operational resilience requirement.

The following table provides an overview of the firm's own forward-looking assessment for the various activities from its business model. The starting point for this analysis has been the firm's severe but plausible risk scenarios. For each risk scenario an own funds requirement has been assessed using the concept of "K-factors". The relevant K-factors are K-AUM from its asset management business and K-COH from client orders handled. Since the basic Pillar 1 assessment of the K-Factor requirement has been deemed to insufficient to account for harms that emanate from the firm's severe but plausible scenarios the firm had to compute an add-on requirement. The table represents the final overall capital requirement for each K-factor.

Scenario name	**K-AUM**	**K-COH**	**Simple Sum**
Investment Guideline Breach	£2,000		£2,000
Information Security Breach/Cyber	£2,000	£1,000	£3,000
Product Design	£2,000		£2,000

Material Pricing Error	£2,000		£2,000
Outsourcing Service Disruption		£1,000	£1,000
Trade Error		£1,000	£1,000
NAV Error	£2,000		£2,000
BCP Event		£1,000	£1,000
Conflict of Interest	£2,000		£2,000
Simple Sum	**£12,000**	**£4,000**	**£16,000**

The risk assessments were carried out by conducting scenario workshops with the business areas. In order to arrive at the above numbers, the scenario workshops have considered the key risks and controls (inherent and residual), taken into account existing information (e.g., incidents, list of issues, audit reports) as well as relevant external information. [We have observed that there are broadly four levels of sophistication amongst investment firms. 1) Very simple firms' make the above assessments of risk using subject matter expertise without stating what assumptions they are making, e.g., what confidence level, time-horizon, etc. they are using; 2) Simple firms make the assessments by stating their assumptions; 3) Slightly sophisticated firms also give some thoughts to dependency between the risk scenarios; and 4) the more sophisticated firms calculate the values using a statistical model].

The figure of £16,000 represents the firm's amount of risk from its activities, i.e., harm to clients and markets.

The ICARA so far has identified and discussed harms to clients and markets. The two sections below discuss additional risks affecting the firm's available capital.

Changes in the Value of Assets or Positions

When market prices of assets change, the value of assets and the value of the holding positions change. The amount of change can be best modelled as a function of the market value, holding period and the volatility of the asset. To assess the risk of change in the value of its positions the firm has used the well-known Value at Risk (VaR) methodology. For each asset, the VaR method predicts the potential loss under adverse circumstances. It is a mathematical formula – it is a function which positively relates the potential loss of an asset, to its value or size, volatility and its holding period (at a statistical) confidence level. For ICARA purposes, we compute the potential loss at the 99.5% confidence level. Put it differently, the VaR method predicts that there is only 1 in 200 chance that the potential loss could be larger than the formula predicts.

The value at risk for each asset i has been computed as follows.

VaR_asset_i = Value of asset_i * daily vol of asset_i * $\sqrt{t}$ * 2.58

where t stands for number of holding days for the asset.

The VaR is simply a multiplication of the value of an asset with its daily volatility and square root of the holding period and a factor of 2.58. The daily volatility has been obtained using market data. The multiplication of the volatility with the factor of 2.58 ensures that the potential change in the value of the asset over the holding period t potentially as large as the 99.5% confidence level, i.e., at the tail of the potential loss distribution.

Assets/Position	**Current Size**	**Holding Period**	**Daily Volatility**	**VaR**
Asset in foreign currency	GBP 10m	60 days	0.75%	1,500,000
Equity investment	GBP 5m	250 days	1.00%	2,000,000
Overall				**3,500,000**

For example, a GBP10 m asset in a foreign currency with a 0.75% daily volatility (which is typical for the GBPUSD exchange rate volatility) results over a 60-day holding period in a value at risk of GBP 1.5 m (10 m * 0.075 * $\sqrt{60}$ * 2.58 = 1.5 m). Similarly, a 5 m investment in equity with a 1% daily volatility over a one-year horizon (i.e., 250 trading days) results in a VaR of 2 m (5 m * 0.01 * $\sqrt{250}$ * 2.58 = 2 m). Although the equity investment's current value is lower than the asset in foreign currency its VaR is larger due to higher daily volatility and longer holding period.

The holding period refers to trading day 3. For simplicity, the table assumes that the asset in foreign currency and the equity investments are fully correlated. In reality, there is a less than 100% correlation between the two, which would result in a diversification benefit. For example, assuming a perfectly reasonable correlation of 50% the overall VaR number would be 3 m, i.e., a diversification benefit of 0.5m.

Failure of Counterparties

Any potential failure of the firm's counterparties would impact the firm. There are currently two sources of counterparty risk - a cash position held at an international bank and the firm's largest counterparty. Both could potentially default overnight thereby exposing the firm to risk of loss with partial recovery of assets or due amounts.

Note that unlike for market risk, there is a so-called "expected loss" (EL) from exposures to a counterparty. In simple terms, the EL from any counterparty can be computed as a positive function of exposure, probability of default (PD) of a counterparty, and loss given default (LGD).

EL = Exposure * PD * LGD

That is, expected losses are higher the higher the exposure, probability of default and loss given default and vice versa. The table below computes the firm's expected losses.

