Midmar Capital
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Midmar Capital LLP

Pillar 3 – September 2018

Contents

1 Executive Summary

1.1 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.

1.2 The Firm has adequate capital for its size and the complexity of its business based on current minimum capital requirement (Base Case Requirement) of €50,000.

1.3 The Firm is a solo regulated entity. The Firm is covered by the Internal Capital Adequacy Assessment Process ("ICAAP") on which this Pillar 3 disclosure is based and in line with BIPRU 11.

1.4 This Pillar 3 disclosure covers the period October 2017 to September 2018 inclusive. 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, but in any case at least quarterly for internal management purposes. It is reviewed from mid financial year onwards to take into account any findings arising from the audited annual accounts after the year end of 31 March. It also reflects the findings from six monthly FCA returns post 30 September each year.

1.5 The firm's annual analysis' findings are that the Firm:

- holds more capital than its Capital Resources Requirement ("CRR") Pillar 1 calculation;
- 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.

1.6 The Firm has adopted the following approach to its Pillar 1 capital calculation:

- 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.

1.7 The Firm has previously adopted the "Structured" approach to the calculation of its Pillar 2 capital requirement as outlined in the Committee of European Banking Supervisors Paper, 27 March 2006 which takes the higher of Pillar 1 or Pillar 2 as 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 (30/9/18)	**Pillar 2**
Base Capital Requirement	£44.000 (Equiv. of 50,000 Euro at review date)	
Credit Risk	£5.000	
Market Risk	£0	
FOR	£40,000	
Pillar 1 or CRR	£44,000	
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
Pillar 2 Other Risk		£0
Pillar 2 Wind-down calculation		£26,000 (Assessment in paragraph 5.5)
Pillar 2 Total		£0
ICAAP Capital Requirement	£44,000	£n/a
Current Regulatory Capital ('CRC')	£64,000	n/a

	Pillar 1 (30/9/18)	Pillar 2
Surplus	£20,000	n/a

1.8 The Pillar 3 takes into account FCA guidance regarding exemptions from disclosure due to materiality (BIPRU 11.3.5) or the proprietary or confidential nature of information (BIPRU 11.3.6).

1.9 The current Pillar 3 was formally reviewed by the Partners following the firm's review of its ICAAP following the FCA returns due 30 September 2018 and financial year end 31 March 2019 and was approved by the Partners in the 2nd quarter of 2019. 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 changes have occurred during this review period and so no such interim updates have been necessary during the period.

2 Background

Overview

2.1 The Firm is a BIRPU Investment Firm. It acts solely as an agent 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 reputation) and Operational Risk.

2.3 For Business Risk, the Firm has considered scenarios which may have a detrimental impact on the business 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 Strategy

2.5 The Firm is authorised and regulated by the FCA as a BIPRU Investment Firm. The Firm's activities give it the BIPRU 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. The Firm is a BIPRU Investment Firm without an Investment Firm Consolidation Waiver and deducts Material Holdings under (GENPRU 2 Annex 4). 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 its current prudential supervision status.

2.6 Midmar was set up as a Limited Liability Partnership by Kevin Gallacher and two other partners. The business of Midmar was subsequently restructured. In May 2012. Two of the original partners resigned as partners but continued into 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.

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 an Alternative Investment Fund (as defined).

2.7 Midmar's current business 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. The firm may carry out investment management activities either directly for any segregated investment clients it may have on 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.

2.8 By the nature of its AR client type, typical new business start ups are private equity fund investors, often the entity involved (and the type of investee companies involved) does not have a proven financial track record. However the firm's due diligence reviews the overall business case, the financials available to the AR entity and the experience and capital soundness of the underlying AR 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, an associated compliance consultancy. This includes contributions to Midmar's FCA annual fees levy relating to a tariff of currently around 0.3% of 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.

During the review period, in general Midmar has had around 12 – 16 active appointed representatives on a rolling basis and income projections take that into account. The key risk to Midmar 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, 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, there 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 will take interim regulatory responsibility for the regulated activities that the relevant individuals wish to carry-out in order to establish the new investment business. Midmar submits applications to register the relevant individuals with the FCA as Approved Persons under Midmar. They are given compliance training and 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.

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.

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. 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.

