Midmar Capital

Midmar Capital LLP

Pillar 3 Disclosure

Period of Pillar 3 Disclosure: October 2019 to March 2020

Midmar Capital

Contents

1 Executive Summary 3
2 Background – the ICAAP process 5
3 Statement of Risk Appetite 11
4 Material Risks 14
5 Capital Planning and Stress Testing 16
6 Remuneration 21

1 Executive Summary

1.1 As a firm authorised under the Markets and Financial Instruments Directives ('MIFID I and II'), Midmar Capital LLP ('the Firm' or 'Midmar') is a BIPRU-categorised 'Limited Licence' firm established in February 2010. The firm received FCA authorisation on 28 July 2010. It is a common platform firm as it is covered by both MiFID and the Capital Requirements Directive ('CRD') systems and controls.

1.2 The Firm is a solo regulated entity. The Firm is covered by the Internal Capital Adequacy Assessment Process ("ICAAP"). The Firm has adequate capital for its size and the complexity of its business based on current minimum capital requirement in the ICAAP period (Base Case Requirement) of €50,000.

1.3 This Pillar 3 disclosure is based on the firm's ICAAP at any given time, with this covering the period October 2019 to March 2020. This is a shorter period than normal as the firm has decided to align its ICAAP process to co-incide in the future with its full rather than half financial year and therefore using figures for financial year end 31/3 and formally approved once audited accounts are available. The data upon which it is based is drawn from the budgets prepared by Kevin Gallacher, partner allocated responsibility for LLP Finance, on a regular basis for internal management purposes. Thereafter, the period will be covering 1 April to 31 March in any given financial year.

1.4 The ICAAP analysis' findings are that the Firm currently:

- holds more capital than its Capital Resources Requirement ("CRR") Pillar1calculation;
- has a Risk Management Framework that is discussed in Section 2;
- has a Risk Appetite Statement as detailed in Section 3 of this document; and
- should have adequate resources over the next three years taking into account the potential impact of a severe economic downturn.

1.5 The Firm has adopted the following approach to its Pillar 1 capital calculation (see Appendix 1):

- Credit Risk - the "Standardised Approach" (BIPRU 3.4), "Simplified Method" (BIPRU 3.5)
- Market Risk – "Non Trading Book" only (BIPRU 7.4, 7.5)
- Fixed Overhead Requirement ('FOR') (GENPRU 2.1.53)

Pillar 1 or Capital Resources Requirement (CRR) is the higher of base capital or (credit risk + market risk) or FOR.

1.6 The Firm has previously adopted the "Structured" approach to the calculation of its Pillar 2 capital requirement as part of the Capital Requirements Directive ("CRD') requirements. This reflects that the higher of Pillar 1 and/or Pillar 2 combined is the ICAAP capital requirement. It has assessed Business Risks by modelling the effect on its capital planning forecasts and assessed Operational Risk by considering if Pillar 2 capital is required taking into account the adequacy of its mitigation.

	Pillar 1 (31/3/20)	Pillar 2
Base Capital Requirement	£44k (Equiv. of 50,000 Euro at review date)	
Credit Risk	£5k	
Market Risk	£0	
FOR	£53k	
Pillar 1 or CRR	£53k	
Pillar 2 Credit Risk		£0
Pillar 2 Market Risk		£0
Pillar 2 Operational Risk		£0
Pillar 2 Business Risk		£0
Pillar 2 Liquidity Risk		£0

Midmar Capital

	Pillar 1 (31/3/20)	Pillar 2
Pillar 2 Other Risk		£0
Pillar 2 Wind-down calculation		£37.5k (Assessment in paragraph 5.5)
Pillar 2 Total		£0
ICAAP Capital Requirement	£53k	£n/a
Current Regulatory Capital ('CRC')	£75k	n/a
Surplus	£22k	n/a

1.7 The ICAAP review is formally instigated by the Compliance Officer each year, and is now primarily based on the firm's GABRIEL returns submitted in mid May and draft management accounts, both as at 31 March. The process is normally concluded once audited accounts have been confirmed by the end of July. Where there is a discrepancy between the management accounts and the audited accounts, the most conservative position on capital and FOR may be adopted for the ICAAP otherwise the audited accounts will be the default. Following this, this is then approved by the Partners. Otherwise it is monitored informally by the Compliance Officer during any review period to determine whether any mid year changes are required if there are any major changes to perceived risks or its business model. No such formal changes have occurred during this review period and so no such interim updates have been necessary during the period.

1.8 During this Pillar 3 period, the FCA has continued to give guidance on its expectations on Investment Principals and Appointed Representatives. This focused on systems and controls in relation to a Principal's oversight of its ARs which also included prudential supervision. The Firm has taken this into account when preparing both its ICAAP and Pillar 3 disclosure.

Covid-19

Prior to the end of the review period, there has been a pandemic declared by the World Health Organisation on 11 March 2020 relating to the global impact of the "2019 novel Coronavirus" (which causes the disease Covid-19). Apart from the major humanitarian impact of the virus, causing increased death rates throughout many countries in the world, economic impacts have also been felt throughout global markets including the UK. This has created major volatility in investment markets, although as the firm manages private equity funds, due to their long term nature compared to investing in listed securities, redemptions from funds has been less of a risk. The firm however has also had to implement business continuity arrangements for staff to minimise the risk of spread of infection.

Pandemic risk is included in the firm's register. However given that the majority of impact globally has been experienced outside this review period, a full review of the impact and outcome in financial year ending March 2021 will be included in the next Pillar 3 review.