Name	**Exposure**	**Loss Given Default (LGD)**	**Probability of Default (PD)**	**Expected Loss (EL)**
Bank name	£300,000	45%	1.0%	£1,350

Note:

1. Loss given default is related to the recovery rate (RR). LGD = 1 – RR.

2. Using data from S&P we have assumed the LGD's to be 45% for all of our counterparties. However, the expected losses are only potential losses "on average". As with market risk we have to compute potential losses "at the tail", i.e., at a higher confidence level than the average, i.e., unexpected losses (UL). In order to assess the unexpected loss from the firm's counterparties, the well-known Vasicek Credit Value at Risk (CVaR) methodology has been utilised.1 The CVaR methodology computes a potential loss for each exposure at a required confidence level. For ICARA purposes, we are therefore interested in losses from counterparty failures at the 99.5% confidence level (the same confidence level as for the market risk). Therefore, the CVaR methodology predicts losses that can only be potentially larger with a 0.5% probability (1/200). It is a positive function of a loss given default (LGD), probability of default (PD) and correlation of the counterparty with the overall state of the economy. The computed risks from failure of the firm's counterparties at the 99.5% confidence level are summarised in the table below

Name	**Exposure**	**Loss Given Default (LGD)**	**Probability of Default (PD)**	**Correlation with the economy**	**CVaR**
Bank name		45%	1.0%	24%	

Note:

1. Loss given default is negatively related to recovery rate (LGD=1-recovery rate)

2. Both LGD and PD data have been sourced from Standard and Poor's.

3. In order to prudent, the correlation has been set to be 24%, which is the highest possible value it can attain under the Basel framework.

Own Funds Threshold Requirement

In order to find the firm's own funds threshold requirement, we are comparing the firm's Permanent Minimum Requirement (PMR), the Fixed Overhead Requirement (FOR), the K-Factor Requirement (KFR) and take the highest of the three components. In particular, our calculations take account of additional requirements for each of the components. Whereas the PMR is a fixed number, i.e., does not necessarily scale with the risk profile of the firm, both the KFR and the FOR are more risk sensitive and capture more accurately the firm's risk profile.

- The firm's Permanent Minimum Requirement (PMR) is £75,000.

- The firm's MiFIDPRU4 requirement (akin to Pillar1) for FOR has been assessed to be 16,000.

- Similarly, the firm's MiFIDPRU4 requirement for KFR from its business activities (i.e., K-AuM and K-COH) has been identified to be 16,000.

The following table provides an overview of the firm's regulatory calculations.

	MiFIDPRU 4 Requirements	Additional Requirements
Own Funds	16,000	
PMR	75,000	
FOR	8,000	
Threshold Requirement	16,000	
Early Warning Indicator	17,600	
Winddown Trigger	8,000	

Note: the winddown trigger is equal to the firm's FOR.

Early Warning Indicators (EWIs)

The firm's own funds stand at 75,000. Given this level of own funds, the firm has sufficient funds to withstand losses from its operating and business model.

• The firm's early warning indicator (EWI) has been set at 110% of its own funds threshold requirement at 17,600. This is similar to a 'hard' limit.

• The firm has also a 'soft' limit at 20,000.

The set limits are deemed to be appropriate levels for the firm’s business model. Each breach of limit will trigger associated recovery actions detailed in Appendix 1.

Recovery Planning

Appendix 1 contains the recovery planning. The firm’s recovery planning is consistent with IFPRU 11.7 and contains the following elements.

(1) summary of the key elements of the recovery plan;

(2) information on the governance of the firm, including:

(a) how the recovery plan is integrated into the corporate governance of the firm; and

(b) the firm's overall risk management framework;

(3) description of the legal and financial structures of the firm, including:

(a) the core business lines; and

(b) critical functions;

(4) recovery options, including:

(a) capital and liquidity actions required to maintain or restore the viability and financial position of the firm; and

(b) arrangements and measures to conserve or restore the firm's own funds;

(5) an assessment of the expected timeframe for implementing recovery options;

(6) a summary of the overall recovery capacity of the firm, including:

(a) the risks associated with recovery options;

(b) an analysis of any material impediments to the effective and timely execution of the recovery plan; and

(c) whether and how material impediments could be overcome.

Wind-down Planning

Wind-down plans of the firm were developed with reference to the Wind-Down Planning Guide from the ‘rule book’, but taking into account the specifics of the firm (see Appendix 2).

Stress Testing

The firm has carried out stress testing as follows. The firm identified two severe plausible adverse scenarios that were relevant for the firm and the market in which it operates. The first relevant scenario was market downturn and resulting impact on the firm's revenues. The second scenario considered was the default of the firm's biggest counterparty and resulting revenue loss. The former scenario was more severe for the firm and the assessment resulted a 50% loss of net income (i.e., revenue minus costs) in year 1 in comparison to the BAU and partial recovery over the next four years.

Even in this plausible adverse scenario the firm's available own funds (and liquidity) were in excess of the firm's own fund threshold requirement (and own liquid asset threshold requirement). This statement is true even taking into account any realistic management actions.

The firm's senior management regularly reviews the above scenarios to ensure that their nature and severity remain appropriate and relevant to the firm. 0 5,000,000 10,000,000 15,000,000 20,000,000 25,000,000 0 Year 1 Year 2 Year 3 Year 4 Year 5 Stress Testing the Firm's Net Income Overall BAU Overall Market Scenario with mgt actions Overall Market Scenario Copyright - montecarloplus.com Page15 While considering relevant scenarios and impact on a firm's available liquid assets, the firm has also assessed a number of factors that could potentially impact the available liquid assets. This assessment shows that only the access to payment or settlement systems is the relevant factor.

