

## **Augmentum Fintech Management Limited (“AFML” or the “Firm”)**

### **Pillar 3 Disclosure and Policy, 31 March 2019**

The following information is provided pursuant to the Pillar 3 disclosure rules as laid out by the Financial Conduct Authority (“FCA”) in section 11 of its “Prudential sourcebook for Banks, Building Societies and Investment Firms” (“BIPRU”).

The Pillar 3 Disclosure will be reported on an annual basis, as at the firm’s accounting reference date, unless otherwise stated.

The rules provide that the Firm may omit one or more of the required disclosures if the Firm believes that the information is immaterial. Materiality is based on the criteria that the omission or misstatement of material information would be likely to change or influence the assessment or decision of a user relying on that information for the purposes of making economic decisions. The Firm is also permitted to omit one or more of the required disclosures where it believes that the information is regarded as proprietary or confidential. Proprietary information is that which, if it were shared, would undermine our competitive position. Information is considered to be confidential where there are obligations binding us to confidentiality with our customers and counterparties.

AFML does not report on a consolidated basis for accounting and prudential purposes. This disclosure is prepared on a solo basis.

Disclosure statements will be validated by AFML’s governing body and made available on the firm’s website. The Pillar 3 Disclosure statement is not subject to an audit except to the extent where the contents are equivalent to disclosures made under accounting requirements.

#### **Background**

The FCA has implemented a prudential framework for investment firms through changes to the FCA Handbook of Rules and Guidance (specifically in BIPRU). The framework consists of three “pillars”:

- Pillar 1 sets out the minimum capital requirements;
- Pillar 2 is an assessment of whether additional capital is needed over and above that determined under Pillar 1; and
- Pillar 3 requires the Firm to publish its objectives and policies in relation to risk management, and information on its risk exposures and capital resources as well as disclosures with respect to FCA’s “Remuneration Code”.

The rules provide that disclosures are only required where the information would be considered material to a user relying on that information to make economic decisions. AFML is a “BIPRU €50,000 Limited Licence Firm”, does not have permission to deal with retail clients and is not authorised to hold client money. The Firm has the permissions to engage in investment management activities, and its only client at present is its parent company, Augmentum Fintech PLC. Therefore, the main risks facing the Firm relate to its operations

and its business environment. Whilst the Firm does have some exposure to credit and market risk, this is not considered to be material.

The disclosures below are the required Pillar 3 disclosures and apply solely to the Firm.

Although the Firm believes the risk management framework outlined herein is appropriate for the size and complexity of the Firm and that the Firm's capital is adequate to meet the risks assessed, it cannot guarantee that this will actually be the case in the event any particular risk arises. There will always be some unlikely risks with unusually high impact which may require additional capital should they arise.

### **Risk management**

The Firm operates a risk management framework that sets out the responsibilities and escalation procedures for the identification, monitoring, and management of operational and business risks. Capital planning takes these identified risks into account.

Specific personnel are assigned responsibility for the risks across the Firm. The Firm's Chief Executive takes overall responsibility, with the assistance of a specialised compliance consultancy firm for identifying material risks to the Firm and putting appropriate mitigating controls in place.

Risks and mitigating controls are periodically reassessed, considering the Firm's risk appetite. Where risks are identified which fall outside of the Firm's risk tolerance levels, or where the need for remedial action is identified in respect of identified weaknesses in the Firm's mitigating controls, then actions are taken to improve the control framework.

The Board meets periodically to review the quality of the control framework and to satisfy itself that appropriate controls are in place and that mitigating actions are moving forward.

The specific types of risks faced by the Firm are;

- Operational risk,
- Business risk,
- Credit risk, and
- Market risk.

### ***Operational risk***

This is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, including legal risk. The Firm seeks to minimize operational risk through a systems and controls framework, particularly when engaging in new business ventures or trading new products. The Firm considers risks which may impact the Firm directly or indirectly. The most significant operational risks facing the Firm would most likely be a catastrophic systems failure and unexpected losses due to malfunctioning market and liquidity controls.

### ***Business risk***

Business risk arises from external sources such as changes to the economic environment or one-off economic shocks, and from internal sources such as poor decisions or suboptimal allocation of capital resulting in poor performance and damage to the Firm's reputation.