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2 Background – the ICAAP process

Overview

2.1 The Firm is a BIRPU Investment Firm. It acts solely as an agent (investment adviser or manager) and does not deal on its own account or operating a trading book. The Firm seeks to mitigate risk by implementing sound systems and controls and corporate governance arrangements.

2.2 The Firm has grouped the major risk categories in the overall Pillar 2 rule (GENPRU 1.2.30R) into six separate groups that are relevant to its type of firm i.e. Credit, Market, Operational, Business, Liquidity and Other Risk. In the case of Other Risks; Insurance Risk, Interest Rate Risk and Pension Obligation Risk have been grouped together as they are considered to have little or no impact. The greatest risks are considered to be Business Risks (including such issues as claims and reputation) and Operational Risk, including such things as errors and business continuity.

2.3 For Business Risk, the Firm has considered scenarios which may have a detrimental impact on the business and also customers and subjected them to analysis and a stress test, primarily based on a drop of income. The results inform the Firm on its capital planning forecasts and proposed management actions to ensure that the Firm holds, at all times, adequate Regulatory Capital. The existing financial planning process has been integrated into the ICAAP to develop forward looking financial forecasts.

2.4 For Operational Risk, the Firm has assessed if Pillar 2 capital is required taking into account its mitigation. Certain key operations are outsourced by clients to third party providers such as administrators reducing the direct exposure to Operational Risk. Due to the firm's categorisation, it is not formally covered by the mandatory rules on operational risk but has considered this in the wider sense of risk due to operational failures.

Regulatory Status and Business Model

2.5 The Firm is authorised and regulated by the FCA as a BIPRU Investment Firm. The Firm's activities means that it is within scope of MiFID and it has the categorisation of a BIPRU Limited Licence €50k Firm. The Firm is a solo regulated entity as determined by BIPRU 8 Annex1. The Firm is the only entity covered by this Pillar 3 disclosure and there are no group considerations to factor in. The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver and deducts Material Holdings under (GENPRU 2 Annex 4). Since July 2013, it is also authorised to act as a small (sub-threshold) Alternative Investment Fund Manager under the Alternative Investment Fund Managers Directive ('AIFMD') implemented in the UK in 2013. However this permission does not change or impact on its current prudential supervision status. The firm is a 'common platform' firm which means a firm covered by both MiFID and the Capital Requirements Directive ('CRD'). It is the CRD that 'drives' the firm's capital adequacy requirements based on its scope of permission under MiFID.

2.6 Midmar was set up as a Limited Liability Partnership by Kevin Gallacher and two other partners and was authorised as an investment management in July 2010. The business of Midmar was subsequently restructured in May 2012. Two of the original partners resigned as partners but continued until 2013 as investment advisers. The other partner, Kevin Gallacher, assumed 100% control of the business. Gillian Gallacher was appointed as a non-equity partner and also Compliance Officer in May 2012.

2.7 The firm is authorised to advise on, arrange deals in and manage a number of different designated investments. The firm also has permission to manage Alternative Investment Funds (as defined).

Midmar's current business model is to provide an incubation service for start-up investment management and investment advisory firms. It does so by appointing such entities as Appointed Representatives under SUP 12 of the FCA rule book. ARs act as investment advisors to professional clients, either as institutional investors or as collective investment vehicles.

The Firm may carry out investment management activities either directly for any segregated investment clients it may have in its own right or on behalf of any advisory appointed representatives which act as investment advisers to collective investment schemes. This may also include acting as appointed Alternative Investment Fund Manager ('AIFM') to a relevant fund or if another AIFM already exists in the investment structure, as sub-investment manager on occasions.

At present, the firm is only acting as AIFM or discretionary fund manager/sub-manager where the adviser to the fund (s) is an AR. Different fees are charged depending upon the business model and work involved. In future and to increase diversification, the firm may take on third party mandates to act as investment managers to funds where there is an investment adviser but that investment adviser is either directly authorised by the FCA itself or alternatively an appointed representative of another Principal.

By the nature of its AR client type, typical new business start ups are experienced private equity fund investors, although often the entity itself involved (and the type of investee companies involved) does not have a proven financial track record, but the founders do. However the firm's due diligence reviews on a risk assessed basis the overall business case, the financials available to the AR entity, including financial backing and the experience and capital soundness of the underlying AR investment and/or senior management team.

Midmar Capital does not take a percentage of the AR's income from its regulated activities. Instead the AR's pay a licence fee (monthly in advance) for a regular licence and also to offset compliance costs for Midmar Capital which obtains compliance support for its ARs from Gem Compliance Consulting Limited, its co-owned and governed compliance consultancy. The partners of Midmar Capital are the directors of Gem Compliance Consulting Ltd.

The fees from ARs also includes contributions to Midmar's FCA annual fees levy relating to a tariff of currently around 0.3% of AR income during the review period.

Gem Compliance is an experienced compliance consultancy and a member of the APCC, the voluntary industry association for compliance consultants. Compliance function support includes support on onboarding new ARs or approved persons, ongoing oversight and regular monitoring visits of Midmar's ARs, carried out (and paid for) on Midmar's behalf.

2.8 During the review period, Midmar has had up to 15 active appointed representatives on a rolling basis and income projections take that into account (see Appendix 1). A key risk to Midmar at present is therefore the reduction of direct income received from ARs in relation to the licence rather than a share of the income from regulated activities from each of its ARs. As the AR's activities are advisory in nature only, are institutional, and do not act as counterparties, they are not handling client money nor are they normally dealing on their own accounts or the accounts of their underlying investors, they are also considered lower risk for prudential risk to clients.

