Newcourt Retirement Fund Managers Limited (“NRFM”)

Capital Requirements Directive – Pillar 3 Disclosure - June 2021

Scope and application of the requirements

Background

NRFM as an investment firm is subject to the European Union (EU) Capital Requirements Directive IV (‘**CRD IV’**) and Capital Requirements Regulation (‘**CRR**’). CRD IV and CRR are applicable from 1 January 2014 and repeal Directives 2006/48/EC3 and 2006/49/EC. As an EU Directive, CRD IV required national transposition, which has occurred via the European Union (Capital Requirements) Regulations 2014 (S.I. 158/2014) in Ireland. S.I. 158/2014.

The regulations are supplemented by binding technical standards (**BTSs**) developed by the European Supervisory Authorities (**ESAs**), primarily the European Banking Authority (**EBA**). Upon adoption by the European Commission, BTSs enter into force as legally binding EU regulations. The BTSs are directly effective and firms must comply with them as a matter of law.

The CRD framework consists of three ‘Pillars’:

Pillar 1 sets out the minimum capital requirements that Companies need to retain to meet their credit, market and operational risk;

Pillar 2 requires each Company and the Central Bank of Ireland to take a view on whether the Company needs to hold additional capital against firm-specific risks not covered by Pillar 1; and

Pillar 3 requires each company to develop a set of disclosures, which will allow market participants to assess key information about its underlying risks, risk management controls and capital position.

Pillar 3 disclosure requires that Companies provide certain information by way of a formal disclosure document. The disclosure in this document meets Newcourt Retirement Fund Managers Limited (“**NRFM**”) obligation with respect to Pillar 3. The rules provide that a Company may omit one or more of the required disclosures if it believes that the information is immaterial. Materiality is based on the criterion of whether the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Newcourt has not omitted any material disclosures from this document.

In addition, Newcourt may also 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 the competitive position of a Company. Information is considered to be confidential where there are obligations binding a Company to confidentiality with customers, suppliers and counterparties. Where Newcourt has omitted information for either of these two reasons it must state this in the relevant section with reasons for the omission.

Risk Management objectives and policies

NRFM's risk management policy reflects the Central Bank of Ireland's requirement that adequate financial resources and adequate systems and controls are necessary for the effective management of prudential risk. The Board of NRFM comprises of directors who have the necessary skills and experience to manage and ensure the proper controls are in place for the effective running of the Company. The Board of Directors in conjunction with the Compliance Officer is responsible for setting the Risk Management Framework (**RMF**), Risk Appetite, oversight of the Compliance Plan and Internal Capital Adequacy Assessment Process (**ICAAP**) to ensure that NRFM is able to execute its strategy within acceptable parameters. The Board usually meets on a quarterly basis.

To protect the interests of its clients, NRFM operates a strong and comprehensive control environment. This is achieved through the internal risk and control framework set out in our Procedures Manual, which provides integrated, robust governance processes. NRFM is advised on compliance and regulatory matters externally by Matheson Solicitors. In relation to corporate governance the Company is advised by Arthur Cox Solicitors. The NRFM RMF ensures the Company's risks are identified, assessed, monitored and controlled. In line with accepted Industry procedures there are three lines of defence against the mismanagement of risk. The firm does not currently have a separate Risk function due to the nature, scale and complexity of the Firm and risk is currently covered by Compliance. The Head of Compliance reports to the Board on a quarterly basis and on a regular basis to the Chief Executive.

A brief description of the three lines of defence within NRFM is given below.

First Line of Defence - Risk Owners

All NRFM's staff are responsible for assessing and managing their risks in line with our comprehensive Procedures Manual. We have invested in robust and sustainable processes and the recruitment and training of experienced staff. Management review the operation of their controls on a regular basis.

Second Line of Defence - Risk Oversight

Compliance forms a second line of defence against the mismanagement of risk through gaining assurance from a defined set of monitoring activities on the operation of the first line of defence. These monitoring activities are risk driven and a particular focus is to ensure compliance with regulations. The Company's Advisors help ensure these monitoring activities are periodically reviewed to ensure compliance with current market regulation.

