

Veritas Group

Pillar 3 Disclosure

Regulatory Context

The European Capital Requirements Directive established a revised regulatory capital framework governing the amount and type of capital that must be maintained by credit institutions and investment firms.

The framework consists of three 'Pillars':

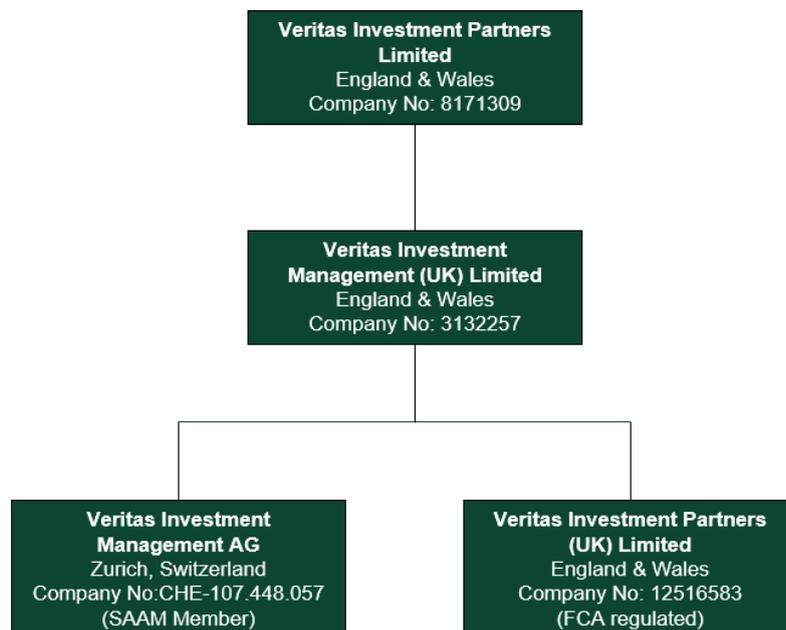
- Pillar 1 sets out the minimum capital amount that meets the firm's credit, market and operational risk;
- Pillar 2 requires the firm to consider whether additional capital should be held to cover risks not covered by Pillar 1 requirements; and
- Pillar 3 requires the firm to publicly disclose information relating to their risks, capital adequacy and policies for managing risk with the aim of promoting market discipline.

In the United Kingdom, the CRD has been implemented by the Financial Conduct Authority (FCA) through rules contained in the General Prudential Sourcebook (GENPRU) and the Prudential Sourcebook for Banks, Building Societies and Investment Firms (BIPRU). Chapter 11 of BIPRU sets out the disclosure requirements in relation to Pillar 3. The disclosure which follows is designed to confirm those requirements and relates to Veritas Investment Management (UK) Limited.

Background to the Firm

Veritas Investment Management (UK) Limited is a holding company of Veritas Investment Management AG Zurich and Veritas Investment Partners (UK) Limited. Veritas Investment Management AG and Veritas Investment Partners (UK) Limited are the two regulated entities.

The ultimate parent company, Veritas Investment Partners Limited is the 100% shareholder of the holding company. This ICAAP is set at the Veritas Investment Management (UK) Limited level in order to have consolidated calculations for the two regulated entities.



Governance

Each regulated entity is governed by a respective Board.

The Veritas Investment Management AG Board and Veritas Investment Partners (UK) Limited Board (the regulated entities) govern locally. They oversee the strategy, operations, compliance, risk management and other functions within their respective entities. The respective Boards ensure that the regulated activities are carried out in accordance with the relevant legislation, regulation, and industry guidance.

Veritas Investment Management (UK) Limited is governed by its Board under delegation from the holding company. The role of the Board of Veritas Investment Management (UK) Limited is to provide full oversight and governance for the development of the strategy and vision for the Firm and subsidiaries. Where activities are conducted on a consolidated level, such as the ICAAP, these are overseen by the Veritas Investment Management (UK) Limited Board.

The Veritas Investment Management (UK) Limited have identified that the most significant risks affecting the Group are outsourcing risk, cyber risk, investment and market performance risk and fraud. The Firm is highly aware of its key risks and focussed on their management in all areas and have considered them in the ICAAP.

