

PLAIN ENGLISH FINANCE LIMITED

Pillar 3 Disclosure

December 2021

Background

The Capital Requirements Directive ('CRD') and Capital Requirements Regulation ('CRR') – usually referred to together as CRD IV - require investment firms to disclose information relating to their risk management approach and capital adequacy. The rules requiring disclosure are set out in the FCA handbook BiPRU 11.5.

The disclosure of this information is known as Pillar 3 and is designed to complement the two other pillars of the CRD, namely the minimum capital requirements (Pillar 1) and the supervisory review process (Pillar 2).

Scope of Application

The Pillar 3 disclosures relate to the single entity Plain English Finance Limited ("PEF") which is not part of a prudential consolidation group.

Risk management objectives and policies

PEF maintains a comprehensive risk management framework and defined procedures for identifying and escalating risk concerns throughout the organisation. These processes help to protect the interests of all stakeholders and meet our responsibilities as a UK regulated entity.

The ultimate responsibility for risk management lies with the Board.

Senior management manage PEF's capital base so that a prudent amount of excess capital is retained above the amounts calculated for the assessed risks. The capital retained will allow PEF to maintain and grow its business without further capital injection.

The framework is governed and structured through a variety of mechanisms that assist in ensuring employees are aware and understand their responsibilities:

- Risk is a core consideration when setting strategy, formulating business plans and managing performance;
- Implementation of a risk management framework process that facilitates the identification and assessment of risks in the business, related controls and other available risk mitigation available to us¹;
- Establishment of an effective risk governance structure with oversight risk management responsibility allocated to the Board and responsibility for the management of risks within business lines ensuring that risk management is aligned with responsibility and accountability for service delivery²;
- Risk reporting provided to the Board on an annual basis covering the risk management framework across PEF; ³
- A clearly defined risk appetite reflecting the level of risk that PEF is willing to accept (or not accept) while pursuing its business objectives;
- Development and implementation of risk policies and procedures.

¹ BiPRU 11.5.1 (1)

² BiPRU 11.5.1 (2)

³ BiPRU 11.5.1 (3)

Key risks applicable to the firm

PEF is required to complete an Internal Capital Adequacy Assessment Process ("ICAAP") at least on an annual basis. The ICAAP document sets out the key risks to the business and demonstrates how PEF satisfies itself that it has sufficient capital.

The ICAAP process ensures the Board regularly oversees and assesses:

- The major sources of risk to the company's ability to meet its current and future liabilities according to its planned activities⁴;
- The results of internal stress testing of these risks; and
- The amount and types of financial and capital resources and whether they are adequate to cover the nature and level of the risks to which PEF is exposed.

The ICAAP is used within the business to support the decision-making process, identify potential risk exposures and implement appropriate mitigants. PEF does not take market or contractual positions to hedge balance sheet risk.⁵ The ICAAP is formally reviewed by the Board as part of the annual business planning cycle. Should business plans or significant re-positioning dictate then interim reviews will be undertaken. Information presented to the Board allows the Board to regularly monitor the business against the risk framework and use it to make adjustments throughout the year and whenever else this may prove necessary.

PEF has identified and assessed the following key risks within the ICAAP:

Credit and Liquidity Risks

The main source of credit risk for the Firm comes from non-payment of discretionary management fees. Cash resources are managed internally based on prudent cash flow forecasts and budgets.

For accounting purposes, PEF considers "past due" to be defined when a debt is overdue payment to PEF and "impaired" should the counterparty enter administration⁶. These amounts are all contracted by PEF's client and paid under mandate by deduction from Valu-Trac annually. Risk of non or late payment is low. The value of recoverable debts is monitored as part of PEF's monthly accounting cycle.

Geographic exposure

All the above exposures are to UK counterparties and clients.

Adjustments

There were no impaired exposures, past due exposures, value adjustments, provisions or charges for value adjustments during the period.

Market Risk

PEF is subject to market risk indirectly as a significant portion of income is dependent on the value of funds under management. PEF does not hold investments subject to Market Risk on its balance sheet other than cash balances denominated in currencies other than GBP. PEF's exposure to market risk is evaluated in the budgeting cycle based on our assessment of the economic outlook for the sectors we invest our clients' assets in and our balance sheet is exposed to. PEF has adopted the standardised approach to market risk.

⁴ BIPRU 11.5.4 (1)

⁵ BIPRU 11.5.1 (4)

⁶ BIPRU 11.5.8 (1)

The Firm's foreign currency Position Risk Requirement ("PRR") is £0.

Operational Risk

We operate a robust and effective operational risk management process, embedded within the governance and Management structures of PEF, which includes mitigating potential risk to acceptable net risk levels running from gross, initial (pre-mitigation) risk level, through the mitigating controls and out to a net risk category which helps focus our risk management processes.

Concentration Risk

The Firm has limited concentration risk.

Other risks

Other risks referenced in BiPRU 11.5 requiring disclosure are not relevant to the activities of the Firm.

Counterparty Credit Risk

The Firm is an investment manager. It does not provide credit to its customers or enter into transactions where there is a risk that the counterparty to a transaction could default before the final settlement of the transaction's cash flows.

Capital Resources

The total capital resources available to the business as at the date of this disclosure were:

Capital resources comprising:	
Total own funds represented by Tier One Capital	£145,000

Remuneration

PEF does not remunerate its Board directors and only has one salaried employee which is on a fixed basis. No variable payments are made in addition to the fixed salary.

All remuneration decisions would be approved by the Board of Directors.

PEF does not make any variable payments and no remuneration in the form of shares, share-linked instruments and other types of instruments is given. PEF does not make any deferred payments or no new sign-on or severance payments in any circumstances.