

# **Pillar 3 Disclosures 2009**

## **PSigma Investment Management Limited**

Registered number: 478840

### **1. Overview**

#### *1.1 Background*

The original Basel Accord was agreed in 1988 by the Basel Committee on Banking Supervision. This accord, now referred to as Basel I, helped to strengthen the stability of the international financial system as a result of the higher capital ratios that it required.

The Basel II accord is a revision of the existing framework, which aims to make the framework more risk sensitive and representative of the current day risk management practices.

The accord was implemented in the European Union through the Capital Requirements Directive ("CRD"). The CRD details the standard regulatory capital framework for the financial services industry within the EU and consists of three pillars:

- Pillar 1 specifies the minimum capital requirements of firms to cover credit, market and operational risk;
- Pillar 2 requires firms to assess the need to hold additional capital to cover risks not covered under Pillar 1; and
- Pillar 3 requires a set of disclosures to be made which enable market participants to assess information on firms' capital, risk exposures and risk management procedures

The FSA holds responsibility for implementing the CRD within the United Kingdom and has set out its minimum Pillar 3 disclosure requirements in its handbook under Chapter 11 of the Prudential Sourcebook for Banks, Building Societies and Investment Companies (BIPRU 11).

The disclosure requirements in BIPRU 11 aim to compliment the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2) and aim to encourage market discipline by allowing market participants to assess the impact of key information on risk exposures and the risk assessment processes of the firm.

The following represent the PSigma Investment Management Limited ('PIM' and the 'Company') Pillar 3 disclosures in accordance with this requirement.

#### *1.2 Basis of disclosure*

This document has been prepared by PIM in line with its internal policy for Pillar 3 disclosure and the Financial Services Authority (FSA) requirements.

The effective date of these disclosures is 31 December 2009. Values are based on either the year end values or a 12 month accounting period per the PIM statutory year end accounts and management accounting reports.

#### *1.3 Frequency of disclosure*

In recognition of the scale of the Company's operations and activities, PIM has determined that its disclosures should be published annually.

Disclosures will be made on an annual basis and made available as near to the approval date of the annual accounts as possible.

#### *1.4 Location of disclosure*

Disclosures will be published on the Company's website [www.puntersouthallgroup.com](http://www.puntersouthallgroup.com) and are available in writing from the Group Risk Manager via 126 Jermyn Street, London, SW1 4UJ.

#### *1.5 Scope of disclosure*

The Company is a member of the Punter Southall Group (the 'Group'). The Group has an investment firm consolidation waiver in place under BIPRU 8.4 at the time of preparation of this document. This disclosure is on an unconsolidated basis with PIM as a 'limited license' BIPRU Euro 125k firm.

## **2. Risk management objectives and policies**

#### *2.1 Risk appetite*

Risk appetite is the amount of risk exposure, or potential adverse impact from an event that a firm is prepared to accept. The Group has developed Risk Appetite Statements and limits for its material risks through a series of facilitated workshops with the Executive and these have been formally approved by the Group Board.

PIM have undertaken a similar exercise, and its Executives have developed their own Risk Appetite Statement through a process of facilitated discussions. This statement has been formally approved by the PIM Board and is reviewed annually.

#### *2.2 Risk and Capital Management Framework*

PIM utilises the Group's comprehensive Risk & Capital Management Framework (see Diagram 1 below). This Framework is mandated by the Group Board through the Group Risk Management Policy and ensures a structured Group-wide approach to the management of risk and capital.

