

Pillar 3 Disclosure and Policy

Introduction

Regulatory Context

The Pillar 3 disclosure of Daiwa SB Investments (UK) Ltd. (“the Firm”) is set out below as required by the FCA’s “Prudential Sourcebook for Banks, Building Societies and Investment Firms” (BIPRU) specifically [BIPRU 11.3.3 R](#). This is a requirement which stems from the UK’s CRDIII Implementing regulations which represented the European Union’s application of the Basel Capital Accord. The Firm is no longer formally subject to CRD but remains subject to the UK’s Implementation Regulations of CRD prior to CRDIV. The regulatory aim of the disclosures is to improve market discipline.

Frequency

The Firm will be making Pillar 3 disclosures at least annually. The disclosures will be as at the Accounting Reference Date (“ARD”).

Media and Location

The disclosure is published on our website.

Verification

The information contained in this document has not been audited by the Firm’s external auditors, as this is not a requirement, and does not constitute any form of financial statement and must not be relied upon in making any judgement on the Firm.

Materiality

The Firm regards information as material in disclosures if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions. If the Firm deems a certain disclosure to be immaterial, it may be omitted from this Statement.

Confidentiality

The Firm regards information as proprietary if sharing that information with the public would undermine its competitive position. Proprietary information may include information on products or systems which, if shared with competitors, would render the Firm’s investments therein less valuable. Further, the Firm must regard information as confidential if there are obligations to customers or other counterparty relationships binding the Firm to confidentiality. In the event that any such information is omitted, we shall disclose such and explain the grounds why it has not been disclosed.

Summary

The CRD, to which the Firm remains subject as a consequence of the UK CRDIII

Daiwa SB Investments (UK) Ltd.

Implementing Regulations, has three pillars; Pillar 1 deals with minimum capital requirements; Pillar 2 deals with the Internal Capital Adequacy Assessment Process (“ICAAP”) undertaken by a firm and the Supervisory Review and Evaluation Process through which a firm and the Regulator satisfy themselves on the adequacy of capital held by a firm in relation to the risks it faces and; Pillar 3 which deals with public disclosure of risk management policies, capital resources and capital requirements.

The Firm is a MiFID Investment Management firm. It acts solely as agent, so the main protection to our customers is provided through client money and asset arrangements. The Firm’s greatest risks have been identified as business and operational risk. The Firm is required to disclose its risk management objectives and policies for each separate category of risk which include the strategies and processes to manage those risks; the structure and organisation of the relevant risk management function or other appropriate arrangement; the scope and nature of risk reporting and measurement systems; the policies for hedging and mitigating risk, and the strategies and processes for monitoring the continuing effectiveness of hedges and mitigants.

The Firm has assessed business and operational risks in its ICAAP and set out appropriate actions to manage them.

The Firm’s primary business risk is its reliance upon revenues from the performance of the existing funds under management. As such, the risk posed to the Firm relates to underperformance resulting in a decline in revenue and the possible loss of clients. This risk is mitigated by the fact that the Firm has longstanding relationships with its clients and these are expected to continue. Additionally, the Firm is supported by its parent, which is a significant investment management firm in Japan.

A number of key operations are outsourced by our clients, typically the Funds to which we provide Investment Management services, to third party providers such as administrators, reducing our exposure to operational risk. The Firm has an operational risk framework, described below, in place to mitigate operational risk. The Firm’s main exposure to credit risk is the risk that management and performance fees cannot be collected and therefore credit risk is low. The Firm holds all cash and performance fee balances with banks assigned high credit ratings.

Market Risk exposure has been assessed by the Firm and is limited to the Firm’s exposure to foreign currency exchange rate risk and hence to any assets held on the Firm’s Balance Sheet denominated in a foreign currency. The Firm’s Reporting Currency is GBP and all foreign currency assets are converted into GBP where possible on a regular basis.

Background to the Firm

Background

The Firm is incorporated in the UK and is authorised and regulated by the FCA as a MiFID Investment Management Firm. The Firm’s activities give it the BIPRU categorisation of a “BIPRU Firm”. Daiwa SB Investments (UK) Ltd. is the only entity covered by this ICAAP. The Firm is a Solo regulated entity with a Non-EEA parent.