Factor	Relevant?	Potential impact: High Medium Low
(1) correlations between funding markets;	No	-
(2) the effectiveness of diversification across the firm's chosen sources of funding;	No	-
(3) any potential additional margin calls or collateral requirements;	Partially	Low
(4) contingent claims, including potential draws on committed lines extended to third parties or other entities within the firm's group;	No	-
(5) liquid assets absorbed by off-balance sheet vehicles and activities (including conduit financing);	No	-

(6) the transferability of liquid assets;	Partially	Low
(7) access to central bank market operations and liquidity facilities;		
(8) estimates of future balance sheet growth;	Partially	Medium
(9) the continued availability of market liquidity in a number of currently highly liquid markets;	No	-
(10) the ability to access secured and unsecured funding;	No	-
(11) currency convertibility; and	Partially	Low
(12) access to payment or settlement systems on which the firm relies	Yes	Medium

Reverse Stress Testing

Reverse stress testing has been carried out by identifying a range of adverse circumstances which would cause the firm's business model to become unviable. The reverse stress testing shows that there are two circumstances when the firm's business model becomes unviable.

(1) More than 75% of the firm's counterparties are unwilling to continue transacting with the firm.
(2) The firm's deposits are lost due to the failure of the bank.

Own Liquidity Threshold Assessment

The firm's basic liquidity requirement is set by the regulator to be 1/3 of its FOR. Since FOR is 1/4 of the firm's annual expenses, the basic liquidity requirement equates to 1 month of expenditure. The own liquidity threshold requirement, however, needs to take account of unexpected payments and obligations.

Basic liquidity Requirement: 8,000

Liquidity Threshold Requirement: 32,000 (for the explanation of this figure see further below)

When assessing potential harms that may result from insufficient liquidity in connection with its business, the firm has found that:

(1) the firm's assets can be converted into cash within less than one week;

(2) there are no legal or operational restrictions which could affect the firm's ability to convert the assets to cash;

(3) there are no currency conversion restrictions;

(4) no restrictions on the transferability of funds between the firm and other members of its group, even in stressed market conditions.

(4) there are no intra-day obligations that could affect the firm's ability to meet its payment and settlement obligations in a timely manner;

(5) there are currently no requirements on the firm (whether or not they are legally binding) arising from any off-balance sheet arrangements. However, the assessment has found that there may be a liquidity risk to the firm from potential unexpected payments. These may result from the severe but plausible risk scenarios and relate to the possibility of unexpected payment obligations, such as:

(a) direct or indirect costs arising from litigation;

(b) redress payments;

(c) fines or penalties; or

(d) unexpected payments that the firm may make to maintain its franchise, reputation or brand or to ensure the continued viability of its business, even though the firm may be under no legal obligation to make the payments.

These have been already assessed from the capital requirement side (see Table 1). Using the definition of unexpected payment above, the same severe but plausible scenarios also have a liquidity requirement to them. Therefore, the firm's own liquidity threshold requirement is directly computed from the own funds threshold requirement from harms (contained in Table 2). The risk of harm in Table 1 and Table 2 has been computed over one-year forward looking horizon. The computation of the liquidity requirement is carried out by simply scaling the requirement from one year to one month.

Liquidity threshold requirement = funds threshold requirement / $\sqrt{12}$

This definition of own threshold requirement would be consistent with the above definition of the time horizon for the basic liquidity requirement

The above computation of own liquidity threshold amount is well in excess of what would be the basic liquidity requirement in combination with factors that could impact the firm's diversification in funding sources.

(1) There are no correlations between different market conditions that would affect the firm's ability to access funding from different sources.

(2) The level of funding diversification is appropriate and its ability to raise short-term liquidity is sufficient for its current ongoing requirements from its operating model.

The firm has also considered whether there are any potential harms arising from liquidity risk in relation to the following aspects of the firm's significant business activities:

(1) product pricing;

(2) performance measurement and incentives; and

(3) the approval process for new products.

In relation to product pricing, the firm's business model shows that

• There are two products in both of the business lines and that their elasticity to price has been relatively stable over the last few years although the industry experiences a tightening margin across products.

• Each product is managed by a dedicated manager with clear responsibilities of liquidity management including liquidity cost and benefit attribution for each product.

• Along with cost of risk pricing, also liquidity cost assessment is included in the firm's new product approval process and management incentivisation.

In terms of intra-day liquidity positions, the firm has considered whether there are any potential harms that may result from its operations. As part of the ICARA process, the firm identified:

(1) all the significant time-critical payment obligations that are in place to prioritise the payments;
(2) all the significant payment obligations that the firm has as a result of acting as a custodian;

(3) any potential net funding shortfalls that the firm may have at different points during the day;

(4) potential significant disruptions to its intra-day liquidity flows and any arrangements in place to deal with these; and

(5) any arrangements necessary to ensure the proper management of collateral.

In terms of any issues with collateral management, the firm has considered the following factors

(1) the ability to clearly distinguish between encumbered and unencumbered assets;

(2) any operational restrictions that may apply in relation to the assets;

(3) the extent to which the firm's assets are likely to be acceptable to the firm's major counterparties and liquidity providers;

(4) the impact of any existing arrangements on the firm's ability to provide collateral; and

(5) the potential impact of severe but plausible risk scenarios on the firm's ability to provide collateral where necessary.

Embedding

The assessment of risk and risk-based decision making is part ICARA as well as part decision making in a number of areas. An independent risk assessment is carried out to inform senior management on the potential risks to consumers, markets and ultimately to the firm from new products or projects, when purchasing an insurance, when planning for strategic M&A, ahead of outsourcing agreements, and setting remuneration for material risk takers.

Next review

The firm plans to review the adequacy of its ICARA process at least once every 12 months; or following any material change in the firm's business model or operating model.

Appendix 1: Recovery Planning

This appendix summarises the firm's recovery planning actions in case the firm's own funds threshold requirement breached the 'soft' and 'hard' limits in Table 3 in the main text.