Regulatory Capital

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

- Its Base Capital Requirement of €50,000 (£44,000); or
- The sum of its Market and Credit Risk requirements; or
- Its Fixed Overhead Requirement (FOR)

The Firm's Market Risk is limited to foreign exchange risk on its accounts receivable in foreign currency and Credit Risk from management and fees receivable from the assets under its management. There are numerous Operational Risks that could manifest, most significantly a bear market - in all circumstances the Firm would remain profitable. The Firm has also considered others risks including Concentration, Liquidity, Insurance and Strategic with no significant concerns.

The Firm also assesses key risks on an annual basis as part of its ICAAP through stress testing and scenario analysis to ascertain whether additional capital is required for Pillar 2. Through these stress tests, the Firm has assessed that no additional Pillar 2 capital is mandatory.

The table below shows that the Firm's FOR exceeds the total of Credit and Market Risk capital requirements and exceeds its base capital requirement of €50,000. Therefore, the Firm's Pillar 1 capital requirement has been determined by reference to the Firm's Fixed Overheads Requirement (FOR) of £2,191,392. The "Pillar 1 Plus" approach assigned the Credit and Market Risk as Pillar 2 requirement. The Firm has a regulatory capital surplus of approximately £1,636,792 as at 31 July 2020. The Board can confirm that the Firm has adequate capital for its size and for the complexity of its business as of the date of this disclosure.

Pillar 1 (Highest of Base Requirement, CR+MR or FOR)	
Base Requirement	£45,013
Credit Risk (CR)	£832,364
Market Risk (MR)	£164,130
CR + MR	£996,494
Fixed Overhead Requirement (FOR)	£2,191,392
Pillar 1 Requirement	£2,191,392
Pillar 2 (Pillar 1 plus approach)	
Credit Risk	£832,364
Market Risk	£164,130
Pillar 2	£996,494
Orderly Wind Down consideration	
Revenue	£9,676,229
Orderly Wind Down cost	£7,509,934
Surplus / Deficit	£2,166,295
Orderly Wind Down Additional Requirement	£0
Capital Conclusion	
Internal Capital Resource Requirement (Pillar 1 + Pillar 2 + other)	£3,187,886
Total available regulatory capital	£4,824,678
Capital Adequacy Ratio	151%

The Firm's Pillar 3 disclosure will be made on an annual basis as at the accounting reference date of 30 September and as soon as practicable after the publication of the Firm's annual report. The Firm will reassess the need to publish some or all of the disclosures more frequently than annually in light of any significant changes to the Firm.

Remuneration

The Firm is classified as a proportionality level 4 firm in accordance with the FCA Remuneration Code ('the Code'). The Firm has constituted a Remuneration Committee which is responsible for setting the Remuneration Policy Statement (RPS) and overall remuneration philosophy and objectives of the Firm.

The Firm's policy is designed to ensure that we comply with the Remuneration Code and our compensation arrangements:

- are consistent with and promote sound and effective risk management;
- do not encourage excessive risk taking;
- include measures to avoid conflicts of interest; and
- are in line with the Firm's business strategy, objectives, values and long-term interests.

The Firm has identified its Code Staff for the financial year ending 30 September 2020 comprising those fulfilling certified functions, those who are deemed risk takers and senior management. The estimated total remuneration costs for Code Staff for the year ended 30 September 2020 was £9,688,986 which represents 69% of the total remuneration for the firm. The disclosure of further information on remuneration costs is limited by the provision set out in BIPRU 11.5.20R. The philosophy that the Firm follows is to pay its staff competitive fixed salaries and benefits, with variable remuneration being linked to the performance of the individual and the Firm.

Concluding Remarks

This ICAAP calculation is for the Firm's accounting period (ending 30/09/2020). Veritas Investment Management (UK) Limited is profitable and maintains healthy cash balances with a predominately liquid balance sheet and low fixed cost base relative to revenues. The firm's management continue to look for operational improvements and efficiencies in the business. The use of new technologies is being considered, and current outsourcing providers are being reviewed to ensure they remain appropriate as the business grows.