tanager
Wealth Management

Tanager Wealth Management LLP
Pillar 3 Disclosures

Background

This is Tanager Wealth Management LLP's ("Tanager") Pillar 3 disclosure made in accordance with the UK Financial Conduct Authority (FCA) Prudential Sourcebook for Banks, Building Societies and Investment Firms ('BIPRU').

The European Capital Requirements Directive (CRD) created a regulatory capital framework consisting of three 'pillars' namely;

Pillar 1 – which sets out the minimum capital requirements that firms are required to meet for credit, market and operational risk;

Pillar2 – which requires firms to take a view on whether additional capital should be held against capital risks not covered by Pillar 1; and

Pillar 3 - which requires firms to publish certain details of its risks, capital and risk management process.

Disclosure Policy

The rules in BIPRU 11 provide that Tanager may omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. Where Tanager considers a disclosure to be immaterial, this will be stated in the relevant section.

Tanager is also permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine Tanager's competitive position. Information is considered to be confidential where there are obligations binding Tanager to confidentiality with its clients and counterparties.

Where Tanager has omitted information for any of the above reasons, a statement explaining this will be provided in the relevant section.

Unless stated as otherwise, all figures contained in this disclosure are based on Tanager's annual financial statements for the year ending 31/12/2019.

Frequency

These Pillar 3 Disclosures will be reviewed on an annual basis as a minimum. The disclosures will be published as soon as is practical following the finalisation of Tanager's Internal Capital Adequacy Assessment Process (ICAAP) and the publication of its annual reports.

Verification

The information contained in this disclosure has not been audited by Tanager's external auditors and does not constitute any form of financial statement.

Location

Tanager's Pillar 3 Disclosure reports are published on our website.

Scope and Application of Directive requirements

The disclosures in this document are made in respect of Tanager which provides financial and wealth planning and investment advisory intermediation and discretionary investment management services.

Tanager is a Limited Liability Partnership in the UK and is authorised and regulated by the Financial Conduct Authority as an Investment Management Firm. The Firm's activities give it the BIPRU categorisation of a "Limited Licence" and a "BIPRU €50K" firm.

The Firm is a solo regulated entity.

The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under GENPRU 2 Annex 4.

Risk management objectives and policies

Our risk management policy reflects the FCA requirement to manage a number of different categories of risk. These include: liquidity, credit, market, interest rate, business and operational risks.

Liquidity risk

The Managing Partners oversee day to day cash flow requirements whilst ensuring there are sufficient liquid resources to meet the continued operating needs of the business and sufficient reserves to maintain our capital adequacy. This is supported by a robust planning process which has the full involvement of all the Partners.

Credit risk

The sole credit risk for Tanager relates to the small portion of financial planning fees which are invoiced with the risk that a client does not pay amounts due for services provided. Tanager's revenues include quarterly investment management and advisory fees received from clients based on a percentage of assets under advice or management. The majority of these charges are made directly to client portfolios, and therefore the credit risk relating to this income is minimal.

Market risk

Market risk is the exposure to loss arising from movements in equity prices, foreign exchange rates, and interest rates. The firm's revenue and income stream may be impacted by a market downturn as this is directly linked with the performance of client assets that the firm advises and/or manages. The firm continues to recommend globally diversified, low cost investment portfolios utilising only equity, fixed income and real estate asset classes thereby reducing the risk of significant falls during market downturns. The firm is also exposed to movements in the GBP/USD exchange rate as a result of the majority of its revenue being generated in USD. Tanager has internal processes in place to manage this risk.

Interest rate risk

Tanager currently has no borrowings and an increase or decrease in interest rates will not have a material effect.

Business risk

Principal business risk arises from a reduction in fee revenue caused by a market downturn or external sources such as changes to the economic environment or one-off economic shocks. In addition, poor investment decisions resulting in poor investment performance and damage to the company's reputation could also reduce revenue. This risk is managed by the Partners who meet quarterly to discuss business performance, by carrying out ongoing market research and by having an effective product development process that can quickly respond to market change.

