VWM CONSULTING LTD (VWM) Reg No SC216348
Is authorised and regulated by the Financial Conduct Authority (FCA) Ref No 401041
VWM Consulting Ltd is not a member of a group or network.
VWM Wealth is a trading name of VWM Consulting Ltd

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

Content of the ICAAP report

1. Executive Summary

The purpose of the Executive Summary is to provide an overview of VWM's ICAAP methodology and results. Please also see the firm's Business Plan for further background information.

The document's purpose is to inform the Board of the ongoing assessment of VWM's risks, how VWM intends to mitigate those risks, and how much current and future capital is necessary having considered other mitigating factors.

The VWM Board confirms that VWM has adequate capital for its size and complexity of business. VWM manages its capital to ensure that it is able to operate as a going concern and exceed any minimum externally imposed capital requirements imposed by the regulators. The capital consists of equity attributable to the equity holders comprising issued share capital, share premium account, reserves and retained earnings.

The VWM Board also confirms that all VWM's regulated entities are covered by the assessment. VWM Consulting Ltd is not a member of a group or network.

VWM enjoys a relatively strong strategic position as the firm is Chartered, operates a fee-based model and provides added value services in the form of Cash Flow Modelling and Discretionary Investment Management. The balance sheet is strong, and the firm enjoys a relatively high level of recurring income, typically in excess of 100% of expenditure and this figure has been rising. The firm enjoys a high quality (small) client bank which is profitable at current business levels. Fees are collected monthly with consequent minimal risk of client default. The main risks to the business are the loss of key clients and/or significant stock market setback.

Costs are relatively fixed, however, there is flexibility in relation to Directors' salary levels and <u>in extremis</u> in the laying-off of staff members.

The findings of the ICAAP analysis:

The amount of capital VWM considers that it should hold compared to its capital resource requirement (CRR) 'Pillar 1' calculation; (£90,000) being 25% of Operating expenses.

In addition, the firm holds £37,000 to meet potential claims and a further £25,000 to meet potential PI excesses particularly in relation to DB Transfers.

The Board considers that VWM's risk management process is adequate for the size and complexity of the business. Our external compliance consultants (The Compliance Department) will review these on an annual basis.

The Board considers that VWM has adequate resources over its planning horizon taking into account the dividend policy and the potential impact of an economic downturn.

VWM has adopted the minimum capital adequacy requirement for credit, market and operational risk – since we consider that in the event of an orderly wind-down of the business this could be completed with a low level of overhead since assets are held externally on an external Custodian(s).

To meet our duty of disclosure, the firm submits annual returns to Companies House and returns to the Regulator.

Table itemising components of the Pillar 1 (to be provided for comparison purposes) and VWM's Pillar 2 capital figures:

	Pillar 1 (optional)	**ICAAP**
	Minimum capital £	Firm's Pillar 2 capital £
Credit risk		
Market risk		
Operational risk		**61,000**
Fixed Overhead Requirement (FOR)	**90,000**	**90,000**
Pillar 1 total	**90,000**	**151,000**
Pillar 2 risk X		
Pillar 2 risk Y		
Pillar 2 risk Z		
Pillar 2 total	**90,000**	**151,000**
Adjustments (diversification if claimed etc)		
Additional capital to cover stress testing	**20,000**	**20,000**
ICAAP capital	**110,000**	**171,000**
Current total Tier 1 capital	**405,000**	**405,000**
Surplus	**295,000**	**234,000**

- it is considered that additional work is required in building a suitable model of the firm’s capital with the ability to stress test this model under various economic and operational scenario.

- The ICAAP is reviewed, challenged and approved by the VWM Board annually, in August, after the end of the firm’s financial year.

2. Background – the ICAAP Process

VWM's ICAAP has been prepared by David Thomson, Compliance Officer, with the assistance of our external compliance consultants (The Compliance Department) and our Accountant, Alistair Marr.

VWM's Board is responsible for the risk management framework, business planning and capital management.

See Appendix B for details of relevant policies, procedures and systems used by VWM to identify, manage and monitor its risks in accordance with its risk appetite.

3. Statement of risk appetite

VWM intends where possible to hold more capital than is necessary to meet minimum compliance standards. Since VWM sees this additional capital as being useful in meeting its objectives of medium-term growth. In addition, VWM is not run to maximise short term returns but has the aim of generating a longer-term capital asset. Accordingly, VWM seek to build in capital buffers in excess of minimum regulatory requirements. The firm will consider a wide range of business lines and products to profitably meet the needs of its client base.

The statement of risk appetite is reviewed annually by the VWM Board.

4. Business strategy

VWM intends to grow through organic growth rather than by acquisition.