Third Line of Defence - Risk Assurance

The third line of defence is provided by the NRFM external Auditors and compliance consultant. Control weaknesses identified by internal procedures and external audits are tracked to completion through the Board of Directors. In addition they are monitored closely by the Central Bank of Ireland, who requires confirmation from our external Auditors that any matters highlighted are rectified immediately.

Risk Documentation

The following documents form part of the Risk Management Framework:

- Risk Management Framework
- ICAAP
- Risk Register

- Stress Testing Scenarios

Statement of Risk Appetite

The risk appetite is defined as the level and type of risk which NRFM is willing to be exposed to in pursuit of its strategic aims, services and business model.

The risk appetite of NRFM is categorised as follows:-

Zero risk appetite – NRFM has no appetite for any risk exposure in this area.

Low risk appetite – NRFM has an appetite for a low level of risk exposure in this area and has controls in place to manage this risk.

Moderate risk appetite – NRFM has an appetite for a moderate level of risk exposure in this areas and has controls in place to manage this risk.

High risk appetite – NRFM does not engage in activities which incurs a high level of exposure to risk and therefore this is not applicable.

The Risk Management Framework (RFM) details the risk appetite of NRFM under all the relevant categories of risk. This risk appetite will inform the decision making of the Board and senior management of NRFM. The risk appetite under each category may be revised by the Board following notification of material changes to the internal or external environment of the Firm.

NRFM provides administration services for certain pension contracts and has a very low risk exposure in all areas of business as detailed in this document and supporting documents. The intention of the Board of Directors is to maintain this low risk exposure. Hence NRFMs risk appetite can be described as low overall.

The Firm's risk tolerance levels are low and this is illustrated in our **Risk Register,** which is monitored on an ongoing basis to ensure all appropriate risk are identified and addressed.

Capital Resources

Capital is held to ensure a suitable operating margin is maintained in excess of the higher of Pillar 1 and Pillar 2 capital requirements. Refer to Appendix 1.

Pillar 2 capital requirements are determined using a risk based approach that explicitly takes into account management's view of specific risk exposures.

Pillar 1 capital requirements are the greater of:

- Base capital requirement of €125,000; or
- The sum of the market and credit risk requirements; or
- The Fixed Overhead Requirement.

Stress tests are undertaken to determine the impact of severe events such as significant market downturns on NRFM's financial position.

There is no current or unforeseen material or practical impediments, to the prompt transfer of capital resources or repayment of liabilities within NRFM.

The approach to risk assessment and the determination of the adequacy of the Firms' internal capital to support the risks pertaining to current and future activities is contained in the Internal Capital Adequacy Assessment Process (**ICAAP**) undertaken by the Firm, which is the key requirement of the Pillar 2 requirements. This process includes an assessment of the specific risks to the business and the controls in place to mitigate those risks. Based on the assessment undertaken in the ICAAP we believe that the level of capital currently maintained in our business, as at 2018 this is €584k, under the greater of Pillar 1, Pillar 2 and FOR calculations is sufficient to present and future growth plans and adequately supports the risks faced by the Firm.

Internal Capital Adequacy Assessment Process

NRFM has adapted the PRISM (**CBI**) risk categories for the purpose of conducting its ICAAP tailored to the specific areas of risk relevant to NRFMs business model. The ICAAP is informed by the RMF and the Risk Register which provides a holistic view of risk and informs the business strategy and direction of the firm.

Market Risk

We have very limited exposure to Market Risk as we do not have any discretionary investment management functions. The Firm has very limited current or future risk to earnings or capital arising from adverse movements in bond prices, security or commodity prices or foreign exchange rates as it does not have a trading book. While this continues to be the Firms view this will be monitored on an on-going basis.

Risk Appetite: Low

Credit Risk

NRFM is not a credit institution and does not provide credit facilities on an ongoing basis to clients. Therefore we do not have significant risk in this area.