Following initial due diligence and financial and non-financial risk assessment of the AR to confirm fitness and probity, financial soundness, relevant qualifications and experience and commercial viability, Midmar takes regulatory responsibility for the regulated activities that the relevant individuals wish to carry-out in order to establish the new investment business and that has been agreed under the AR agreement. The scope of responsibility that Midmar agrees to is documented in the AR Agreement and Project Letter. Post due diligence, Midmar submits applications to firstly register the AR entity involved and then register any relevant individuals

with the FCA as Approved Persons under Midmar. Prior to application submission, these individuals are given comprehensive compliance training, including responsibilities as an AR. They are subject to Midmar compliance policies, procedures and ongoing compliance and operational monitoring and review of their activities including monthly reporting and formal annual monitoring reviews. Each approved person signs an Approved Persons agreement directly with Midmar outlining individual responsibilities.

If the regulated activity involves advising on investments or arranging deals in investments (types of business that may be carried out by an Appointed Representative as defined in SUP 12 of the FCA Handbook), the Firm will submit an application to the FCA to designate the start-up firm as an Appointed Representative of Midmar and comply with the requirements relating to Appointed Representatives set out in SUP 12 of the FCA Handbook.

If the regulated activity involves managing investments either on a segregated or pooled basis, (which is not permitted under the Appointed Representative exemption), in addition to the AR entity application being submitted to the FCA, Midmar (or another third party) may be appointed as investment manager by the client and will be the signatory to the relevant investment management agreement or contract. Any individuals carrying out regulated investment activity covered by SUP 10A.10 will be CF30 Approved Persons for Midmar working under a contract for services that gives Midmar full oversight and control over their activities.

Individual CF30's are not permitted to act as investment managers on behalf of Midmar Capital and any investment management decisions are only taken by CF30 staff directly employed by Midmar Capital (now categorised as certification function 'client dealing' under the FCA's Senior Management and Certification Regime (for solo-regulated firms). In addition, the AR's CF30 staff are only entitled to advise on behalf of their own AR and no other or Midmar Capital.

All Appointed Representatives and Approved Persons are subject to ongoing compliance and operational monitoring and review of their activities. Consequently, the number of start-up firms that we work with is monitored, deliberately limited and will always take into account the internal resources available to exercise adequate oversight at any given time.

During the period, the FCA's Senior Management and Certification Regime ('SM&CR') has been implemented. This has been implemented at Midmar Principal level however Appointed Representatives have remained on the FCA's Approved Persons regime for the time being.

Governance Framework

2.9 The LLP Members of the Firm are the LLP Management Group. It meets regularly although both partners work closely together on a day to day basis. As at the period end, the LLP Management Group is currently comprised of:

Kevin Gallacher – SMF27

Gillian Gallacher – SMF27, SMF16

Emma Jones, Compliance Manager, although not a partner, was approved as SMF17 from January 2017. The MLRO has direct access to and contributes regularly to the Management Group process but ultimately other than MLRO decisions, the decisions are taken by the Management Group. This includes compliance responsibilities of the SMF16. There has been no change in senior management roles and responsibilities during the review period other than the allocation of the prescribed responsibilities under the FCA's SM&CR regime to either of the SMF27s.

Both members of the Management Group are experienced FCA approved persons in respect of responsibilities of senior management of an FCA authorised firm. Kevin Gallacher has also previously held the CF10 and CF11 role directly on behalf of Midmar and Gillian Gallacher has been appointed as the CF11 before.

The firm also has access to the resources of additional compliance function staff via its inhouse compliance consultancy, Gem Compliance. This includes Emma Jones, (Compliance Manager) from September 2014, and Natalia Popova (Compliance Associate) from May 2016 until January 2020. During the period, it has also included junior compliance associates including Agie Mackay (from December 2018), also a part time compliance consultant, Laura Thomson from February 2019, and a new junior compliance associate of Sophie Conlon, (June 2019).

From time to time, the firm may also consider using additional resources at times of increased demand for compliance resource. This is either done on a contract basis or via permanent employment including at the role level of Junior Compliance Associate. Allocation of roles and responsibilities is documented and reviewed at least annually and/or when a new member of staff joins.

Midmar does not have any direct employee responsibilities costs or obligations. Midmar currently pays a fixed fee share to its in-house compliance consultancy, Gem Compliance, as employer and for providing resources to carry out certain AR compliance function activities on behalf of Midmar. This fee share contributes to Gem Compliance's employee costs which acts as the employer firm within the combined organisation. This is taken account of as 'direct costs' when calculating Midmar fixed operating costs for capital adequacy purposes.

2.10 The role of the Management Group is the management and oversight responsibility of the business. The Management Group of the Firm has the overall daily management and oversight responsibility. The firm also has a list of allocated responsibilities which is reviewed at least annually at the end of each financial year. The Partners aim to have documented LLP meetings at least quarterly which follows on from internal team meetings, every four to six weeks, with a standing agenda and minutes, focusing on supervision of ARs and other Midmar related compliance activities this also include monthly combined management information on a risk assessed basis. The Management Group of Midmar Capital LLP is the same management group of Gem Compliance Consulting Ltd and the organisation acts as a combined organisation.

The Risk Management Framework

2.11 The Firm's Risk Management Framework is made up of the following components: in and has adopted the following Statement of Responsibilities:

LLP Management Group

The Management Group of the Firm is responsible for the total process of risk management, as well as forming its own opinion on the effectiveness of the process. The Management Group in liaison with any other executive directors and senior management (where relevant) sets the risk strategy policies. This includes the MLRO in respect of financial crime risk.