(1) summary of the key elements of the recovery plan;

(2) information on the governance of the firm, including:

(a) how the recovery plan is integrated into the corporate governance of the firm; and

(b) the firm's overall risk management framework;

(3) description of the legal and financial structures of the firm, including:

(a) the core business lines; and

(b) critical functions;

(4) recovery options, including:

(a) capital and liquidity actions required to maintain or restore the viability and financial position of the firm; and

(b) arrangements and measures to conserve or restore the firm's own funds;

(5) an assessment of the expected timeframe for implementing recovery options;

(6) a summary of the overall recovery capacity of the firm, including:

(a) the risks associated with recovery options;

(b) an analysis of any material impediments to the effective and timely execution of the recovery plan; and

(c) whether and how material impediments could be overcome

Appendix 2: Wind-down Planning

This wind-down plan deals with situations in which our firm's regulated business is no longer viable or the firm makes a strategic / business choice to exit our regulated business(es). This differs from our business continuity plan (BCP), which focuses on the firm's ability to continue to function or recover despite unforeseen physical and/or technical interruptions to its business.

Our wind-down plan aims to enable our firm to cease its regulated activities and achieve cancellation of its permission with minimal adverse impact on our clients, counterparties and the wider markets. This includes scenarios where our firm undertakes a strategic exit as well as unexpected crisis or insolvency that makes our firm unviable.

Our wind-down plan evaluates the risks and impacts of wind-down with consideration as to how to mitigate them. Then it identifies the steps and resources we need to wind-down our business in an orderly manner where resources are limited.

Wind-Down Time Horizons

1. Business as Usual

During business as usual, we identify, monitor and manage the risks associated with winding down as part of our risk management and governance activities. This includes:

- Consideration within our firm's risk appetite
- Monitoring of threshold conditions
- Identification, monitoring and management of wind-down risk metrics and early warning indicators; and
- Definition and monitoring of potential recovery options for different wind-down scenarios

2. Occurrence of a Wind-Down Scenario

Upon occurrence of a wind-down scenario or any breach of threshold conditions, the Board shall progress and further develop various potential recovery options to both avoid winding-down and to minimise any harm to customers and market participants.

After having exhausted all potential recovery options the Board shall endeavour to proactively make the decision to wind-down, promptly notify the regulator and put into force the wind-down plan to effect an orderly wind-down of the business.

3. Winding-Down the Business

During the wind-down period, the business is winding-down and no new business is taken on. Plans are implemented to manage communications with various stakeholders, recruit wind-down resources, terminate employment contracts, ensure continued availability of critical systems and offices, settle accounts, deal with any contractual obligations impacted by winding down and transfer any regulatory obligations to other parties.

4. Cancelling Regulatory Permissions

The firm shall then apply to cancel its regulatory permissions once the wind-down is nearing completion and when:

1. There are no or few unresolved complaints with limited prospect of future complaints
2. Any remaining long-term "tail" commitments such as servicing obligations have been suitably transferred

Outstanding fees to regulators have been settled

Wind-Down Scenarios

1. Wind-Down Scenario Criteria

A wind-down scenario refers to an event which results in our firm no longer having adequate financial or non-financial resources to carry on its regulated activities. These events may arise for a variety of reasons including:

1. Significant financial losses with no signs of timely recovery;
2. Loss of key clients without realistic prospect of their replacement in good time;
3. Loss of critical infrastructure (e.g. essential IT systems) with no signs of timeline recovery.

2. Our Firm's Wind-Down Scenarios

Our firm's wind-down scenarios include:

1. Loss of capacity / clients / distribution.
2. Contingent liabilities or other financial commitments coming due.
3. Large legal claims against the firm / PI claim outside PI limits.
4. Loss of IT systems or critical teams / personnel.

Analysis of Wind-Down Scenarios

Scenario 1: Loss of capacity / clients / distribution

Description and Details:

- The scenario of "loss of clients" refers to a situation where the investment firm experiences a substantial decrease or complete erosion of its client base.
- This scenario can involve the departure of key clients, a mass withdrawal of funds, or a decline in new client acquisition, significantly impacting the firm's revenue streams and operations.

- Details could include the scale of the client loss, the percentage of assets under management affected, and the specific segments or types of clients affected.

Causes:

- Causes for the loss of clients could vary and may include poor investment performance, unsatisfactory service quality, changes in market conditions, regulatory issues, or reputational damage.
- Economic downturns, changes in client preferences, or competitive pressures could also contribute to the exodus of clients from the firm.

Risk Metrics and Early Warning Indicators:

- Risk metrics could include indicators like a decreasing trend in AUM, a sudden increase in client withdrawals, declining client satisfaction scores, or an increase in client complaints.
- Early warning indicators might involve monitoring client retention rates, tracking changes in client behavior or investment patterns, and conducting regular client surveys to gauge satisfaction levels.

Mitigating Actions and Potential Recovery Options:

- Mitigating actions might encompass strategies such as diversification of client base, improving service quality, enhancing communication with clients, and addressing any identified issues promptly.
- Recovery options could involve aggressive marketing campaigns to attract new clients, restructuring investment strategies, or seeking partnerships or acquisitions to stabilise the client base.

Impact to Different Stakeholders:

- Clients: Existing clients might face uncertainty and could potentially suffer financial losses if the firm's wind-down impacts their investments or services.
- Employees: A loss of clients could lead to downsizing, restructuring, or job insecurity for employees, impacting morale and stability.
- Regulators: Regulators might be concerned about the firm's ability to meet its obligations, ensure client protection, and maintain financial stability.
- Investors/Shareholders: Shareholders may experience decreased shareholder value if the firm's financial performance suffers due to the loss of clients.
- Industry Peers and Competitors: The firm's loss of clients might affect market perceptions and competitive positioning within the industry.

