Townsend Group Europe Ltd.

Pillar 3 Disclosures for Year Ended 31 December 2019

Background

The Basel II Accord, implemented in the EU through the Capital Requirements Directive III and in the UK through the FCA Handbook, details the standard regulatory capital framework for the financial services industry within the European Union and consists of three pillars:

- Pillar 1 specifies the minimum capital requirements of firms to cover credit, market and operational risk;
- Pillar 2 requires firms to assess the need to hold additional capital to cover risks not covered under Pillar 1; and
- Pillar 3 requires a set of disclosures to be made which enable market participants to assess information on firms' capital, risk exposures and risk assessment procedures.

Introduction

Townsend Group Europe Ltd. is required by the Financial Conduct Authority (the "FCA") to disclose information relating to the capital it holds and each material category of risk it faces to allow market participants to assess key pieces of information on our capital, risk exposures and risk assessment processes and to encourage market discipline. These disclosures provide information on the risk exposures faced by Townsend Group Europe Ltd. and the risk assessment procedures in place to monitor these.

The Pillar 3 disclosures are required to be made under Chapter 11 of the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"). The Pillar 3 disclosures are made on an annual basis. The information in these disclosures has not been audited by Townsend Group Europe Ltd.'s external auditors.

The FCA rules allow Townsend Group Europe Ltd. to omit one or more of the required disclosures if the information is regarded as immaterial. Information is considered to be material if its omission or misstatement could change or influence the assessment or decision of a user relying on it to make economic decisions.

Townsend Group Europe Ltd. is also permitted to omit one or more of the required disclosures where the information is regarded as proprietary or confidential. Proprietary or confidential information is information which, if it were shared with competitors, would render Townsend Group Europe Ltd.'s investments less valuable or where there are obligations with Townsend Group Europe Ltd.'s customers and counterparties which bind Townsend Group Europe Ltd. to keep that information confidential.

Townsend Group Europe Ltd. is authorised and regulated in the UK by the FCA as an Investment Management Firm. It is a “BIPRU Firm”. The Pillar 3 disclosure is provided on a solo basis.

Risk Management

Townsend Group Europe Ltd. has adopted risk management procedures to ensure that it has effective systems and controls in place to identify, monitor and manage risks arising from its business. A high level risk management matrix has been used to identify and quantify such risks.

Credit Risk

This is the current or prospective risk to earnings identified and capital arising from an obligor’s failure to meet the terms of any contract. Townsend Group Europe Ltd. has limited exposure to this category of risk.

Our credit risk exposure mainly relates to trade receivables and amounts owed by group undertakings. . However this risk is mitigated through the Company’s policies which are aimed at minimizing such losses. An allowance for impairment is made where there is an identified loss event which, based on previous experience, provided evidence of a reduction in the recoverability of cash flows. There were no write-offs in 2019.

Trade receivables, work in progress and amounts owed by group undertakings by geography at 31 December 2019:

	£’000
United Kingdom	1,064
Europe	521
United States of America	433
Rest of the World	643

The Company has adopted the simplified standardised approach to calculating credit risk.

Credit Risk calculation

	Risk Weighted Amount	**Credit Risk Capital Amount**
	£’000	**£’000**
Cash	1,477	118
Corporate & institutional amounts	3,405	272
Fixed assets	10	1

Market Risk

This is the current or prospective risk to earnings or value arising from adverse movements in investment instrument prices, including equities, commodities, foreign exchange and interest. This risk can arise from open positions in bonds, securities, currencies, commodities, or derivatives. Due to the nature of service we provide, there is no market risk directly involved. However, our reputation is based on investment performance which makes us indirectly exposed to market risk. Additionally, customers may be invoiced based on a percentage of their net asset values which lends itself to cause revenue fluctuations in times of market volatility. We have calculated our foreign currency risk at 31 December 2019 as £125k.

Operational Risk

This is the risk, direct or indirect, of loss resulting from inadequate or failed internal processes, people and systems or from external events. Townsend Group Europe Ltd. has identified a number of key operational risks to manage. They relate to loss of key members of staff, failure of service providers, systems and IT infrastructure failure, inadequate business continuity planning, loss of key customers and poor investment decisions/performance. This also includes legal, compliance, regulatory risk and reputational risk. The most detrimental operational risk that applies to us is breach of regulatory statutes, since a material breach can effectively cease our operations. Centralized monitoring and surveillance of various risks takes place in day to day operations.

Business Risk

This arises from changes to Townsend Group Europe Ltd.'s internal and external environment and includes the risk that Townsend Group Europe Ltd. may not be able to carry out its business plan and desired strategy. Townsend Group Europe Ltd. has assessed that our key business risks relate to the failure to adopt and or deliver an appropriate business strategy. Townsend Group Europe Ltd.'s Pillar 2 business risk assessment principally takes the form of a reduction in assets under management following a market downturn that leads to lower management fees. Even this has a quite limited regulatory capital impact.