The Management Group decides the Firm's appetite or tolerance for risk – those risks it will accept and those it will not take in the pursuit of its goals and objectives. In addition, the Management Group ensures that the Firm has implemented an effective, ongoing process to identify risk, to measure its potential impact against a broad set of assumptions and then to ensure that such risks are actively managed.

The Compliance Officer, on behalf of the Management Group will, at least annually, conduct a review of the effectiveness of the Firm's system of internal controls. The review will cover all material controls, including financial, operational and compliance controls and risk management systems.

The Management Group is collectively accountable for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the company.

The Management Group is responsible for effectively communicating the Firm's approach and commitment to establishing and maintaining an effective risk management framework and approach.

The Management Group is also responsible for ensuring that employees are adequately equipped with the right tools and knowledge to enable employees to fulfil their obligations to the risk management process.

Risk Appetite Statement

The Management Group has approved a Risk Appetite Statement as discussed in Section 3 below

Risk Identification

The Firm conducts a regular a Risk Identification exercise or update to ensure that all significant capital adequacy risks have been identified and rated. The current documentation during the period is detailed at Appendix 2. This also forms part of the firm's wider firmwide risk management process and assessment. This includes risks which the ARs or the AR regime could pose to the firm's business model. During the course of the next review period, the firm intends to expand its current risk management process and risk register to include other business and operational risks not just those which are considered could impact on capital adequacy.

The Firm has also taken into account FCA CP19/20 regarding assessing the adequacy of a firm's financial requirements when considering its prudential supervision and financial systems and controls, both in relation to the Firm's own activities and also that of its ARs.

Risk Documentation

Material Risks identified in the Risk Rating are those deemed through the Risk Scoring Methodology to represent A or B at their Gross (un-mitigated) level.

Stress Tests

The Firm identifies the most Material Risks to its business and if relevant, subjects them to scenario analyses and stress tests in order to assist in its risk management and capital planning. This primarily focuses on the loss of income to the Firm should an AR cease, either due to direct authorisation, move to another Principal or lack of AR viability going forward. Other Material Risks are managed by having a robust risk management process in place including onboarding of ARs, and ongoing oversight.

Risk Reporting

Reports are provided to the Management Group as part of overall compliance monitoring exercises and ongoing compliance oversight including monthly summary AR reports based on a number of KPIs.

Risks and Prudential Supervision of ARs

An AR agreement is required to be put in place with all ARs and this agreement reflects the FCA requirements of such agreements at SUP 12. This includes supervision of financial risks of the AR. All ARs are required to maintain their own PI policy, assuming regulated activities are taking place and checking AR PI exists forms part of the firm's annual monitoring program. Monthly reporting from ARs also includes reporting of income from the entity including where they exist, management accounts, normally monthly. Annual accounts and also an assessment of credit risk by using a third party provider, Creditsafe as part of routine checks on the firm and also its directors/partners as part of any formal monitoring visits, at least annually.

Other prudential risk management steps taken routinely include assessing ARs financial soundness and risk as part of onboarding and financial risk.

Midmar's AR income is not linked directly to the performance or liability of any investment position, and as the entities operate as separate business entities, the Firm does not currently consider that additional Pillar 2 capital is required for specific AR investment risks. However it keeps this under review at any given time. It considers that using existing systems and controls and enhancing these on a regular and risk based approach is currently the most appropriate approach to act as Midmar AR liability risk mitigation and also that no specific amount of Pillar 2 capital could currently be calculated as a base for that additional Pillar 2 in any case.

On an event driven basis, the firm may also assess the risk of a particular AR business model i.e. advisory to institutional investors compared to funds to identify if any particular event may impact on a particular AR business model. Of both models, it is considered that inherently, the model of adviser to institutional clients is likely to be higher compared to that of adviser to funds given that following a fund close, fund ARs normally have a fixed element of remuneration for as long as that fund exists. Such funds are longer term in nature and do not permit regular redemptions and/or normally redemptions within the first years of investment.

However for the above reason, the firm will also look at AR business mix at any given time to ensure sufficient diversification in client or investment type exists and is not concentrated in a particular business model or sector.

Many of the funds that Midmar manages on behalf of advisory ARs are private equity funds investing in start up entrepreneurial businesses. Therefore by nature, such businesses may be more open to 'failure' compared to established businesses. This is taken into account as part of new AR business model assessment i.e. the sector the firm will invest in, any concentration or conflict issues in relation to other AR models and also the experience and the quality of both the ARs key investment personnel and also investment process.

On occasion, the Firm may be contacted by an AR to request either a fee reduction or waiver. The Firm does not permit dormant status and has a procedure in place to assess such requests including the nature and reasons for any short term financial difficulties, whether the AR is only at the stage of being established which has taken and also the overall financial arrangements of the AR. If any arrangements are made, these will be short term fee waivers or reductions, normally for a period of no longer than 3 months. If the reinstatement of full fees following that period is either not likely or feasible, termination of the AR is likely to be the outcome.

3 Statement of Risk Appetite

Overview

3.1 A Risk Appetite statement is included for each risk group below rather than an overall top down statement.

3.2 The Firm has developed five (5) "bottom up" statements which collectively make up its Risk Appetite Statement as follows:

Credit Risk

3.3 As a Limited Licence BIPRU Investment Firm, neither the Firm or its ARs holds client money nor assets nor lends money, does not act as counterparty and is, therefore, not exposed to Credit Risk in its traditional sense. The Firm's primary exposure to Credit Risk (as defined) is the risk that investment management fees cannot be collected (where relevant) or that Appointed Representatives do not pay licence fees, or the exposure to banks default where revenue is deposited.