Various scenarios are modelled in order to assess the impact of adverse economic conditions on our financial position. This enables the Firm to monitor its business risk and to assist in its capital planning.

#### ***Credit risk***

The Firm is not exposed to credit risk other than in respect of fees/commission receivable and cash held on deposit at large international credit and regulated institutions. Fees are drawn down monthly on activity in the month, received by the Firm in arrears. Fees is currently payable by the Firm's only client, Augmentum Fintech PLC. Consequently, the Firm has a limited number of credit exposures in respect of which it uses the simplified standardised approach when calculating risk weighted exposures, in accordance with the provisions of BIPRU 3.5. Credit risk is not considered to be material for the purposes of this disclosure.

#### ***Market risk***

The Firm is not exposed to market risk other than foreign exchange risk in respect of its accounts receivable and cash balances held in currencies other than GBP. The Firm calculates its foreign exchange risk by reference to the provisions of BIPRU 7.5. Foreign exchange risk is not considered to be material for the purposes of this disclosure.

#### **Capital adequacy**

As at 31 March 2019, the Firm's regulatory capital resources of £531K are made up as follows:

<b>Tier 1</b>	<b>£, 000</b>
Share capital	0
Share Premium	500
Reserves – retained earnings	31
<b>Total regulatory capital</b>	<b><u>531</u></b>

The Firm's Pillar 1 capital requirement is calculated in accordance with the General Prudential Sourcebook ("GENPRU") as the higher of the Fixed Overheads Requirement ("FOR"), the sum of market and credit risk requirements, or the base capital requirement of €50,000. The Firm's credit risk is calculated as per the "Standardised Approach (BIPRU 3.4)" and market risk in line with BIRU 7.5. As at 31 March 2019 the Firm's Pillar 1 requirement was £344K.

The Firm takes a prudent approach to the management of its capital base and monitors its expenditure on a monthly basis in order to take account of any material fluctuations which may cause its Fixed Overheads Requirement to be reassessed. The Firm always ensures that

it has enough capital to meet its Fixed Overheads Requirement and formally verifies this on a quarterly basis.

Under Pillar 2 of the FCA’s capital requirements, the Firm has undertaken an assessment of the adequacy of capital based upon all the risks to which the business is exposed (“ICAAP”). The wind down costs of the Firm are also assessed. As at 31 March 2019, this analysis concluded that the Firm’s Pillar 2 requirement for identified key risks and its wind down costs were lower than Pillar 1 requirement. The Firm’s applicable requirement as 31 March 2019 was therefore £344K.

### Remuneration Code

Remuneration is determined and reviewed annually by the Board of Directors. For the purposes of the “Remuneration Code” the Firm is classified by the FCA as a Proportionality Level 3 firm. No other firm in the group is subject to these regulations.

In addition to their base salary, employees may be eligible to receive discretionary variable compensation that reflects performance in excess of that required to fulfil their job description and terms of employment.

These arrangements are very much linked to performance. The firm does not make any guaranteed bonus commitments.

Staff outside senior management are classified as code staff if their total remuneration takes them into the same bracket as senior management or those whose professional activities could have a material impact on the Firm’s risk exposure.

In the year ended 31 March 2019, two employees were classified as code staff: being the executive directors of the Firm. One of the directors is approved as the Compliance/MLRO as well as in the Customer Function, CF30. The other executive director is approved as the CF3 as well as in the Customer Function, CF30. Their aggregate remuneration in the financial year amounted to £192K, analysed as follows:

Aggregate quantitative information on remuneration, broken down by senior management and members of staff whose actions have a material impact on the risk profile of the firm (BIPRU 11.5.18(7))			
	Senior management	Other staff members	Totals
Fixed remuneration	[ 192K ]	[ 0 ]	[ 192K ]
Variable remuneration	[ 0 ]	[ 0 ]	[ 0 ]
Number of staff	[ 2 ]	[ 0 ]	[ 2 ]

The Board is comfortable that variable remuneration is linked to the interests of the firm and does not encourage any risk taking.

### Further enquiries

For enquiries please contact compliance at [richard@augmentum.vc](mailto:richard@augmentum.vc)