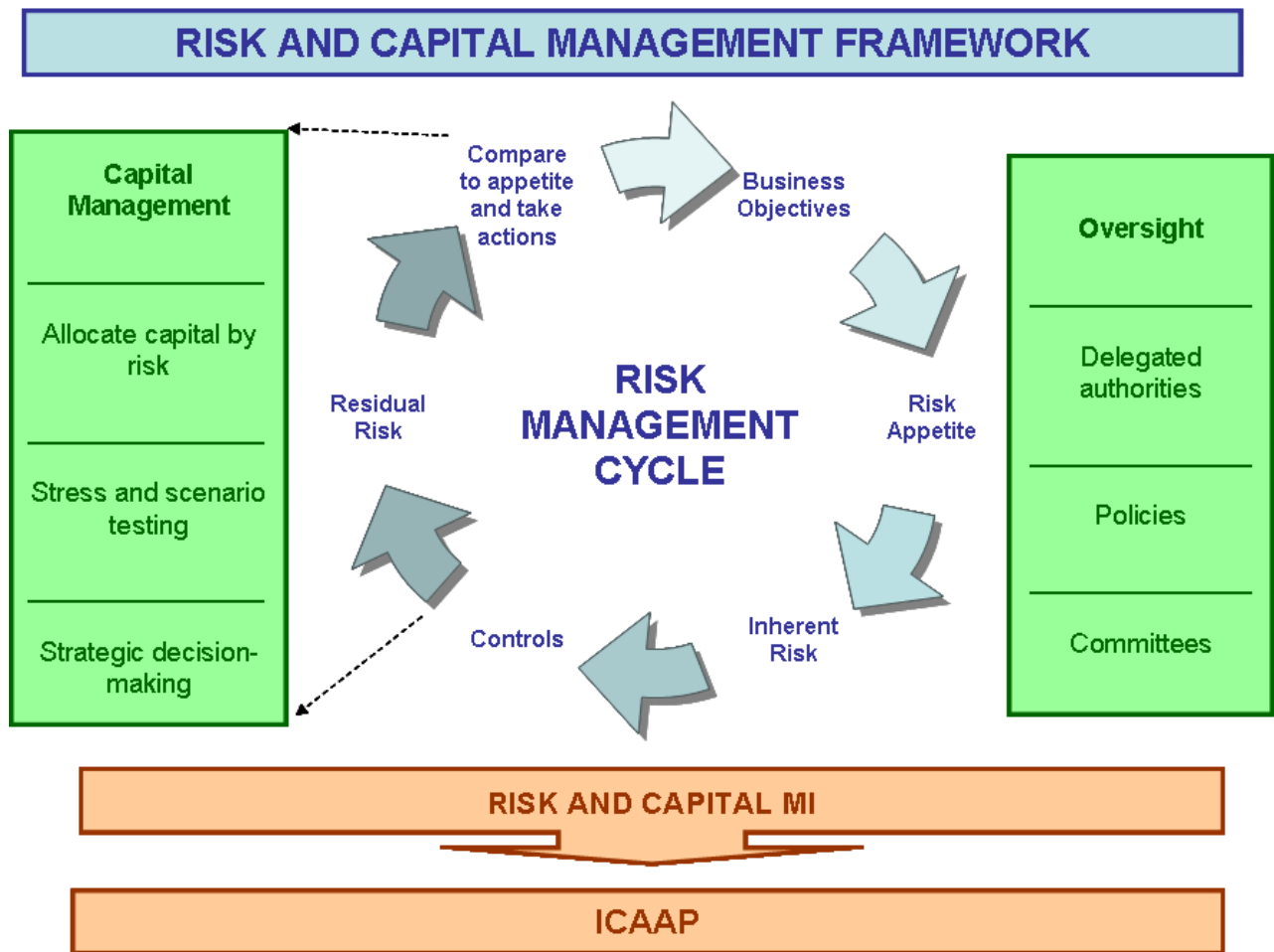
Central to the framework is the Risk Management Cycle, which forms the basis for risk management for the Group and feeds into the capital management process. The cycle is underpinned by oversight structures comprising delegated authorities, policies and governing committees. Two key outputs from the Risk and Capital Management Framework are Risk MI and the ICAAP document.

As well as capturing the structures for oversight, the Risk & Capital Management Framework sets out the processes for:

- The identification and assessment of PIM's material inherent risks against its strategic objectives, including an assessment of their impact and the likelihood of events occurring;
- A detailed explanation of PIM's risk appetite in balancing return and risk;
- The identification and assessment of controls to monitor and mitigate risks;
- Defined management responsibility for each risk and control;
- An assessment of residual risk taking into account the nature and the effectiveness of the control environment; and
- Capital assessment and management.

Diagram 1:

The diagram below sets out the practical operation of the Risk & Capital Management Framework within PIM:



The ownership of risk is at the PIM Board and management level to ensure that all risks are fully understood and controlled. The Executives of PIM are responsible for identifying risks within their business areas and ensuring that they are managed appropriately. These risks are reported on, and are subject to analysis by, the Risk Committee which ensures that any risks taken are consistent with the risk appetite and the strategy of PIM and the Group.

### 2.3 Risk Management Policy

The Risk and Capital Management Framework is governed by the Risk Management Policy. Central to this document is the articulation of risk appetite statements and limits, as well as expected key controls to ensure that these are adhered to.