3.4 The Firm's Credit Risk Appetite is low so the Firm holds all cash with banks assigned high credit ratings. This is currently the Royal Bank of Scotland from authorisation. The firm would carry out appropriate due diligence on any appropriate replacement banking provider should the need occur. The firm also reviews its banking provider on occasion to ensure any associated credit risk to the firm's assets is assessed.

3.5 The firm also exercises tight credit controls on all of its Appointed Representatives and considers overall financial soundness of the AR as part of both AR appointment and ongoing oversight and risk assessment. This includes monthly management information reporting, at least quarterly financial information and at last annually, as part of a formal monitoring exercise, a review of the firms financial arrangements and latest management accounts. It also includes a check on financial soundness fitness and propriety of the key management group of the AR involved.

Market Risk

3.6 As a Limited Licence BIPRU Investment Firm, neither the Firm or its ARs have a Trading Book. Its only direct exposure to Market Risk relates to fluctuations in the value of any of the investments that it acts as investment manager for. Where performance fees are charged, this may impact on income however otherwise fixed licence fees (monthly in advance) are paid by the AR's therefore being less prone directly to market or investment risk.

Operational Risk

3.7 As the Firm has undertaken a risk assessment and scoring exercise across the Firm, this Risk Appetite Statement translates into the acceptance of risks rated C or below. Any risk rated A is deemed to be unacceptable to the Company and must be addressed as a priority to ensure that it is able to receive a B or C rating. Any risk rated B must be addressed as a priority to ensure that it is able to receive a C rating or have Pillar 2 capital allocated.

3.8 The firm's overall risk position is discussed and communicated to other senior members of the firm as and when required and is reviewed at least annually by way of the ICAAP process.

3.9 The Risk Scoring Methodology is described below.

Risk Scoring Methodology

3.10 The Firm has in the past adopted a five-point scoring matrix for determining the level of risk within its business.

3.11 The Impact of risks (equivalent to a worse case loss) is scored as follows, showing the variation of impacts depending upon the relevant capital resources at the time. The lower levels have been increased as part of the ICAAP due to general increase as part of inflation, rather than increased risk.

		Firm with capital resources of less than £250,000
Score Level	**Description**	**Monetary Impact**
1	Minor	< £1,500
2	Moderate	£1,500 - £15,000
3	High	£15,000 - £50,000
4	Major	£50,001 - £250,000
5	Critical	> £250,000

3.12 The probability of risks occurring is scored as follows:

Score Level	Description	Probability
5	Expected	At least Quarterly (or a main one-off event)
4	Likely	Quarterly to Annually
3	Frequent	Every 1 – 3 years
2	Unlikely	Every 3 – 10 years
1	Rare	Every 10 years or less frequently

3.13 Scoring risks for Impact and Probability leads to a 5 x 5 matrix (Impact score is matched with Likelihood score) which can be converted to a "RAG" chart as follows:

(A) 20 – 25

(B) 19 – 12

(C) 11 – 6

(D) 5 - 0

IMPACT

	1	2	3	4	5
5	D	C	B	A	A

PROBABILITY

4	D	C	B	B	A
3	D	C	C	B	B
2	D	D	C	C	C
1	D	D	D	D	D

Business Risk

3.14 As a BIPRU Limited Licence Investment Firm, the Firm has assessed Business Risks and set out appropriate actions to manage them.

Liquidity Risk

3.15 The Firm either receives AR licence fees monthly (in advance), or if acting as a direct investment manager, will receive cash flows from direct investment annual management fees throughout the year that are sufficient to meet its operational requirements. For the context of the ICAAP and considering assets under management, at present potential performance fees, which are normally 1% of assets under management are considered immaterial when considering the firm's income levels given its current charging structure. The AUM does not currently affect fees because the firm does not currently receive or treat performance fees as income. Where the firm receives AR licence fees, an initial licence fee must normally be paid by the AR prior to registration which also forms part of the firm's risk assessment of AR capital adequacy risks from outset.

3.16 The major cash outflows are operational costs and any discretionary distributions to partners. The latter is not guaranteed, and will take place only after ongoing fees have been physically collected and are dependent on the level of fees received and overall profitability of the firm and future anticipated expenditure.

The Firm is subject to the FCA's Liquidity Rules at BIPRU 12. The Firm is classified as a Non-ILAS Firm and, hence, has in place Liquidity Systems and Controls which include the management of Liquidity Risk via scenario and stress testing of the Firm's Cash Flow Forecast and the establishment of management actions and contingency funding plans. These Liquidity Systems and Controls and a "Liquidity Risk Tolerance" under BIPRU 12.3.8R are set out in the Firm's "Liquidity Risk Management Framework and Policy".

The Firm is also obliged, as a consequence of SUP 16.12, to report annually to the FCA that it has adequate "Liquidity Systems and Controls" in accordance with GABRIEL return, FSA055.

Review of 'Risk Appetite Statement'

3.17 The Firm's Management Group reviews and formally endorses the Risk Appetite of the Firm at least annually as part of the ICAAP review. However it is also considered on an ongoing basis throughout the year according to any events during that period. At present, the firm's Risk Appetite is assessed as low taking into account a number of factors including:

- Potential reputational and liability risk to the firm and its senior management through acting as a Principal to a small number of AR firms.
- Increased FCA scrutiny of the Principal/AR model risk during the current period.
- Ensuring that only a limited number of ARs are registered at any time to ensure that appropriate regulatory oversight can be maintained and monitored at all times taking into account the resources and experience available to the firm but that also AR entities and their personnel involved fit into the overall business and risk profile of Midmar and its other ARs.