Scenario 2: Contingent liabilities or other financial commitments coming due

Description and Details:

- This scenario involves situations where contingent liabilities or financial commitments, such as contractual obligations, are set to mature or become due within a specified time frame.
- Details may include the nature of these liabilities, their amounts, maturity dates, counterparties involved, and the potential impact on the firm's financial position.

Causes:

- Causes for these liabilities or commitments coming due could include contractual obligations reaching maturity or unexpected triggers of contingent liabilities (e.g., legal settlements, unforeseen contractual obligations).

Risk Metrics and Early Warning Indicators:

- Risk metrics might involve tracking the maturity profiles of contingent liabilities, monitoring changes in market conditions that could impact valuations and assessing the firm's ability to meet these commitments.
- Early warning indicators could include changes in credit ratings, fluctuations in market volatility or significant changes in counterparties' financial stability.

Mitigating Actions and Potential Recovery Options:

- Mitigating actions might include maintaining adequate liquidity reserves, stress testing the firm's ability to meet these commitments under adverse scenarios, and hedging strategies to manage risks associated with contingent liabilities.
- Potential recovery options could involve renegotiating terms with counterparties, refinancing obligations, or strategically managing the firm's balance sheet to better handle these commitments.

Impact to Different Stakeholders:

- Creditors/Counterparties: Failure to meet these financial commitments could result in legal or financial consequences for the firm and affect relationships with creditors or counterparties.
- Investors/Shareholders: The firm's ability to manage and fulfill these financial commitments can impact investor confidence.
- Regulators: Regulators might be concerned about the firm's liquidity position, compliance with financial regulations, and potential systemic risks posed by these commitments.
- Employees: A significant impact on the firm's financial stability due to these commitments could affect job security and morale among employees.

Scenario 3: Large legal claims against the firm / PI claim outside PI limits

Description and Details:

- This scenario involves the potential occurrence of significant legal claims against the firm that might exceed the Professional Indemnity (PI) insurance limits or fall outside the coverage scope.
- Details would include the nature of the claims, their potential financial impact on the firm, the reasons they fall outside PI limits, and any historical precedents or ongoing legal disputes.

Causes:

- Causes for such legal claims could include allegations of professional negligence, breach of contract, regulatory non-compliance, or other legal liabilities arising from the firm's activities.
- Claims might exceed PI limits due to exceptionally high damages sought, multiple claims overlapping, or claims falling under exclusions or limitations within the policy.

Risk Metrics and Early Warning Indicators:

- Risk metrics might involve monitoring the firm's history of legal claims, analyzing the nature and frequency of claims that exceed or are outside PI limits, and assessing the adequacy of current insurance coverage.
- Early warning indicators could include an increase in legal claims against the firm, indications of potential disputes escalating beyond PI coverage, or changes in regulatory scrutiny related to the firm's operations.

Mitigating Actions and Potential Recovery Options:

- Mitigating actions might include reviewing and enhancing risk management practices, seeking additional or broader insurance coverage, setting aside reserves to cover potential legal liabilities, and exploring settlement negotiations or dispute resolution strategies.
- Potential recovery options could involve engaging legal experts to defend the firm, pursuing alternative dispute resolution methods, or exploring financial arrangements to manage the impact of large legal claims.

Impact to Different Stakeholders:

- Shareholders/Investors: Large legal claims could have a significant impact on shareholder value, investor confidence, and financial stability if they result in substantial settlements or damages.
- Clients/Customers: Reputational damage or financial implications from legal claims might affect client trust and relationships.
- Employees: Legal challenges could impact the morale of employees, especially if they lead to restructuring, financial strains, or job insecurity within the firm.
- Regulators: Regulators might closely monitor the firm's ability to manage legal liabilities, comply with legal requirements, and protect clients' interests amid such claims.

Scenario 4: Loss of IT systems or critical teams / personnel

Description and Details:

- This scenario involves the potential loss or disruption of crucial IT systems or key personnel within the firm.
- Details would include the criticality of the systems or personnel, their functions within the organization, and the potential impact of their loss on the firm's operations and services.

Causes:

- Causes for the loss of IT systems could include cyber-attacks, system failures, natural disasters, or technical glitches. Loss of critical teams or personnel might result from unexpected resignations, illness, or accidents.
- This scenario may also encompass the lack of redundancy or backup systems, inadequate cybersecurity measures, or insufficient succession planning for key roles.

Risk Metrics and Early Warning Indicators:

- Risk metrics might involve monitoring system downtime, analyzing historical patterns of disruptions, assessing the level of redundancy and backup systems, and tracking key personnel turnover rates.
- Early warning indicators could include increased cybersecurity threats, signs of system vulnerabilities, or the lack of succession plans for critical roles.

Mitigating Actions and Potential Recovery Options:

- Mitigating actions might include enhancing cybersecurity measures, implementing robust backup and recovery systems, cross-training employees for critical functions, and creating succession plans for key roles.
- Potential recovery options could involve engaging external IT experts to restore systems promptly, leveraging insurance coverage for IT-related disruptions, or implementing temporary workarounds to maintain operations during downtime.

Impact to Different Stakeholders:

- Clients/Customers: Loss of IT systems or critical personnel could disrupt services, leading to dissatisfaction among clients and potential loss of business.
- Employees: The morale and productivity of employees might be affected if essential systems are down or key team members are unavailable, impacting their ability to perform effectively.
- Shareholders/Investors: Shareholder confidence could decrease due to the potential impact on the firm's financial performance and ability to meet obligations.
- Regulators: Regulators might be concerned about the firm's ability to ensure data security, operational resilience, and continuity of services in the event of IT system failures or key personnel loss.

