# Lowes Financial Management

# Pillar 3 Disclosure Policy

# Year Ending 31 December 2018

## Introduction and Disclosure Policy

The Pillar 3 rules in BIPRU 11 set out the need for firms to have a formal disclosure policy. In accordance with the rules of the Financial Conduct Authority ("FCA"). Lowes Financial Management Ltd ("Lowes") intend to disclose the information set out in BIPRU 11 (the Pillar 3 rule) on at least an annual basis.

The Firm may omit information it deems as immaterial, in accordance with the rules. Materiality is based on the criterion that the omission or misstatement of any information would be likely to change or influence the decision of a reader relying on that information. Accordingly, where Lowes has considered an item to be immaterial it has not been disclosed.

In addition, if the required information is deemed to be proprietary or confidential then Lowes may take the decision to exclude it from the disclosure. In Lowes' view, proprietary information is that which, if it were shared, would undermine its competitive position. Information is considered to be confidential where there are obligations binding Lowes to confidentiality with our clients, suppliers or counterparties. Where information is omitted for either of these reasons this is stated in the relevant section of the disclosure, along with the jurisdiction.

Lowes is authorised and regulated by the FCA and as such is subject to minimum regulatory capital requirements. Lowes is categorised by the FCA, for capital purposes, as a limited licence firm and has no trading book exposures. Lowes is not required to prepare consolidated reporting for prudential purposes, as its parent company (Lowes Group) undertakes no regulatory or trading activities other than to provide certain administrative services to Lowes.

The FCA's current prudential regime can be split into three "pillars":

- **Pillar 1 –** prescribes the minimum capital requirements that authorised firms need to hold. This is the higher of
  - Euro 50,000
  - The sum of the firm's prescribed Credit risk + Market risk.
  - The Fixed Overheads Requirement (one quarter of the firms annual adjusted expenditure)

  Lowes minimum Capital requirement is currently based on its Fixed Overheads Requirement, which for the year to 31st December 2018 was £921,303.

- **Pillar 2** – requires Lowes to analyse the potential risks to the business and then consider whether the risks are mitigated to an appropriate level. If Lowes feels that the risks are not adequately mitigated then they should allocate capital against those risks. On conducting its analysis through the ongoing ICAAP process Lowes has assessed that an additional £195,754 above its Pillar 1 capital is required in order to mitigate the identified risks. Stress and scenario tests are conducted as part of the ICAAP assessment to ensure that the processes, strategies and systems are comprehensive and robust and that the allocation of capital continues to be sufficient.

- **Pillar 3** - requires Lowes to develop a set of disclosures which will allow market participants to access and assess key information about the Firm's underlying risks, risk management controls and capital position.

The audited capital position of Lowes as at 31st December 2014 is summarised as follows:

| **Capital Item** | **£'000s** |
|---|---|
| Tier 1 Capital | 1,373 |
| Audited Capital Resources Requirement | 921 |
| Surplus Capital after Deductions | 452 |

**Risk Management**

Due to the size, nature, scale and complexity of Lowes, there is no independent risk management function. The Board of Lowes determine the business strategy and risk appetite along with the risk management policies and procedures. An identification of risks to Lowes are considered and the resultant exposure is assessed after the application of both management and mitigation of these risks. Furthermore, through the ICAAP, which is reviewed annually, Lowes conduct a series of stress tests and scenario analyses on these risks to determine the effect they would have on the firm.

If necessary Lowes will allocate extra capital to the relevant risk, as per the Pillar 2 requirements. This process is conducted at the Board meetings which are held on a monthly basis and the relevant policies and procedures are updated where necessary.

We have identified that the main risk to which Lowes is exposed to is Market Downturn and particularly the impact on our initial and on-going fees in that event. Evidence from the downturns during 2000 to 2003 and 2007 to 2009 have provided sufficient reassurance that Lowes is able to manage this risk whilst remaining profitable. The strength of the company is demonstrated by our latest audited accounts.

Lowes has therefore concluded that its Tier 1 capital is sufficient to cover its Pillar 1 and Pillar 2 requirements.