- **New Product Lines**

  Holistic Financial Planning service based on Cashflow Forecasting was introduced with effect from 2011. This is working well with the majority of clients providing us with full information which greatly assists in determining capacity for loss and generating good client outcomes.

- **New Markets**

  Little change is anticipated to markets although our intention is to target more selectively than in the past and to avoid unprofitable areas of business. We have withdrawn from a number of unprofitable clients in the last couple of years. This has freed up time to provide better quality service to the remaining clients.

- **New Distribution Channels**

  We intend to market more to existing clients in order to gain referrals and also to a narrow group of professional connections. This is working well with enhanced levels of client satisfaction.

- **Mergers and Acquisitions**

  We do <u>not</u> see the potential for mergers and acquisitions as an avenue for VWM to grow relatively quickly.

Specific details on VWM's business plan is provided by way of Appendix A.

5. Material risks

- **Material risks identified by VWM**

  See Appendix B. The main area of risk for VWM is Credit Risk. This comprises counterparty risk (Custodian) and advisory fees.

  Regarding the Custodian, Pershing, the risk is that the counterparty is not able to pay amounts in full when they fall due. Comfort is provided in that this is a subsidiary of BNY Mellon and as a large UK custodian will receive a high level of monitoring from the FCA.

- **Credit Risk**

  Regarding advisory fees, the risk is that a client does not pay the amount due for services provided. This risk is mitigated by the number of client fees that fall due at any one point in time. The bulk of recurring fee income is payable on a monthly basis. The risk of non-payment is also reduced by the nature of the clients as they are all typically high net worth individuals.

  VWM's revenues also include annual management charges received from clients based on a percentage of client assets under management. These charges are charged directly to the clients' portfolios and remitted via various Custodian providers and therefore the credit risk relating to this income is low (Pershing excepted – see above). We have built in a 3-month notice period into our Terms of Business to mitigate this risk.

  The risks relating to amounts due from product manufacturers as a result of legacy renewal commission streams has been managed by virtue of those clients having had their service contracts terminated in an orderly fashion. We have now turned the tap off that income stream ourselves. In doing that we have given those clients access to new advisers via IFA search engines (such as Unbiased).

- **Interest Rate Risk**

  Currently VWM does not have any borrowings.

  If borrowings were required, we would endeavour to mitigate the interest rate risk by utilising a cap facility.

- **Liquidity Risk**

  VWM manages all cash to ensure that VWM has sufficient liquid resources to meet the continued operating needs of the business.

  Funds are maintained in call cash accounts rather than notice accounts. Investments that may fluctuate with markets (such as equity investments) are NOT held.

  The liquidity risks of major debtors (Custodians and life companies) are assessed and payment terms minimised as far as possible – to improve cash flow and minimise liquidity risks. We have reduced the time taken for Pershing to pay fees to VWM.

Cash balances are maintained by the (mainly) state owned Royal Bank of Scotland and are monitored on a daily basis to ensure intra-day liquidity and cash flow projections are undertaken to monitor the future effect on liquidity.

VWM does not lend and therefore does not accept collateral.

Company bank accounts are checked daily.

Ultimate client liquidity is relatively good as clients have resources to pay fees, however, contracts can be terminated at short notice. (90 days).

- **Market Risk**

  VWM is indirectly subject to market risk as a significant element of income is dependent on the value of client funds under management. The risk is mitigated by the asset allocation strategy adopted which ensures that clients have well diversified portfolios with exposure to any one asset class limited. Funds are normally invested in daily traded funds.

- **Operational Risk**

  VWM is dependent on a number of key individuals. The loss of these individuals would have a detrimental effect on the business.

  VWM is dependent on outsourced custodian administration. Multiple custodians are used so that VWM staff are familiar with them and assets could be transferred at relatively short notice.

  VWM require to ensure that all of their staff (particularly Advisers) are competent and hold Statements of Professional Standing. The firm operates a Training &Competence regime to ensure that all advisers remain competent.

  The VWM Board confirms that these risks are within VWM's risk appetite.

- **Professional Indemnity Insurance**

  It is key that VWM maintains adequate PI cover. This is set at £2m per claim which the Board believes will cover any eventuality.

  The excess on the policy is £10,000 (£25,000 for Defined Benefit Pension Transfers Post 1 April 2019) and VWM has sufficient capital resources to meet these excesses.

  VWM consider that the insurer (Liberty Mutual) is a good credit risk (A) from Moodys, with a good payment history and has sufficient liquidity to survive the period between submitting a claim and it being settled.

- **Advice risk**

  This is limited to £10,000 per claim, (£25,000 for Defined Benefit Pension Transfers Post 1 April 2019) the balance being underwritten by our PI insurers. We have further lines of defence as follows:

  - We have strong procedures around the key elements of advice including data gathering, risk profiling, investment management, and recommendations.