The Firm is a BIPRU Firm without an Investment Firm Consolidation Waiver and has elected to deduct Illiquid Assets and calculates Capital Resources under [GENPRU 2 Annex 5](#).

BIPRU 11.5.1

Disclosure: Risk Management Objectives and Policies

Risk Management Objective

The Firm has a risk management objective to develop systems and controls to mitigate risk to within its risk appetite.

Governance Framework

The risk management process is overseen by the Managing Director, with the Board taking overall responsibility for this process, as well as forming its own opinion on the effectiveness of its controls. A formal update on operational matters is provided to the Board on a six monthly basis, which includes the presentation of a compliance report.

In addition, the Board decides the Firm's risk appetite or tolerance for risk and ensures that the Firm has implemented an effective, ongoing process to identify risks, to measure its potential impact and then to ensure that such risks are actively managed. Where appropriate, senior management is accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Firm.

Risk Framework

The Firm has established an internal control framework to govern its risk management process in order to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising in the business. The Firm has adopted a conservative approach to risk.

The Firm undertakes a semi-annual risk review and any risks identified are recorded in its Risk Register. The Risk Register is reviewed and approved by the Board. Appropriate action is taken where risks are identified which fall outside of the Firm's risk tolerance levels or where the need for remedial action is required in respect of identified weaknesses in the Firm's mitigating controls.

The Firm undertakes scenario analysis and stress tests on the most significant risks identified. This informs the Firm how risks are likely to behave and what, if any, impact there is likely to be to our balance sheet. Management accounts demonstrating continued adequacy of the Firm's regulatory capital are also produced on a monthly basis.

The Firm is also subject to internal audits carried out by its parent company periodically.

BIPRU 11.5.4

Disclosure: Compliance with BIPRU 3, BIPRU 4, BIPRU 7 and the Overall Pillar 2 Rule

BIPRU 3 (Credit Risk)

For its Pillar 1 regulatory capital calculation of Credit Risk, under the credit risk capital component the Firm has adopted the standardised approach ([BIPRU 3.4](#)) and the simplified method of calculating risk weights ([BIPRU 3.5](#)).

Credit Risk Calculation

Credit Risk Capital Requirement	Rule	Capital Component £000
Credit risk capital component	BIPRU 3.2	£332
Counterparty risk capital component	BIPRU 13 & 14	£0
Concentration risk capital component	BIPRU 10	£0
Total		£332

	Rule	Exposure £000	Risk Weight	Risk Weighted Exposure Amount £000
National Government Bodies	BIPRU 3.4.2	£0	0%	£0
Banks etc long-term	BIPRU 3.4.36	£0	50%	£0
Banks etc short-term	BIPRU 3.4.39	£9,787	20%	£1,957
Exposure to Corporates/Debtors	BIPRU 3.4.52	£1,803	100%	£1,803
Past due item	BIPRU 3.4.96	£0	100%	£0
Fixed assets	BIPRU 3.4.127	£29	100%	£29
Accrued Investment management fees	BIPRU 3.4.128	£0	100%	£0
Total		£11,619		£3,789
Credit Risk Capital Component	8% of risk weighted exposure (£00)			£303

BIPRU 4 (Advanced Credit Risk Approach)

The Firm does not adopt the Internal Ratings Based approach and hence this is not applicable.

BIPRU 7 (Market Risk)

The Firm has Non-Trading Book potential exposure only ([BIPRU 7.4](#), [7.5](#)).

Overall Pillar 2 Rule

The Firm has adopted the “Structured” approach to the calculation of its ICAAP Capital Resources Requirement as outlined in the Committee of European Banking Supervisors Paper, 25 January 2006.

The ICAAP assessment is reviewed by the Managing Director and amended where necessary, on an annual basis or when a material change to the business occurs. The Managing Director presents the ICAAP document to the Board of the Firm which reviews and endorses the risk management objective annually or when a material change to the business occurs at the same time as reviewing and signing off the ICAAP document.

BIPRU 11.5.8

Disclosure: Credit Risk and Dilution Risk

The Firm is primarily exposed to credit risk in respect of non-collection of investment management fees billed and cash held on deposit.

