

Jarvis Investment Management Ltd

Basel Committee on Banking Supervision – Basel II Accord – Pillar 3 Disclosure

Background

Jarvis Investment Management Ltd is authorised and regulated by the Financial Services Authority (“FSA”).

The European Union Capital Requirements Directive introduced a revised regulatory capital framework governing the amount and nature of capital that must be maintained by credit institutions and investment firms. In the UK the directive has been incorporated by the FSA into its regulations through the General Prudential Sourcebook (“GENPRU”) and the Prudential Sourcebook (“BIPRU”) for banks, building societies and investments firms.

The regulatory framework consists of three “Pillars”:-

- Pillar 1 sets out the minimum capital required to meet credit, market and operational risk in order that the firm may support its business activities;
- Pillar 2 requires the firm to assess whether any additional capital should be maintained against any risks not adequately covered under Pillar 1 whilst allowing the FSA to review this process; and
- Pillar 3 requires firms to disclose publicly both qualitative and quantitative information about the firm’s risk profile, its risk exposures, and its risk management procedures.

FSA’s BIPRU 11 rules set out the provisions for Pillar 3 disclosure and permit nondisclosure of information that the directors believe to be immaterial, to the extent that such non-disclosure would be unlikely to change or influence the decision of a reader relying on that information. Material considered to be proprietary and/or confidential, disclosure of which might affect the competitiveness of the firm and/or breach client confidentiality obligations may also be omitted.

We have made no such omissions in this, our Pillar 3 disclosure.

Jarvis Investment Management Ltd (“JIM”) is a €125K limited licence firm, authorised and regulated by the FSA and subject to minimum capital requirements. JIM is wholly owned by Jarvis Securities plc which is traded on the AIM market of the London Stock Exchange. JIM is the only operating company within the Group and therefore reports to the FSA on a solo-consolidated basis.

JIM has no trading-book exposure.

The directors determine the company’s business strategy and risk appetite and are responsible for the design and implementation of the firm’s risk management framework, based largely on an Internal Capital Adequacy Assessment Process (“ICAAP”) which is regularly reviewed and updated. In addition, JIM reports on financial risk management objectives and policies within its annual accounts and within those of its parent.

The following is the relevant extract from the Annual Report and Financial Statements of JIM for the year ended 31 December 2010:

Financial risk management objectives and policies

The directors consider that their main risk management objective is to monitor and mitigate the key risks to the company, which are considered to be principally credit risk, compliance risk, liquidity risk and operational risk. Several high-level procedures are already in place to enable all risks to be better controlled. These include detailed profit forecasts, monthly management accounts and comparisons against forecast, regular meetings of the full Board of Directors, and more regular senior management meetings.

The company's main credit risk is exposure to the trading accounts of clients. This credit risk is controlled via the use of credit algorithms within the computer systems of the company. These credit limits prevent the processing of trades in excess of the available maximum permitted margin at 50% of the current portfolio value of a client.

A further credit risk exists in respect of trade receivables. The company's policy is to monitor trade and other receivables and avoid significant concentrations of credit risk. Aged receivables reports are reviewed regularly and significant items brought to the attention of senior management.

The compliance risk of the company is controlled through the use of robust policies, procedures, the segregation of tasks, internal reviews and systems controls. These processes are based upon the Rules and guidance notes of the Financial Services Authority and the London Stock Exchange and are overseen by the compliance officer together with the management team. In addition, regular compliance performance information is prepared, reviewed and distributed to management.

The company aims to fund its expansion plans mainly from existing cash balances without making use of bank loans or overdraft facilities. Financial risk is therefore mitigated by the maintenance of positive cash balances and by the regular review of the banks used by the company. Other risks, including operational, reputational and legal risks are under constant review at senior management level by the executive directors and senior managers at their regular meetings, and by the full board at their regular meetings.

The company derives a significant proportion of its revenue from interest earned on client cash deposits and does not have any borrowings. Hence, the directors do not consider the company to be materially exposed to interest rate risk in terms of the usual consideration of financing costs, but do note that there is a risk to earnings. Given the current Bank of England base rate is at its lowest level since its foundation in 1694, and the business has remained profitable, this risk is not considered material in terms of a threat to the long term prospects of the company.

The capital structure of the company consists of issued share capital, reserves and retained earnings. The company has an Internal Capital Adequacy Assessment Process ("ICAAP"), as required by the Financial Services Authority ("FSA") for establishing the amount of regulatory capital to be held by the company. The ICAAP gives consideration to both current and projected financial and capital positions. The ICAAP is updated throughout the year to take account of any significant changes to business plans and any unexpected issues that may occur. The ICAAP is discussed and approved at a board meeting at least annually. Capital adequacy is monitored daily by management. The Group uses the simplified approach to Credit Risk and the standardised approach for Operational Risk to calculate Pillar 1 requirements. The Group observed the FSA's regulatory requirements throughout the period. Information disclosure under Pillar 3 of the Capital Requirements Directive is available from the company's websites.

The directors do not consider that the company is materially exposed to foreign exchange risk as the company does not run open currency positions beyond the end of each working day.

JIM is approved by HM Revenue & Customs to act as an ISA Manager. The company provides financial institutions, asset managers, investments managers, brokers and private individuals with ISA wrappers and with electronic share settlement and custodial services by way of its sponsored membership of CREST.

All systems, connectivity and disaster recovery processes related to these services are supplied by TD Waterhouse Corporate Services (TDWC.) TDWC is one of the largest business process providers within the market serviced by JIM.

JIM is a limited liability public company and the company's capital position at 31st December 2010 was as follows:

Capital items:

Tier 1 Capital less innovative Tier 1 capital	£478,000
Total tier 2, innovative tier 1 and tier 3 capital	£nil
Deductions from Tier 1 and Tier 2 capital	£nil
Total Capital and Resources, net of deductions	£478,000

Risk appetite is the degree of risk that the directors are willing to accept without having to apply further resources and capital to mitigate said risk or risks. Risks are assessed in terms of the probability of the risk occurring after taking into account any risk mitigation. All reasonable steps are taken by the directors to reduce the probability of any risk crystallising.

JIM has a very simple operational infrastructure and an equally simple business model. The company's market, credit, and business and operational risks are considered to be negligible and the company follows the simplified standard approach to credit risk.

As a limited licence firm, the company's capital requirements are the greater of the:

- base capital requirement of €125,000;
- combined market and credit risk requirements; and
- fixed overhead requirement.

The directors have concluded that as the company's credit and market risk exposures are immaterial, the fixed overhead requirement is the greatest of the three, and that therefore the company's minimum capital requirement is its fixed overhead requirement which is currently £337,000.

This results in a capital surplus of £141,000 at 31 December 2010 and a solvency ratio of 141.84%.