Operational Impact Assessment

Upon making the decision to wind-down, several aspects of our firm will be impacted.

1. Business Units

Our approach to winding down will vary from business unit to business unit that will vary based on the specifics of the business unit and its size, maturity and value.

Then, our approach to winding-down would typically include not accepting new business, transferring obligations to other parties, terminating contracts, etc.

Business Unit	Wind Down Considerations	Wind-Down Approach / Actions
Client Servicing Team	- Potential decrease in workload due to client departures. - Communication strategy to handle client inquiries and maintain relationships. - Retention strategies to minimize client departures and restore confidence.	- Reallocate resources to other areas within the firm to optimize efficiency. - Develop a clear communication plan to reassure remaining clients, addressing concerns and queries. - Review and enhance service offerings, improve client experiences to retain existing clients
Investment Division	- Loss of clients leading to a decrease in AUM and revenue streams. - Risk of decreased employee morale due to restructuring or downsizing.	- Review investment strategies and diversify portfolio offerings to attract new clients and retain assets. - Communicate transparently with employees, provide support, and explore redeployment opportunities
Legal & Compliance	- Large legal claims could impact regulatory compliance and reputational risk.	- Engage legal experts to defend the firm, explore settlement options, and adhere to regulatory requirements.

	- Potential changes in regulatory scrutiny and reporting obligations.	- Monitor and adapt compliance procedures, ensuring adherence to regulatory guidelines.
IT & Operations	- Loss of IT systems or critical personnel could disrupt operations. - Impact on service continuity and potential client dissatisfaction.	- Enhance cybersecurity measures, implement robust backup systems, and create succession plans for key roles. - Develop contingency plans to manage downtime, ensure minimal disruption to services.

2. Offices

During the wind-down period, we will need to exit from our office space including any leasing obligations.

Our approach to managing the wind-down of our offices is as follows:

Offices	Wind Down Considerations	Wind-Down Approach / Actions
Main office	Staffing and Team Transition.	- Assess and plan for employee relocations, transfers, or redundancies. - Communicate transparently with employees regarding the transition.
	Client Communication and Relationship Management.	- Develop a comprehensive communication strategy for clients. - Ensure a smooth transition of client services to other locations.
	Infrastructure and IT Systems Transition.	- Plan and execute data and system transfers. - Coordinate with IT teams for seamless infrastructure transitions.

	Legal and Regulatory Compliance	- Ensure compliance with lease termination and regulatory requirements. - Handle legal aspects of the office closure in accordance with laws.
	Financial Assessment and Budget Reallocation	- Evaluate financial implications of closure and plan for reallocation. - Adjust budgets to accommodate transition costs and potential savings.

3. IT Systems

During the wind-down period, our firm is required to keep up-to-date records of our customers and business and will also assist in assessing the impact to various stakeholders.

Our approach to managing the wind-down of our IT systems is as follows:

IT System	Wind Down Considerations	Wind-Down Approach / Actions
IT	Data and System Transfer	- Plan and execute data migration to new systems or locations. - Ensure data integrity and security during the transfer process.
	Infrastructure and Hardware Decommissioning	- Identify and decommission redundant hardware and infrastructure. - Safely dispose of or repurpose decommissioned IT assets.
	Software and Application Transition	- Identify critical applications and plan for their migration or closure.

		- Ensure compatibility and functionality of software in new systems.
	Employee Training and Support	- Provide training on new systems or tools to affected employees. - Offer technical support and guidance during the transition period.
	Communication and Stakeholder Management	- Communicate the IT system changes to stakeholders and affected parties. - Address concerns and provide regular updates on the wind-down process.

Stakeholder Impact Assessment

Upon a decision by our board to wind-down, many stakeholders will be impacted. These include:

Stakeholder Gp.	Impact of Wind-Down	Wind-Down Approach / Actions
Employees	- Job insecurity, potential layoffs, or reassignments. - Morale and productivity may be affected due to uncertainty.	- Communicate transparently, provide support, offer redeployment opportunities. - Provide counselling, offer training, and career transition support.
Clients/ Customers	- Disruption in services, potential dissatisfaction. - Loss of trust or confidence in the firm's reliability.	- Communicate the wind-down plan, assure continuity of essential services, address concerns. - Facilitate the transition to alternative service providers, maintain transparent communication.

Investors/ Shareholders	- Potential decrease in shareholder value. - Concerns about returns or dividends.	- Communicate the wind-down strategy, manage expectations, focus on minimizing financial impact. - Provide regular updates on the wind-down progress, address investor inquiries.
Regulators/ Government	- Regulatory compliance concerns, potential scrutiny. - Systemic risk implications within the industry.	- Maintain transparency, ensure compliance with legal obligations, engage in regulatory dialogue. - Address regulatory queries, proactively communicate to manage regulatory concerns.
Suppliers and Partners	- Impact on ongoing contracts, potential revenue loss. - Changes in partnerships or collaborations.	- Communicate changes in business relationships, negotiate contractual adjustments if necessary. - Manage expectations, explore alternative collaborations or business arrangements.

Wind-Down Resourcing Requirements

1. The Need for Resources in Wind-Down

During the wind-down period, the firm will continue to meet its regulatory requirements, deal with customer complaints and ensure that client and insurer funds are appropriately returned.

1.2 Wind-Down Resourcing Estimates

During the wind-down period, we will have a declining need for resources overall with a mix of different skills.