4 Material Risks

The Risk Identification Process

4.1 The Management Group has considered the business and has refined and developed the list of material risks and hold regular meetings to identify key risks.

Definition of Material Risk

4.2 Material Risks are defined as those identified in the Firm's Risk Register that are deemed through the Risk Scoring Methodology to represent A or B at their Gross (un-mitigated) risk level.

Pillar 2 Allocation

4.3 The Firm's Risk Management Framework (risk identification, measurement, management and mitigation) is designed to identify all risks the Firm may be exposed to. Those risks that are allocated as Gross score, through the Risk Scoring Methodology of A or B. If, as a subsequence of the mitigation the Firm has applied, the net score of a risk remains rated as A or B, the Firm will estimate its exposure to the risk and then allocate Pillar 2 capital equal to the exposure.

Stress Testing

4.4 The Firm has assessed the capital that may be required to cover risks crystallising over the next 12 months. Its greatest risks are Business and Operational Risk. For Business Risk, the Firm has assessed Business Risks by modelling the effect on its capital planning forecasts and setting out actions to ensure it has sufficient Regulatory Capital. For Operational Risk, the Firm has assessed if a Pillar 2 capital requirement is needed taking into account its mitigation.

Risk management objective

4.5 The Firm's general risk management objective is to develop governance structures and systems and controls to identify, prevent and/or mitigate risk within its risk appetite. The firm's primary objective is to focus on avoiding risk in the first rather than management of a realised risk.

Risk Management Review

4.6 The Management Group of the Firm reviews and endorses the risk management objective formally each year. In practice this is informally assessed throughout the year as part of ongoing oversight of the ARs.

Risk Assessment Matrix

4.7 An assessment of material regulatory risks has been undertaken using the risk assessment methodology as described in this document and also at Appendix 2.

Insurance coverage analysis

4.8 The Firm does not rely on insurance cover to mitigate business and Operational Risk. Its primary approach is having a robust and appropriate risk management process in place to avoid risks occurring in the first place. It does however have professional indemnity insurance in place which

is reviewed and renewed annually. This is also required from ARs as part of onboarding and annually thereafter.

5 Capital Planning and Stress Testing

Overview

5.1 For Credit Risk and Market Risk, the Firm has conservatively assumed that the Pillar 2 figure is the same as the Pillar 1. For Operational Risk, the Firm has assessed if Pillar 2 capital is required taking into account its mitigation. For Business Risk, the Firm has assessed Business Risks by modelling the effect on its capital planning forecasts and setting out actions to ensure it has adequate Regulatory Capital. This is based primarily on anticipated income from regulatory incubation licence fees during the next review period (April 20 to March 21) as detailed in Appendix 1b.

Capital resources

5.2 The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver deducting Material Holdings under (GENPRU 2 Annex 4). Eligible partnership capital is used to meet capital requirements, of which a minimum of £45,000 (around €50,000) will always be maintained, normally ring fenced in a separate bank account, although total partner capital including this may be higher at given times including where capital adequacy may be higher due to Fixed Operating Costs.

Tier 1 Capital	£45,000 (min)
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	£45,000
Tier 3 Capital	£0
Deductions	£0
Total Capital	**£45,000 (min)**

Conclusions

5.3 On a conservative basis, the Firm will normally aim to hold capital of at least around £50,000 compared to a Regulatory Capital Requirement (Base Case) of €50,000 minimum to take account of any currency fluctuations and as part of its risk management on the risk of unexpected expenditure.

5.4 Based on unaudited management accounts at the end of March 2020, the firm is currently holding around £75,000 as capital against a regulatory capital requirement of £44,000 (exchange rate at 31 March 2020 of €50,000). The firm's FOR equivalent is £53,000. Therefore the firm currently holds in excess of its capital requirements and has a surplus of £22,000 (at 31 March 2020). Mandatory wind down costs are anticipated (on a prudential basis) to be in the region of £37,500 over 3 months (see section 5.5). This is an increase in estimate of £500 from £37,000 for the previous ICAAP period.

Minimum Capital required to Wind-Down the Business

5.5 In the event of a business wind down, the Firm estimates that within 3 months substantially all client funds will have been transferred to other managers and AR arrangements terminated, subject to 1months notice contractually. Existing AR's would normally be transferred to other Principals, where possible avoiding gaps in any regulatory cover needed to continue services to underlying clients and investors.

5.6 Beyond that period the Members of the Firm would deal with the residual wind down of the business personally. In the event of any Gem Compliance staff costs being relevant, these are assumed for a maximum of 1 month. Most of the staff resources would be immediately released with one month's contract notice to Gem Compliance. However after that, existing resources would continue to be maintained (at no cost to Midmar) to ensure an orderly compliance wind down.

5.7 At the date of review, Midmar does not have any direct staff responsibilities, and any partners drawings would be suspended. Direct office costs (i.e. rental agreements) would be disposed of in that 3 month period

5.8 The costs below are estimated based on the firm's Profit and Loss accounts from Xero at the end of a relevant half yearly or annual period. The amount considered for wind-down has increased slightly compared to previous years, primarily as a result of higher rent and Gem Compliance's contract resources costs. However they remain within the firm's current capital adequacy requirements and also within its FOR calculation of 13/52 of operating costs.