Concentration Risk

This is the risk arising from a lack of diversity in business activities i.e. the risks associated with large exposures from individual relationships or reliance upon an exposure to a substantial client. Although Townsend Group Europe Ltd. has a relatively small number of clients, we are not unduly dependent on a particular single entity meeting its outstanding fee obligations. Any minimal concentration risk involved is mitigated by the standing of the names we act for, the nature of the entities concerned and the close relationships developed with them. Townsend Group Europe Ltd. has no trading book concentration risk.

Interest Rate Risk

This is the risk of potential adverse movements in interest rates and the impact these have on planned future cash flows. Townsend Group Europe Ltd. has no loans or debt outstanding to non-group undertakings, and our management fees receivable are not subject to interest.

Capital Adequacy

Capital Resources: As at 31 December 2019, Townsend Group Europe Ltd. held regulatory capital resources that consisted solely of core Tier 1 capital.

	£'000
Issued capital	1,485
Capital contribution reserve	500
Reserves	38
Retained Profits	2,010
Total capital resources	4,033

Compliance with the rules in BIPRU and Pillar 2 Rule Requirements: Townsend Group Europe Ltd.'s overall approach to assessing the adequacy of its internal capital is set out in our Internal Capital Adequacy Assessment Process ("ICAAP").

The ICAAP process involves separate consideration of risks to Townsend Group Europe Ltd.'s capital combined with stress testing analysis to determine whether any additional capital is required for Pillar 2.

As a BIPRU Firm our Pillar 1 capital resources requirement is the greater of the following:

1. €50k;

2. Credit Risk Capital Requirement + Market Risk Capital Requirement; and

3. Fixed Overheads Requirement.

The directors are responsible for determining the firm's appetite for risk as well as the ongoing assessment of such risks, how to mitigate those risks and how much capital and future capital is necessary having considered these risks. This ongoing assessment is documented during annual board meetings.

Remuneration Code (the "Code"): In line with the FCA's guidance on applying the Code proportionately, Townsend Group Europe Ltd. falls into proportionality Tier 3 and is therefore able to disapply certain FCA rules relating to remuneration structure. The directors have considered these rules. Having regard to the particulars of Townsend Group Europe Ltd.'s business model, risk profile and remuneration arrangements, they are satisfied that disapplication is appropriate and that current remuneration arrangements outlined below are consistent with the principles of sound risk management.

In particular:

- Townsend Group Europe Ltd. does not take risks onto its own balance sheet.

- Townsend Group Europe Ltd.'s ICAAP considers the adequacy of both capital and liquidity on an annual basis, having regard to the range of risks faced by the business.

The directors had noted that Tier 3 firms may disapply the rule regarding the need to have a Remuneration Committee, and have chosen not to have such a committee.

Remuneration Principles: In setting remuneration the following overarching principles are applied, such that it:

- rewards performance at the individual, team and corporate level;

- is sufficient to attract, motivate and retain high calibre individuals; and

- is aligned to the long term performance of the business.

Determination of fixed salary: Fixed salary shall be competitive and based on the individual's responsibilities and performance. Townsend Group Europe Ltd. will not award, pay or provide guaranteed variable remuneration save in the exceptional circumstances allowed for by, and then only in accordance with, FCA rules.

Determination of variable remuneration: Employees are eligible for annual and periodic bonuses which are dependent on the performance of the individual and of the Company.

Remuneration for Code Staff (£'000) borne by Townsend Group Europe Ltd. in the year ended 31 December 2019:

	Senior Management	**Other Code Staff**	**Total**
Fixed staff costs	227	0	227
Variable staff costs	247	0	247
Sign on payments	0	0	0
Total	474	0	474

The amounts above do not include remuneration in respect of other work UK-based individuals carried out on behalf of our parent company, the cost of which was borne by it; code staff provided by centralised compliance and financial crime functions, the cost of which are borne centrally by the Aon Group. Similarly, emoluments for directors and other Code Staff based in the US were borne by our parent company and so are not included in this summary.

Other considerations: In considering remuneration structures, the directors will seek to ensure that:

- arrangements take account of potential risks;
- do not give rise to conflicts of interest, particularly between the actions of employees and the interests of shareholders, investors and other stakeholders; and
- are designed to comply with applicable laws and regulations.

Governance: The directors are responsible for monitoring compliance with Townsend Group Europe Ltd.'s remuneration policy to ensure that it operates as intended and continues to be appropriate. The policy will be subjected to a review at least annually, and this review will take account of relevant FCA and industry guidance, including that relating to the Code. A subcommittee of the Board is constituted to make decisions as to salary and bonuses.