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 - CF4, CF30 ,

Gillian Gallacher - CF4, CF10,

Emma Jones although not a partner has been appointed as CF11 from January 2017. There has been no change in senior management during the review period.
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 complication function staff via Gem Compliance. This includes Emma Jones, (Compliance Manager) from September 2014, and Natalia Popova (Compliance Associate) from May 2016. 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 Gem Compliance for carrying out certain AR activities on behalf of Midmar and this fee share contributes to Gem Compliance's employee costs. This is taken into consideration 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 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.
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 has conducted a Risk Identification exercise to ensure that all significant capital adequacy risks have been identified and rated. This also forms part of the firm's wider firmwide risk management process and assessment.

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.

Risk Reporting

Reports are provided to the Management Group as part of overall compliance monitoring exercises and ongoing compliance.

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 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 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 risks. .

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 its ICAAP process.

3.9 The Risk Scoring Methodology is described below.

Risk Scoring Methodology

3.10 The Firm has 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.

		Firm with capital resources of less than £250,000
Score Level	**Description**	**Monetary Impact**
1	Minor	< £1,250
2	Moderate	£1,251 - £12,500
3	High	£12,501 - £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

PROBABILITY

	1	2	3	4	5
5	**D**	**C**	**B**	**A**	**A**
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 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 performance fees. Where the firm receives AR licence fees, an initial licence fee must normally be paid by the AR prior to registration as part of the firm's risk assessment of AR capital adequacy risks.

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 endorses the Risk Appetite of the Firm each year as part of its ICAAP review. Despite the institutional nature of the firm's business, the firm's Risk Appetite is considered low taking into account a number of factors including:

- Reputational risk to the firm and its senior management.
- Ensuring that only a limited number of ARs are registered at any time to ensure that appropriate regulatory oversight can be maintained and monitoring at all times taking into account the resources available to the firm but that also AR entities and their personnel involved fit into the overall business 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 mitigate risk within its risk appetite.

Risk Management Review

4.6 The Management Group of the Firm reviews and endorses the risk management objective each year.

Risk Assessment Matrix

4.7 An assessment of material risks has been undertaken using the risk assessment methodology as described in this document.

Insurance coverage analysis

4.8 The Firm does not rely on insurance cover to mitigate business and Operational Risk. It does however have professional indemnity insurance in place which is reviewed and renewed annually.

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 (October 2018 to September 2019 inclusive).

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).

Tier I Capital	€50,000 (min)
Deductions	£0
Tier 2 Capital	£0
Deductions	£0
Capital Resources	€50,000
Tier 3 Capital	£0
Deductions	£0
Total Capital	**€50,000 (min)**

Conclusions

5.3 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 figures at the end of September 2018, the firm is currently holding around £64,000 as capital against a regulatory capital requirement of £44,000 (exchange rate at 30 September of €50,000). The firm's FOR equivalent is £40,000. Therefore the firm currently holds in excess of its capital requirements and has a surplus of £20,000 (at 30 September 2018). Mandatory wind down costs are anticipated to be in the region of £26,000 over 3 months (see section 5.5).

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 assets will have been returned or new investment managers found in respect of its investment management activity or that existing AR's would be transferred to other Principals.

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 staff costs being relevant, these are assumed for an average of 2 months as some of the staff would be immediately released with one month's notice while others may be required to participate in the winding up.

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

	Month 1	Month 2	Month 3	Total
Income received	(£)	(£)	(£)	(£)
Staff redundancy costs	£0	£0	£0	£0
Staff Contract costs (via Gem)	£8,000	£0	£0	£8000
Termination of office leases or rent deposits costs	£2,000	£2,000	£2,000	£6,000
Suppliers costs i.e. contracts termination costs	£2,000	£2,000	£2,000	£6,000
Other costs i.e. legal/accountancy fees.	£1,000	£1,000	£1,000	£3,000
Appointment of Liquidator costs	£0	£0	£0	£0
Insurance	£1,000	£1,000	£1,000	£3,000
Total Capital Required	£14,000	£6,000	£6,000	£26,000

Operational Risk Stress Test approach

5.8 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.

5.9 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.

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.

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. The remuneration of the third Code Staff is provided by way of employment though an associated compliance consultancy, Gem Compliance Consulting Ltd. Although this firm has a 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. 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 cash inflows.

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.