PIM complies with the Group Risk Management Policy which documents the Group's risk appetite statements and limits, as well as detailing how the key controls are identified and monitored.

### 2.4 Risk Identification and Quantification

The Executives of PIM identified the risks to which the company is exposed through a series of facilitated workshops. These risks have then been cross referenced with Group Risks, the FSA risk categories listed in GENPRU 1.2.30, and industry data, to ensure completeness.

PIM participated in a further facilitated workshop to quantify the capital required (if appropriate) to mitigate each risk in a severe but plausible stress scenario considered to be similar to a 1 in 200 year

event. This required management judgement but has been informed by the following information where available:

- A review of internal loss data;
- Comparison with external loss-data (for firms of similar size and industry);
- Management Action and Mitigating Controls.

This process has established the risks to which PIM is exposed and which can be broadly categorised as Strategic, External, Operational, Financial, Customers and Group.

#### 2.5 *Risk Monitoring and Reporting*

The Executives of PIM are responsible for managing risk. On a monthly basis they review their key risks; report on the materiality of these risks; review the effectiveness of the controls in place, and highlight any risks outside of the agreed appetites.

Any risks highlighted as outside of the agreed appetites will be reported to the Group Risk Manager and will be reviewed by the Group Risk Management Committee.

### 3. Capital resources

#### 3.1 *Regulatory capital as at 31<sup>st</sup> December 2009:*

Total regulatory capital (audited)

	£'000
Permanent share capital	1,106
Share premium	26
Retained earnings	702
Deductions from tier 1 capital	-
Total tier 1	1,834
Tier 2 capital	-
Tier 3 capital	320
Total regulatory capital	2,154

Tier 1 capital represents Ordinary Share Capital, Share Premium and Retained Earnings as at 31 December 2009. There are no unusual terms attached to these items of capital.

PIM has no innovative Tier 1 capital instruments or deductions.

PIM has Tier 3 capital of £320,000 representing a subordinated loan from a group company that provides ancillary services to the group. It attracts interest of 8% per annum and is unsecured with no fixed repayment terms. It cannot be repaid without the prior consent of the Financial Services Authority.

### 4. Capital adequacy

#### 4.1 *Capital Management*

The Company's policy in respect of capital adequacy is to maintain a strong capital base so as to retain investor, creditor and market confidence. The Company's capital requirements are set out and monitored by the FSA. Regulatory capital consists mainly of Tier 1 capital.

#### 4.2 *Internal Capital Adequacy Assessment Process (ICAAP)*

The FSA set regulatory obligations under Pillar 2 of the Capital Requirements Directive (CRD) which require all firms within the scope of CRD to have an ICAAP.

**PSIGMA INVESTMENT MANAGEMENT,**

126 JERMYN STREET . LONDON . SW1Y 4UJ . TELEPHONE 020 7747 6999 . FAX 020 7747 6998

This includes requirements on PIM to:

- Carry out regular assessments of the amounts, types and distribution of financial resources, capital resources and internal capital that it considers adequate to cover the nature and level of risks to which it is or might be exposed;
- Identify the major sources of risk to its ability to meet its liabilities as they fall due;
- Conduct stress and scenario tests;
- Ensure that the processes, strategies and systems required by the overall Pillar 2 rule and used in its ICAAP, are both comprehensive and proportionate to the nature, scale and complexity of PIM's activities; and
- Document its ICAAP.

#### 4.3 *Minimum capital requirement- Pillar 1*

PIM's Pillar 1 requirement is determined by its Fixed Overhead Requirement (FOR) rather than the sum of its market and credit risk, as these values are less than the FOR.

#### 4.4 *Pillar 2 Assessment*

As required under the ICAAP process, PIM has carried out a detailed internal assessment of the risks and capital that it believes it should hold. The material risks identified included External (Equity Markets), Operational and Group.

The Pillar 2 capital requirement for PIM has been calculated using the simple summation method of 1 in 200 year assessments. The Company believes that this is prudent and presents an adequate measure of capital to support the business.

### **5 Capital Adequacy Summary**

As the Pillar 1 figure is higher than the Pillar 2 charge and as the Pillar 1 FOR encompasses the operational risk charge, it follows that no further Pillar 2 charge is required. However as the Company considers it prudent to hold a buffer in excess of the minimum Pillar 1 requirement, to cover any unforeseen occurrences, it has done so throughout the year.

**At 31<sup>st</sup> December 2009 and throughout the year PIM complied with the capital requirements that were in force and set out by the FSA.**