Operational risk

Operational risk is defined as the potential risk of financial loss or impairment to reputation resulting from inadequate or failed internal processes and systems, from the actions of people or from external events. Major sources of operational risk include: outsourcing of operations, IT security, internal and external fraud, implementation of strategic change and regulatory non-compliance as well as a high level of manual processes. We seek to minimise operational risk through a robust control framework.

Other risks

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

Pillar 1 Requirement

In accordance with GENPRU 2.1.45R (calculation of variable capital requirement for a BIPRU firm), our capital requirement has been determined as being our fixed overhead requirement and not the sum of our credit risk capital requirement and our market risk capital requirement.

The Pillar 1 capital requirement for Tanager as at year end 31st December 2019 is £144,000.

Pillar 2

Our overall approach to assessing the adequacy of our internal capital is set out in our ICAAP. The ICAAP process involves separate consideration of risks to our capital combined with stress testing using scenario analysis. The level of capital required to cover risks is a function of impact and probability. We assess impact by modelling the changes in our income and expenses caused by various potential risks over a 1 to 3-year time horizon. Probability is assessed subjectively.

In addition, we have reviewed the outputs of our risk reviews to quantify any risks identified. This has identified a number of key business risks which we have classified against the risk categories contained in GENPRU 1.2.30R and reviewed the guidance in BIPRU 2.2.61-65.

Our Pillar 2 capital requirement, which is our own assessment of the minimum amount of capital that we believe is adequate against the risks identified, has been assessed as no greater than our Pillar 1 requirement. We do in fact have significant accrued income that could eligibly be classed as Pillar 1 capital if we elected to do so, so in effect have this in reserve.

Regulatory Capital

The main features of Tanager's capital resources for regulatory purposes, as at 31st March 2020 are as follows:

Tier 1 capital (total Tier 1 capital after deductions)	£147,000
Total of tier 2 and tier 3 capital (broadly long and short term subordinated loans)	£ -
Total capital resources after deductions	£147,000

The firm holds regulatory capital in accordance with the Capital Requirements Directive. All such capital is classified as Tier 1 capital and is therefore of the highest quality and immediately available.

Remuneration Code Disclosure

The firm is subject to the BIPRU Remuneration Code. This section provides further information on our remuneration policy.

BIPRU Remuneration Code Staff

We have identified, and maintain a record of, 'BIPRU Remuneration Code Staff' – i.e. staff to whom the BIPRU Remuneration Code applies. This includes senior management and members of staff whose actions may have a material impact on a firm's risk profile. Tanager currently has nine Code Staff.

Decision Making/Remuneration Committee

Tanager is required to maintain a separate Remuneration Code Committee under CRD III.

The Partners are responsible for our remuneration policy including:

- Determining the framework and policy for remuneration and ensuring it does not encourage undue risk taking;
- Agreeing any major changes in remuneration structures;
- Reviewing the terms and conditions of any new incentive schemes and, in particular, considering the appropriate targets for any performance related remuneration schemes;
- Considering and recommending the remuneration policy for the senior employees taking into account the appropriate mix of salary and discretionary bonus.

In determining remuneration arrangements, the Partners will give due regard to best practice and any relevant legal or regulatory requirements including the BIPRU Remuneration Code as well as key risks to our business model.

<u>Link between Pay & Performance</u>

Competitive salaries form the basis of our firm's remuneration package. In addition, there is an element of variable pay for all staff which is based on the growth of the firm. Structure, balance and amounts of variable reward components may differ across the firm. Periods of negative or low growth may result in variable reward components not being awarded.

The Partners have reviewed and considered the requirements of the FCA Remuneration Code and have determined that the firm's remuneration policy is compliant with the Remuneration Code. There are various proportionality exemptions within the rules and these have been used where appropriate to do so.

The Partners
Tanager Wealth Management LLP
31st March 2020