An indicative estimate of the resources that we will require is as follows (all figures in £):

Resource	Q1	Q2	Q3	Q4	Q5	Q6	Q7

Project Manager	3000	3000	3000	3000	3000	3000	3000
Legal Consultant	1500	1500	1500	1500	1500	1500	1500
Financial Analyst	500	500	500	500	500	500	500
IT Specialist	500	500	500	500	500	500	500
Communication Lead	500	500	500	500	500	500	500
Operations Support	3000	3000	3000	3000	3000	3000	3000

1.3 Resourcing Additions

Additional resources needed to support wind-down activities include:

1. Project Manager
2. Legal Council

Wherever possible, we aim to move existing staff that are being made redundant first rather than recruit new staff.

1.4 Redundancies

Wind-down will inevitably result in staff being made redundant. Our approach to handling redundancies during a wind-down is as follows:

Transparent Communication:

- Communicate openly and honestly with employees about the reasons for redundancies and the wind-down process. Provide clarity on timelines, procedures, and support available.

Legal Compliance:

- Ensure compliance with local employment laws and regulations regarding redundancies, including notice periods, severance pay, consultation requirements, and employee rights.

Fair Selection Criteria:

- Establish fair and transparent criteria for selecting employees for redundancy. Consider performance, skills, experience, and the needs of the business.

Consultation and Support:

- Engage in consultation sessions with affected employees, providing opportunities for discussion, feedback, and exploring alternative options such as redeployment or retraining.

Redundancy Packages:

- Develop fair redundancy packages, including severance pay, benefits continuation, and outplacement support. Provide guidance on job search, resume building, and interview skills.

Retaining Key Talent:

- Identify and retain key talent crucial for critical wind-down activities. Consider offering retention bonuses or alternative roles if feasible.

Support Services:

- Offer support services such as career counselling, access to job search resources, and mental health support to assist employees through the transition.

Maintaining Morale and Company Culture:

- Ensure ongoing communication with remaining staff to address concerns and maintain morale. Recognize and appreciate the contributions of departing employees.

Exit Process and Knowledge Transfer:

- Facilitate a smooth exit process, including exit interviews to gather feedback and knowledge transfer to document critical information from departing employees.

Reputation Management:

- Handle redundancies sensitively to mitigate negative impact on the company's reputation. Communicate the wind-down and redundancy process responsibly to internal and external stakeholders.

Continuous Evaluation and Adjustment:

- Regularly assess and adjust the redundancy process based on feedback and changing circumstances to ensure fairness and effectiveness.

Wind-Down Monthly Cash Flow Projections

To ensure an orderly wind-down, we estimate the financial resources required to ensure that we have sufficient cash to meet monthly expenses during the wind-down period.

1.1 Financial Assumptions

During the wind-down period, financial stresses increase. Creditors will typically be demanding settlement for balances owning and not extending any further credit, while debtors will typically be slower to pay.

1.1.1 Cash Inflows

During wind-down, we expect to receive the following cash inflows:

1. Investment Management fees in the region of £14,786 per month.

1.1.2 One-Off Expenses

One-off expenses associated with winding-down the business include:

1. Redundancy payments
2. Retainer premiums for essential employees
3. Legal and professional fees
4. Cancellation penalties with third party providers.

1.2 Monthly Cash Flow Projections

Monthly cash flow projections are as follows:

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
INCOME						
Investment Management fees	£14,786	£12,321	£9,857	£7,393	£7,393	£7,393
EXPENSES						
Staff costs	£6,297	£6,297	£6,297	£4,198	£4,198	£4,198

Legal and professional fees	£1,000	£1,000	£1,000	£1,000	£1,000	£1,000
Hardware and software	£850	£850	£850	£850	£850	£850
PROFIT						
	£6,639	£4,174	£1,710	£1,345	£1,345	£1,345

Wind-Down Risk Management

1.1 Risk Appetite

The Board has established certain limits on its business activities, both qualitative and quantitative, to reduce the avoidable risk presented in wind-down scenarios. These include:

Financial Limits:

- Leverage Ratio: No more than 10% of capital ensuring the company's financial stability and reducing default risks in wind-down scenarios.
- Capital Expenditure:limited to board approval to avoid overinvestment in non-essential projects, preserving liquidity for wind-down and potential liabilities.
- Credit Risk Exposure: No more than 10% of capital. Exposure to credit risk with counterparties, limiting potential losses and liabilities due to defaults or non-payment.

Operational Limits:

- Business Diversification: Determine acceptable levels of business diversification to prevent over-reliance on specific markets, reducing vulnerabilities during wind-downs.
- Dependency on Key Suppliers/Clients: Set limits on dependency or exposure to a few key suppliers or clients to minimize disruptions in case of their insolvency or exit.
- Operational Scalability: Establish operational scalability limits to avoid overexpansion that may become unwieldy to manage during a wind-down.

Risk Management Limits:

- Risk Concentration Limits: Determine thresholds for risk concentration in specific markets, products, or services to diversify and reduce vulnerabilities.
- Risk Monitoring and Reporting: Implement limits on risk exposures, requiring regular monitoring and reporting to ensure compliance and timely mitigation.

Legal and Compliance Limits:

- Regulatory Compliance: Set strict compliance limits to ensure adherence to regulatory requirements and avoid potential legal risks during a wind-down.
- Contractual Obligations: Establish limits on contractual commitments, preventing overextension and minimizing potential liabilities upon exit or closure.

Reputation and Stakeholder Limits:

- Reputational Risk: Define boundaries on activities that may pose significant reputational risks, safeguarding the company's image during and after a wind-down.
- Stakeholder Communication: Set guidelines for transparent and responsible communication with stakeholders to maintain trust and mitigate adverse reactions.