- These processes and advice are reviewed independently at least once a year.

6. Capital planning and Stress and scenario tests

VWM undertakes projections of its capital resources and capital requirements. These projections may include a forward projection of 3 to 5 years (or a shorter time period if more appropriate) and are consistent with VWM's business plan.

This initial projection forms the 'base case' for the capital planning analysis.

This information provides an indication of the level of capital planning, management and cashflow analysis.

Using the base case as a starting point VWM use stress tests to consider how it would perform under stressed conditions. VWM has selected tests that meet the FCA's definition of a severe recession or relevant business downturn / event, i.e. of a severity that occurs once in a 25-year period. VWM provides an indication of how it would manage its business and capital alongside meeting its minimum regulatory requirements, VWM's total capital held cannot be less than the minimum Pillar I figure. Where mitigating actions are relied upon, the results of the stress tests should be provided on both gross and net of controls and credible manageable actions.

Management actions following the stress and scenario tests should be articulated and the following should be considered:

o quantitative impact of management actions;
o sensitivity analysis / testing of management actions; and
o justifications for why these mitigating actions are realistic.

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VWM considers the impact of economic factors on its ability to meet its liabilities as they fall due. We consider:

(1) the effect of a market downturn affecting both transaction volumes and the market values of assets in its funds; in assessing the impact of such a scenario and consider the extent to which VWM can remain profitable (for example, by rapidly scaling down our activities and reducing our costs);

(2) the impact on current levels of capital if VWM plans to undertake a significant restructuring; and

(3) the impact on current levels of capital if VWM plans to enter a new market or launch a new product; we assess the amount of capital we need to hold, when operating for the first time in a market in which we lack expertise.

7. Challenge and adoption of the ICAAP

The ICAAP has been prepared by David Thomson, Compliance Officer. Our Compliance Consultants have provided guidance on the risks faced by VWM and mitigating actions which can be taken to reduce those risks. Our Accountants have provided financial input to the ICAAP. No economic scenario modelling has been used.

The ICAAP report has been reviewed and challenged by the VWM Board who will be responsible for its maintenance going forward.

It is our intention to utilise the ICAAP when reviewing strategy, introducing new services, and in connection with our pricing of services.

In conjunction with the Firm's Accountant, VWM intend to build a model which would stress test our capital adequacy under various scenarios.

Wind down of Company

Because of the extensive use VWM makes of custodians the Directors consider that the wind-down of the company and the transfer of business to an alternative firm would be relatively straightforward. Accordingly, the directors now consider that full wind-down could be achieved within 3 months (previously 6 months) and that maximum capital resources to achieve this would be in the region of £100,000.

David Thomson	Lisa Johnstone
Compliance Officer	CEO
1st Jan 2019	1st Jan 2019

Last Reviewed
1st Jan 2019

APPENDIX A

VWM Consulting Ltd (VWM Wealth is a trading name of VWM Consulting Ltd)
Business Plan

Executive Summary

Description of Business

VWM Consulting Ltd was formed in 2005 from the merger of Anderson Welsh with Craighall Investments. Currently VWM Consulting Ltd (VWM) have around £150m under management held by existing clients. The firm comprises 3 full time and 1 part time advisers including 1 investment manager supported by 3 full time administrative staff. A number of functions (Compliance, Accounting, Human Resource Consultancy, and IT) are outsourced.

The longer-term aim is to build sustainable value in the business through funds under management and recurring fees together with a reputation for financial planning and wealth management excellence.

The firm enjoys a rare combination of discretionary investment management coupled with a high-quality bespoke service which competitors would find hard to match.

Service Summary

VWM Consulting are personal investment planning advisers we do not focus on the corporate market. We also provide discretionary investment management of client portfolios. Our target market is clients with £1,000,000 or more to invest, can grow to this level prior to retirement or where they have the potential to generate a minimum of £10,000 income initially.

Advice on sophisticated tax planning initiatives at one extreme and mortgage planning at the other are currently outsourced to associates.

Business Strategy

The basic business aim is to build a sustainable business where recurring fee income broadly meets annual running expenses providing a solid foundation for sustainable, saleable value. Ancillary to this objective is a strategy to ensure that the business remains attractive to potential purchasers in terms of quality of business. To this end the business intends to operate on a fully fee rather than commission basis. In addition, consideration is given to succession planning and professionalising the business to help ensure that it remains attractive to potential purchasers and is not overly dependent on the existing team of Directors.

Fees

The Sandler report and the FCA are steering IFAs and wealth managers to fee based advice and professional ongoing asset management. In turn this is producing a relationship driven rather than transactional business model.