The number of credit exposures relating to the Firm's investment management clients is limited. Management fees are earned quarterly and paid promptly such that the Firm considers that there is little risk of default by its clients. It holds all cash and performance fee balances with Banks assigned high credit ratings. Consequently risk of past due or impaired exposures is minimal.

A financial asset is past due when a counterparty has failed to make a payment when contractually due. Impairment is defined as a reduction in the recoverable amount of a fixed asset or goodwill below its carrying amount.

BIPRU 11.5.12

Disclosure: Market Risk

The Firm has Non Trading Book potential exposure in respect of its accounts receivable and cash balances held in currencies other than Sterling under ([BIPRU 7.4](#) & [7.5](#)).

The Firm has a strategy to mitigate the risk of currency fluctuations. When any foreign exchange is received it is immediately converted to Sterling before the month end. Losses arising on foreign exchange movements are monitored on a regular basis and reported to senior management via the monthly management accounts.

Market Risk Calculation

	Rule	Position	Risk Weight	PRR
		£000		£000
Interest rate positional risk requirement	BIPRU 7.2	£0	8%	£0
Equity positional risk requirement	BIPRU 7.3	£0	8%	£0
Commodity positional risk requirement	BIPRU 7.4	£0	8%	£0
Foreign currency positional risk requirement	BIPRU 7.5	£722	8%	£58
Option positional risk requirement	BIPRU 7.6	£0	8%	£0
Collective investment undertaking positional risk requirement	BIPRU 7.7	£0	32%	£0
Total		£722		£58

BIPRU 11.5.2

Disclosure: Scope of application of directive requirements

The Firm is subject to the disclosures under the UK CRDIII Implementing Regulations. However, it is not a member of a UK Consolidation Group and consequently, does not report on a consolidated basis for accounting and prudential purposes.

BIPRU 11.5.3

Disclosure: Capital Resources

The Firm is a BIPRU Investment firm without an Investment Firm Consolidation Waiver deducting Illiquid Assets under [GENPRU 2 Annex 5](#). Tier 1 Capital comprises Permanent Share Capital and Audited Reserves.

	£000
Tier 1 Capital	£9,442
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£9,442
Tier 3 Capital	£0
Deductions	£0
Total Capital	£9,442

BIPRU 11.5.5

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.6

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit Risk and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.7

This disclosure is not required as the Firm does not have a Trading Book.

BIPRU 11.5.9

This disclosure is not required as the Firm does not make Value Adjustments and Provisions for Impaired exposures that need to be disclosed under [BIPRU 11.5.8R \(9\)](#).

BIPRU 11.5.10

Disclosure: Firms calculating Risk Weighted Exposure Amounts in accordance with the Standardised Approach

This disclosure is not required as the Firm uses the Simplified method of calculating Risk Weights ([BIPRU 3.5](#)).

BIPRU 11.5.11

Disclosure: Firms calculating Risk Weighted Exposure amounts using the IRB Approach

This disclosure is not required as the Firm has not adopted the Internal Ratings Based approach to Credit and therefore is not affected by [BIPRU 11.5.4R \(3\)](#).

BIPRU 11.5.15

Disclosure: Non-Trading Book Exposures in Equities

This disclosure is not required as the Firm does not have a Non-Trading Book Exposure to Equities.

BIPRU 11.5.16

Disclosures: Exposures to Interest Rate Risk in the Non-Trading Book

Although the Firm has substantial cash balances on its Balance Sheet, there is currently no significant exposure to Interest Rate fluctuations.

BIPRU 11.5.17 Disclosures: Securitisation

This disclosure is not required as the Firm does not Securitise its assets.

BIPRU 11.5.18

Disclosure: Remuneration

The Firm is a Remuneration Code Proportionality Level 3 firm and has applied the rules appropriate to its Proportionality level. The Board is responsible for the Firm's remuneration policy. All variable remuneration is adjusted in line with capital and liquidity requirements.

**Remuneration Code Staff Remuneration by Business Area
(BIPRU 11.5.18(6))**

Business Area	Total Remuneration
	£000
Investment Management	£622

**Aggregate Quantitative Remuneration by Senior Management and other
Remuneration Code Staff (BIPRU 11.5.18(7))**

Type of Remuneration Code Staff	Total Remuneration
	£000
Senior Management	£380
Other Remuneration Code Staff	£242
Totals	<u>£622</u>

31 March 2019