	Month 1	**Month 2**	**Month 3**	**Total**
	(£)	(£)	(£)	(£)
Staff redundancy costs	£0	£0	£0	£0
Staff Contract costs (via Gem)	£11,000	£0	£0	£11,000
Termination of office leases or rent deposits costs	£2,000	£2,000	£2,000	£6,000
Suppliers costs i.e. contracts termination costs	£3,000	£3,000	£3,000	£9,000
Other costs i.e. legal/accountancy fees.	£3,000	£3,000	£1,000	£7,000
Appointment of Liquidator costs	£0	£0	£0	£0

Insurance	£1,500	£1,500	£1,500	£4,500
Total Capital Required	£20,500	£9,500	£7,500	£37,500

Operational Risk Stress Test approach

5.9 For Operational Risk, the Firm has assessed if a Pillar 2 capital requirement is needed taking into account its mitigation. If the net score for a risk is rated higher than "C", the Firm will estimate its exposure to the risk and if required would allocate Pillar 2 capital equal to the exposure if appropriate.

5.10 The stress test is being used as a means of quantifying how much capital might be absorbed if an adverse event or events occurred. As such it represents a simple 'what if' approach to estimating exposures to risks. If there is a small number of risks with a Pillar 2 capital allocation, the Firm will sum the exposures to compute its overall Pillar 2 requirements for Operational Risk.

Liquidity Risk and Contingency Funding Policy

5.11 In accordance with BIPRU 12.2, a firm must at all times maintain liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due. For the purposes of this requirement, the firm should also be 'self sufficient' in respect of liquidity i.e. it cannot rely on liquidity resources which could be made available by other members of a group.

In accordance with BIPRU 12.2.5, the firm should ensure:

- that it holds sufficient assets which are marketable or otherwise realisable,
- it is able to generate funds from those assets in a timely manner,
- it maintains a prudent funding profile in which its assets are of appropriate maturities taking account of the expected timing of that firm's liabilities, and
- it is able to generate unsecured funding of appropriate tenor in a timely manner.

In accordance with BIPRU 12.1.4, Midmar is a BIPRU investment firm which is not an Individual Liquidity Adequacy Standards (ILAS) BIPRU firm and is therefore not subject to individual guidance from the FCA on its liquidity resources. It is not subject to any rules within BIPRU that are relevant only to ILAS firms.

HOW DOES MIDMAR COMPLY

The firm currently holds the bulk of its assets in cash and therefore these assets are continuously marketable and realisable. If required, cash assets could be held with more than one organisation to ensure diversification and avoiding risks of not being able to access all funds in the event of a bank failure. There are no assets involved where maturities have to be considered. It is able to generate unsecured funding either by accessing excess assets held in cash or otherwise, would secure additional funding from the Partners themselves. No secured or external funding would normally be sought.

As the firm does not hold client money nor operate a trading book, its does not have any material liquidity risk exposure in relation to pricing of investments in general or on a daily basis, nor in relation to the management of any collateral positions as none exist.

Liquidity Risk Management

In accordance with BIPRU 12.3.4, the firm must have in place robust strategies, policies, processes and systems that enable it to identify, measure, manage and monitor liquidity risk. This is to assess the nature and level of the liquidity risk to which it is or might be exposed, and the risk that the firm cannot meet its liabilities as they fall due. These arrangements should be appropriate to the nature of the firm's activities.

A firm should ensure that it can measure and manage any risks to its liquidity and should set limits to controls its risk exposure, and also identify any early warning indicators to identify immediately the emergence of increased liquidity risk.

In line with BIPRU 12.3.8, the firm should ensure that its Management Group establishes the firm's liquidity risk tolerance and that this is appropriately documented. It should ensure that its tolerance is appropriate for its business strategy and reflects its financial condition and funding capacity. The firm should ensure that its Management Group approves the firm's liquidity risk arrangements and reviews regularly (at least annually) the continuing adequacy of the arrangements and also the firm's liquidity risk tolerance.

The firm's senior managers must continuously review the firm's liquidity position and report to the Management Group on a regular basis any information concerning this. In relation to all significant business activities, a firm should ensure that it quantifies liquidity costs, benefits and risks and where relevant attribute these to different business lines, product pricing etc.

Where relevant, a firm must actively manage its intra-day liquidity positions so that it is able to meet its payment and settlement obligations on a timely basis. A firm must also manage its collateral positions. A firm must also manage liquidity risk across legal entities, business lines and currencies.

The firm must also ensure that it has access to funding which is adequately diversified, both in relation to source and tenor. This forms part of the firm's contingency funding planning as required under BIPRU 12.4.

HOW DOES MIDMAR COMPLY

The Management Group reviews financial resources requirements on a regular basis and this includes doing cash flow projections, held on file separately. The firm uses Xero as an online accounting package which means that finances can be reconciled at any date on a continual basis. A budget cash flow forecast is prepared annually at the start of each financial year e.g. April and this forms the basis of cash flow reviews throughout the year. The Partners can therefore review financial results on a monthly basis.

This includes an ongoing review of capital adequacy including any amount of capital held over and above Pillar 1 and Pillar 2 requirements.

Any excess funds are all held in cash and therefore the liquidity risk in relation to being able to realise excess funds is minimal. There are no associated costs in realising this additional liquidity. There is only one regulated entity to consider, it does not need to take on investment liability for any capital provisions or liquidity issues of its ARs given its AR's are independent business entities, none of which act as counterparties, and Midmar does not operate in a group, neither does it hold any collateral or hold client money. It's own capital is held in cash in Sterling, and so there is no currency risk. It does not operate a trading book and therefore does not need to consider intra-day liquidity.