Ethical and Social Responsibility Limits:

- Ethical Standards: Define ethical boundaries, ensuring compliance with ethical standards and avoiding activities that could tarnish the company's reputation.
- Social Responsibility Commitments: Establish limits to uphold social responsibility commitments, preventing activities that could harm communities or the environment.

Contingency Planning Limits:

- Emergency Funds: Set limits on emergency funds or reserves to be maintained, ensuring sufficient liquidity for unexpected wind-down scenarios.
- Business Continuity Plans: Establish thresholds for the effectiveness of business continuity plans to ensure their readiness during a wind-down or crisis.

1.2 Threshold Conditions

Threshold conditions refers to the minimum level of financial resources that our firm needs to meet its regulatory requirements. Risk Management shall continuously monitor these and report our firm’s status against these to the Board on a periodic basis and immediately upon any breach. Our threshold conditions include the following:

1. 30% profit margin
2. Capital adequacy £75,000
3. Liquidity: Minimum £20,000 in bank account.

1.3 Wind-Down Risk Metrics and Early Warning Indicators

An analysis of the wind-down scenarios has identified various risk metrics and early warning indicators that should be monitored and managed. Risk Management shall monitor these and report to these to the Board on a periodic basis along with any supporting analysis:

Liquidity Risk Metrics:

- Cash Flow Trends: Monitoring cash flow patterns, including declining cash reserves or difficulties in meeting financial obligations.
- Working Capital Ratios: Tracking changes in working capital ratios, such as the current ratio or quick ratio, indicating short-term liquidity health.

Financial Health Indicators:

- Debt Levels: Monitoring increasing debt levels or leverage ratios beyond predetermined thresholds.
- Profitability Trends: Declining profits or sustained losses, indicating financial strain.

Operational Risk Metrics:

- Reduced Efficiency: Declining productivity metrics or increased operational inefficiencies impacting the wind-down process.
- Supply Chain Disruptions: Increased disruptions or delays in the supply chain affecting operations.

Market and Client-Related Indicators:

- Client Attrition Rates: Increased client departures or declining client retention rates.
- Market Share Erosion: Loss of market share or declining market position in key segments.

Regulatory and Compliance Indicators:

- Non-Compliance Incidents: Instances of regulatory breaches, compliance issues, or legal disputes.
- Regulatory Scrutiny: Increasing regulatory inquiries or heightened scrutiny from authorities.

Asset and Liability Risks:

- Impaired Assets: A rise in impaired assets or reduction in asset valuations.
- Exposure to Contingent Liabilities: Increased exposure to contingent liabilities or pending legal claims.

Employee and Stakeholder Indicators:

- Employee Morale: Decline in employee morale, increased turnover rates, or concerns expressed in employee feedback.
- Stakeholder Concerns: Growing concerns or dissatisfaction among stakeholders, including shareholders, clients, or suppliers.

Technology and Infrastructure Risks:

- IT System Failures: Frequent system downtimes or technological failures affecting business operations.
- Inadequate IT Support: Inability to provide adequate IT support during the wind-down process.

Reputational Risk Indicators:

- Negative Publicity: Increased negative media coverage or social media backlash affecting the company's reputation.
- Brand Perception: Declining brand perception or negative sentiment among customers and stakeholders.

Emergency Preparedness Metrics:

- Failure of Contingency Plans: Ineffectiveness or failure of contingency plans during emergency situations or unforeseen events.
- Resource Shortages: Insufficient resources or emergency funds available for managing unexpected wind-down challenges.

1.4 Potential Recovery Options

When a wind-down scenario occurs, it may be possible to recover depending on the severity of the scenario and the availability of options. A summary of our potential recovery options include:

Wind-Down Scenario	Potential Recovery Options
Loss of Clients	- Implement aggressive client retention strategies, offering incentives or improved services to retain existing clients. - Focus on attracting new clients through targeted marketing campaigns and diversification of service offerings.
Contingent liabilities or financial commitments coming due	- Negotiate with creditors or stakeholders to restructure debts or payment terms. - Explore refinancing options or seek additional financing to meet obligations.
Large legal claims / PI claim outside PI limits	- Engage legal experts to defend the firm, explore settlement negotiations or alternative dispute resolution strategies. Assess the possibility of raising funds or securing insurance coverage beyond existing PI limits to cover legal liabilities.
Loss of IT systems or critical teams/personnel	- Invest in rebuilding or upgrading IT systems, ensuring robust backup and recovery mechanisms. - Cross-train employees to cover critical roles, or recruit new talent to fill key positions
Exiting Offices	- Consolidate operations into remaining offices, optimizing resources and focusing on core business areas. - Explore partnership opportunities, joint ventures, or mergers to mitigate the impact of office closures and expand reach.

Making the Decision to Wind-Down

The occurrence of a wind-down scenario will usually be coupled with significant stresses placed upon the firm's resources which may include loss of key staff, demands from trade creditors, undesired media attention, obligations under contracts, etc.

Prior to making the decision to wind-down, the Board shall:

- Endeavour to progress and further develop various potential recovery options to both avoid winding-down and to minimise any harm to customers and market participants
- Appoint a board director to co-ordinate, direct and implement the wind-down process and ensure prompt dissemination of information relevant to Board decision-making
- Engage with professional and legal advisors including insolvency practitioners, investment bankers, PR/communications advisers, redundancy specialists, etc.
- Ensure that the firm is compliant with basic regulatory requirements
- Ensure that the wind-down plan is up-to-date
- Engage with the regulator its wind-down situation, potential recovery options being pursued, wind-down plans and timeframes along with how continued threshold obligations are being met

Following exploration of potential recover options and consultations with advisors and regulators, the Board will make the decision to wind-down and put its wind-down plans into effect.