Using asset allocation comparison techniques to persuade clients to “convert” their existing assets significantly larger sums may be generated since here the whole of client’s portfolio is targeted rather than just new monies or the weak funds that obviously required attention. In turn the client receives an asset allocation tailored to their risk profile and ongoing active investment management. In addition, the clients invariably receive greater diversification portfolio and risk reduction. In short a “win-win” scenario. This is also an excellent model for taking on the business of retiring IFAs or Consultants able to bring a client bank.

In addition, VWM continue to receive commission income for certain forms of business – particularly protection insurance.

Financial Summary

Fees and Income - VWM Wealth Fee Schedule

At VWM Wealth we are paid by a fee. Whether you buy a product or not, you will pay us a fee for our advice and services. If it is possible for us to receive a commission from the product provider when you buy a product, we will pass on the full value of that commission to you in one or more ways. For example, we could reduce our fee, reduce your product charges, increase your investment amount or refund the commission to you.

Financial Strategy Report Fee

This is a flat fee agreed at outset with you at the time of our appointment. It entitles you to ownership of the Strategy and covers the cost of VWM’s Intellectual Property which is our expertise and experience.

Our fee will be based upon the complexity of your affairs; the value we add; the time we spend and the regulatory risk we assume in dealing with your affairs. Our fees typically range between £5,000 and £15,000. The actual cost for provision of this service will be confirmed in our Financial Strategy Report Fee Agreement.

Implementation Fee

This fee covers the cost of implementation of your Financial Strategy by our team and the professional responsibility we incur for this advice.

Our fee for this service is normally a fixed fee agreed prior to implementation work commencing.

Ongoing Service Fee

This fee covers the ongoing review and monitoring service, key components are illustrated in our VWM Process and Fee Guide.

Our tiered charging structure is detailed in the table below:

Investment Amount	Ongoing Service Fee
£0 - £750,000*	1.25%
£750,001 - £2,000,000	1.00%
£2,000,001 - £5,000,000	0.75%
£5,000,001 +	0.50%

*Minimum initial investment amount £1,000,000

Other:

For additional services not covered under the above fees an hourly rate may apply as follows:

<u>Hourly Rate</u>	
Financial Planner	£225 per hour
Investment Manager	£225 per hour
Para-planner	£120 per hour
Administrator	£60 per hour

We will agree the rate we will charge before beginning work.

VWM Wealth is not currently registered for VAT. Some of our fees may be subject to VAT in the future and we will advise you of this accordingly.

We will provide an estimate of how much in total we might charge and will not exceed any such estimate without first checking with you.

If you subscribe to our discretionary fund management service a separate agreement outlining the details and cost of the service must be agreed and signed.

APPENDIX B – Material Risks Identified by VWM Consulting

Introduction

This programme attempts to identify those areas where our ability to:

- comply with the requirements of our regulator, the FCA and
- provide our clients with the highest level of professional advice and service may be adversely affected by events. It then goes on to outline procedures for minimising the possibility of those events occurring and/or the detrimental effects that they may cause.

As part of the analysis of the event, they have been prioritised in the following way:

Priority 1 indicates that the particular risk area is unlikely to occur and/or the event would not be unexpected.

Priority 2 indicates that the risk management control is straightforward, does not require constant monitoring, and the consequences of failure are not serious e.g. Maintaining contact with employment agencies.

Priority 3 indicates that failure in the risk area could result in a breach of FCA rules e.g. failure to follow guidance when carrying out a regulatory review.

Priority 4 indicates that the quality of advice could suffer as a result of a failing in the risk area e.g. business not being written in a compliant manner. In respect of those events that have been categorised as 3 or 4, a detailed procedure has been circulated to all staff.

This Manual will be kept under constant review, and as time passes it will be amended to reflect changing circumstances. This report describes how VWM Consulting Limited are addressing the risk that their customer data may be lost or stolen and then used to commit fraud or other financial crime. We have examined the threat of data theft by criminals seeking to infiltrate our systems by hi-tech means such as 'hacking' into computer systems and found that using password and encryption for any server access offers a satisfactory level of security.

The FCA defines our responsibilities in this area in the Principles for Businesses. Principle 2 requires that 'a firm must conduct its business with due skill, care and diligence' and Principle 3 that 'a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems'. We believe that we have done so. In line with these principles, our senior management are responsible for making an appropriate assessment of the financial crime risks associated with our customer data. Rule 3.2.6R in the Senior Management Arrangements, Systems and Controls sourcebook (SYSC) requires us to 'take reasonable care to establish and maintain effective systems and controls for compliance with applicable requirements and standards under the regulatory system and for countering the risk that we might be used to further financial crime'. This is the minimum standard to meet the requirements of the regulatory system.

Our risk monitoring programme is integrated with our Anti Money Laundering procedures and our pre-sales documentation.

Heat Map of ICAAP Events – Impact – Probability – Mitigation