An increase in operating costs would be measured to act as a liquidity risk indicator as would a reduction in income from licence fees. If risk indicators occur, the Management Group considers what, if any, action is required to mitigate further risk to liquidity including reducing overheads and/or increasing funding. If necessary, additional funding would be sought from the existing partners, and this funding would be obtained in cash thereby having minimal liquidity risk going forward.

Stress Testing and Contingency Funding

In order to ensure compliance with these rules, the firm should conduct appropriate stress tests so as to identify sources of potential liquidity strain, and ensure that current liquidity exposures continue to perform to the liquidity risk tolerance. It should also analyse the combined impact of possible future liquidity stresses on its cash flows, liquidity position, profitability and solvency.

The firm's Management Group should review these stress tests and scenarios to ensure that they remain appropriate and relevant. The above reviews should be at least annual, but may need to be increased in times of volatile market conditions.

The firm should also ensure that it has an adequate contingency funding plan in place to deal with liquidity crises. This policy should be reviewed by the board. It should outline strategies, policies and plans to manage a range of stresses, includes clear invocation and escalation procedures. In relation to each of the sources of funding identified for use in emergency situations, this should be based on an accurate assessment of the amount of funding that can be raised from that source and the time needed to raise funding.

HOW DOES MIDMAR COMPLY

As detailed above, Midmar operates a straightforward 'liquidity' profile. Should the Management Group identify any stresses on liquidity during a monthly review, and as a result of using the liquidity risk indicators detailed above, the Management Group will discuss appropriate actions required.

Due to the funding profile of the firm, no specific liquidity stress tests have been carried out other than the stress tests described elsewhere in the ICAAP regarding Pillar 1 and Pillar 2 capital. This includes assessment the impact of a loss of income from termination of between 1 – 2 appointed representatives at short notice and also on a reverse stress basis, the minimum number of ARs the Firm needs to have on the register on a rolling basis without making a loss, based on expenditure at any given time. Further information on the stress tests applied are shown at Appendix 1.

Cash flow forecasts are reviewed on a monthly basis and if necessary, would be used in a similar way to model any revised cashflow expectations to identify any future strains on liquidity.

The firm's contingency funding policy would be for additional funds to be obtained from the partners. At this stage, it is unlikely that any secured or external funding would be sought although that might be reconsidered in the future if the firm wishes to expand its business. But at present no additional costs in this area are incurred by the firm itself. The firm itself would not have to realise any assets in order to secure additional funding which could raise of stresses on liquidity funding. Reasonable notice would be given to the partners as to whether additional capital is required as the Compliance Officer reviews cash flow forecasts on a monthly basis.

The Management Group has reviewed this liquidity policy as part of the overall review and challenge of the ICAAP.

6 Remuneration

6.1 Midmar is a partnership and any remuneration taken from the Firm is in accordance with the Partnership agreement. Remuneration is taken from any profits once any costs have been accounted for and is only taken by the partners. There are no staff of Midmar Capital.

6.2 The Firm does not currently operate any guaranteed or variable bonus scheme for Code Staff or other staff, relating to performance or otherwise. The Firm has a standalone Remuneration Policy Statement in line with SYSC 19C (for a BIPRU 50K) firm which is reviewed at least annually. The Firm also considers the FCA's rules at SYSC 19F.1 regarding incentives and performance management and previous FCA guidance in FSA 13/01 entitled 'Risks to customers from financial incentives and FG15/10 entitled Risks to customers from performance management at firms when reviewing overall remuneration arrangements.

6.3 Code Staff have been identified as any partners of the Firm, any individuals who hold a significant influence function who is not a partner including any senior investment managers. It excludes the Firm's appointed representatives approved advisers as no direct management influence or remuneration link exists between the Principal Firm and individual AR approved persons.

6.4 During the period under review, there were 3 Code Staff, two of which are partners. There has been no change in code staff during the period. The remuneration of the third Code Staff is provided by way of employment though an associated compliance consultancy, Gem Compliance Consulting Ltd which provides the Firm's compliance function. That firm has an employee bonus scheme, it is discretionary and is based on the views of Gem Compliance's directors as to the performance of the relevant individuals over the review period. As an unregulated firm, it is not based on the performance of any investments. The salary costs are however taken into account when preparing Midmar's ICAAP given the reliance on such staff.

6.5 Midmar is a small self contained business unit and all partners/senior investment managers are experienced members of the financial services industry. Remuneration is taken by partners only from profits after accounting for operating costs and is not for example based on expectation of future cashinflows.

6.6 Therefore the Firm's remuneration arrangements are directly aligned with ensuring that the firm is profitable in the short and long term including maximising the value of any partnership share should the partnership be dissolved. Full details on partners remuneration are contained in the latest set of audited accounts, with financial year end 31 March.

6.7 The Firm carries out an Internal Capital Adequacy Assessment Process (ICAAP) at least annually, which forms the basis of its risk management policy. This includes assessing the risk to the firm's capital adequacy including market risk and liquidity risk and having a contingency funding policy, which could include for example increasing the partners minimum capital requirement or taking reduced profits.

6.8 Due to the nature and size of the organisation, the management group of the Firm i.e. the Partners, acts as the Firm's remuneration committee. There is no independent Remuneration Committee, as this is not considered appropriate taking into account the nature of the firm and its size. Remuneration is taken in accordance with the documented Partnership agreement.