Risk Appetite: Low

Operational Risk

In relation to operational risk we understand that all Firms have risk in this area and we have implemented a number of the mitigating factors, stress testing scenarios and monitoring that we are apply to limit exposure to this risk. The areas considered under Operational risk include:-

Fraud
Tax liabilities
IT & Cyber security
Client Assets
Data Protection
Related Entity
Administrative
Regulatory
Human Resources
Building
Outsourcing

Risk Appetite: Low

Liquidity Risk & Securitisation Risk

In our opinion the Firm has limited current or prospective risk to earnings and capital in the areas of liquidity, securitisation or insurance. The nature of our business does not expose the Firm directly to any risk in these areas. Liquidity risk is a risk that the Firm does not have sufficient financial resources to meet payment obligations as they fall due. The firm's primary source of liquidity is cash generated from its operations and there is no reliance on borrowings to fund operations. The liquidity position is reviewed regularly by senior management and the Head of Finance within a framework of strong systems and controls.

Risk Appetite: Low

Pension Obligation Risk

The risk identified here is the amount of contributions paid to a pension scheme. The risk appetite is very low in this area.

Risk Appetite: Low

Concentration Risk

The nature of the Firms business does not lend itself to any significant risk exposure in this area. We do not have exposure to any clients large/small, a larger individual transaction or to a single service provided to our clients and as such we have limited exposure to any counterparty risk. In relation to the Firm's own funds we have well in excess of the capital required and even taking the standard risk for deposits, creditors etc. we have more than sufficient capital to meet our requirements. We have concluded that there is no current or prospective risk to earnings and/or capital that would impact the Firm in any significant way.

Risk Appetite: Low

Reputational Risk

The Firm operates in a niche market and any possible income risk due to adverse publicity is limited as we operate mainly through registered investment advisors. In addition as the number of clients grows the dependency on any one client or group of clients introduced through an Intermediary decreases.

Risk Appetite: Low

Legal Risk

The risk of being subject to litigation. This risk is considered low.

Risk Appetite: Low

Business/Strategic Risk

In the process of reviewing our Firm under the guidelines set out by the Central Bank of Ireland we have assessed the Firms activities under a number of headings and are satisfied that an "overall business risk" would only pose a small current or prospective risk to earnings and capital.

Risk Appetite: Low

Interest Rate Risk

There is no current or prospective risk to earnings and capital of the Firm from the adverse movement of interest rates.

Risk Appetite: Low

Performance Risk (Portfolio Managers)

This is not applicable to our business model. We do not provide any discretionary investment management services to our clients. We only provide administration services to our clients and thus the above risk sub category would not apply to our Firm.

Risk Appetite: Low

Residual Risk

Residual risk is the risk that *credit risk mitigation* techniques used by the *firm* prove less effective than expected. As we have no significant exposure in this area residual risk is limited.

Risk Appetite: Low

Insurance Risk

The Firm has reviewed its Insurance Cover and it remains adequate for the business and therefore risk is limited in this area.

Risk Appetite: Low

Remuneration Policy

The firm applies proportionality in line with guidelines on remuneration as per our obligations under CRD IV, and is in compliance with the obligation to limit variable remuneration to 100/200% of fixed remuneration. The Firm's remuneration policy is designed to attract, promote, retain and, reward employees, commiserate to their role, who contribute to the success of the business whilst maintaining a strong capital base and risk management framework. Remuneration is made up of basic salary, variable compensation (cash, equity (deferred stock awards) and benefits (pension, life cover).

The remuneration policy of the Firm is in the main salary related with no commission payable. Basic salary compensation is generally based upon individual expertise, market rates and internal levels of responsibility. Any bonuses payable are performance related and are subject to Board approval. Performance related payments are subject to malus or clawback and deferred payment. Unless an employee contract states differently, the payment and amount of any variable compensation is at the complete discretion of the Firm and there is no obligation to pay an employee any variable remuneration. Variable remuneration will be based on individual performance against objectives and expectations, the overall firm financial results and performance. It will be paid in cash and / or equity as applicable.

Quantitative Disclosures

Disclosure under Article 450 of the Regulation is made in recognition of the EU Data Protection Directive where specific disclosures relate to a group of 5 individuals or less this has not been presented to minimise the risk of individual identification that could breach the GDPR obligations. 27% of total remuneration represents fixed remuneration of executive staff. The ratio of fixed to variable remuneration for the period 2018 was approximately 1:0.57.

Gerard Keane
Managing Director