

## Taylor Patterson Group – Pillar 3 Disclosures (July 2011)

---

The Capital Requirements Directive created a revised regulatory capital framework across Europe governing how much capital financial services firms must retain. In the UK, this is being implemented by the Financial Services Authority (FSA) and is based on the provisions of the Basel II Capital Accord. The framework consists of 3 pillars, being:

- Pillar 1 – this sets out the minimum capital requirements a firm will be required to meet for credit, market and operational risk.
- Pillar 2 – a firm is then required to determine whether or not it should hold capital in excess of Pillar 1, from a review of its own specific risk within the firm.
- Pillar 3 – this aims to improve market discipline by requiring firms to publish certain details of the capital adequacy and risk management. These disclosures below are an assessment of its capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP).

The disclosure below confirms that Taylor Patterson has sufficient capital resources to comply with the capital requirements as set out by the FSA. Additionally, it shows how Taylor Patterson identifies and assesses the risks facing the business and the approach taken to manage those risks.

### Basis of Disclosure

This document has been prepared by Taylor Patterson in line with its ICAAP and FSA requirements.

Disclosures will be made on an annual basis, once approved by the board of directors.

Taylor Patterson Group Limited has two subsidiaries which are both classified under the Capital Requirements Directive as limited licence firms. The disclosures below are shown for both companies, Taylor Patterson Financial Planning Limited and Taylor Patterson Associates Limited.

The board of directors of Taylor Patterson Group believes the management of risk within the business is best achieved via the board of directors. The board records all material risks on a risk register for each subsidiary, indicating the likelihood and impact of each risk. The Compliance Officer, who attends all board meetings, is responsible for maintaining the risk register.

### Pillar 1 Requirement

The Pillar 1 requirement is the higher of the Base Capital Requirement and the Fixed Overhead Requirement (FOR). The FOR is one quarter of the relevant firm's fixed expenditure. The table below shows the Pillar 1 requirements:

As at 31 <sup>st</sup> July 2011 £'000's	Taylor Patterson Associates Limited	Taylor Patterson Financial Planning Limited
Base Capital Requirement	£110 *	£44 *
Fixed Overhead Requirement	£217	£148
<b>Pillar 1 Requirement</b>	<b>£217</b>	<b>£148</b>

\* The Base Capital Requirement is 125,000/50,000 euros respectively. The figures above are based on the exchange rate as at 31<sup>st</sup> July 2011.

The FSA categorise capital into 3 tiers, however, both subsidiaries only have tier 1 capital, which comprises the following:

As at 31 <sup>st</sup> July 2011 £'000's	Taylor Patterson Associates Limited	Taylor Patterson Financial Planning Limited
Share Capital	£50	£50
Profit and Loss account (audited reserves)	£610	£216
Less illiquid assets	(£14)	£-
<b>Tier 1 Capital</b>	<b>£646</b>	<b>£266</b>
Pillar 1 Requirement (above)	£217	£148
<b>Surplus Capital</b>	<b>£429</b>	<b>£118</b>

### Types of Risk

The types of risk faced by Taylor Patterson are shown below.

**Operational risk** is defined as the potential for financial and reputational loss arising from failures in internal controls, operational processes or the systems that support them. It includes errors, omissions, disasters and deliberate acts, such as fraud.

The board of directors are responsible for the implementation of controls within the business in order to create a low risk environment. Regular reporting is carried out and a regular assessment of risks. The assessment of the firm's operational risks is recorded in the risk register, which is approved by the board. As part of the assessment of operational risk the board will assess if any remuneration policy could impact negatively, in particular by promoting short term behaviours that are not in line with the firm or the client's best interests. No bonus scheme in the group is income related and all advisor related bonus schemes have a significant adjustment factor to reflect an assessment of best advice. The board believe all bonus schemes promote behaviours that are in the best interests of client's and the group. A copy of Taylor Patterson's Remuneration Policy Statement is available on request on 01772 555073 or by email – [mail@taypat.co.uk](mailto:mail@taypat.co.uk)

The board have assessed the operational risk as being £180,000 for Taylor Patterson Associates Limited and £76,000 for Taylor Patterson Financial Planning Limited.

**Market risk** is the risk from changes in market conditions that may result in a negative impact on the firm's profitability. As Taylor Patterson does not invest on its own account (i.e. it does not invest the firms' assets) they are not directly exposed to many market risks. However, the group would suffer a decline in recurring income if the funds under management fell in value.

The board have assessed the market risk as being £20,000 for Taylor Patterson Associates Limited and £5,000 for Taylor Patterson Financial Planning Limited.

**Credit risk** is the risk of financial loss if a client or counterparty fails to meet its obligation under a contract. As the firm does not trade on its own account, the counterparty risk is very low, which only leaves the risk of clients not paying our fees or major providers becoming insolvent. Additionally, if a counterparty that we have recommended is unable to meet its obligations we may be exposed to claims made against us by clients. This risk would, however, only likely materialise in the event of a simultaneous economic downturn and failure in our systems and controls.

The board have assessed the credit risk as being £2,000 for Taylor Patterson Associates Limited and £12,000 for Taylor Patterson Financial Planning Limited.

In summary the Pillar 2 requirement is as follows:

<b>As at 31<sup>st</sup> July 2011 £'000's</b>	<b>Taylor Patterson Associates Limited</b>	<b>Taylor Patterson Financial Planning Limited</b>
Operational Risk	£180	£76
Market Risk	£20	£5
Credit Risk	£2	£12
<b>Pillar 2 requirement</b>	<b>£202</b>	<b>£93</b>
Pillar 1 requirement (above)	£217	£148
<b>Capital required in excess of Pillar 1</b>	<b>£-</b>	<b>£-</b>

## Conclusion

The disclosures above demonstrate that the Taylor Patterson Group currently meets the minimum capital requirements and has surplus capital available.